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Public sector and its role in India

Public sector or public enterprises include all government organisations and industrial and commercial organisations that are owned and controlled by the central, state and local governments.Public sector occupies a strategic and crucial position in Indian economy.it is no exaggeration to say that the economy would shink or swim depending upon the efficiency with which these enterprises operate.
When India gained independence in 1947, the economic condition of the country was very poor. There were hardly any public sector enterprises other than the Railways and the Postal Services. It was the industrial policy resolution of 1948 which brought the public sector in lime light. It was determined that going forward public sector would play a big hand in our economic development. The idea that in the economic development of the country the State enterprises would play a predominant role took place with the adoption of a socialistic pattern of society in the second plan. And then again in the 1990's the trend changed again. So let us take a more detailed look at the changing role of public sector.

Public sector occupied a worthy place for achieving systematic and planned development in a developing country like India. In a country like India suffering from multi-dimensional problems, private sector is not in a position to make necessary effort for the development of its various sectors simultaneously.
Thus it is now well recognised that public sector plays a positive role in the industrial development of the country by laying down a sound foundation of industrial structure in the initial stage of its development.

Following are some of the important relative roles of the public sector in the economic development of a country like India:

(a) Promoting economic development at a rapid pace by filling gaps in the industrial structure;(b) Promoting adequate infrastructural facilities for the growth of the
economy;
c) Undertaking economic activity in those strategically significant

development areas, where private sector may distort the spirit of national objective;

(d) Checking monopolies and concentration of power in the hands of few;

(e) Promoting balanced regional development and diversifying natural resources and other infrastructural facilities in those less developed areas of the country;

(f) Reducing the disparities in the distribution of income and wealth by bridging the gap between the rich and the poor;

(g) Creating and enhancing sufficient employment opportunities in different sectors by making heavy investments;

(h) Attaining self-reliance in different technologies as per requirement;

(i) Eliminating dependence on foreign aid and foreign technology;

(f) Exercising social control and regulation through various public finance institutions;

(k) Controlling the sensitive sectors such as distribution system, allocating the scarce imported goods rationally etc.; and

(l) Reducing the pressure of balance of payments by promoting export and reducing imports.

Performance of the Public Sector

he economic and social responsibility of the State has led to the progressive enlargement of the public sector in India. The number of Centre's public enterprises has increased from 5 in 1951 to 246 as atthe end of 1995-96. The investment during the same period has increased from Rs. 29 crores to Rs. 1,75,000 crores.

The share of public enterprises in national income has increased from 10.66 per cent in 1960-61 to 26.0 per cent in 1995-96. Similarly, the employment in the public enterprises has gone up to 30.0 -lakhs in March, 1995. In brief; the public enterprises occupy an important place in the Indian economy.

As on March 31, 1996, there were 246 Central public Sector Enterprises (PSEs) owned by the Government of India. Out of these, 237 were operational enterprises with an employed capital of Rs. 1, 56,000 Crores and employed strength of 22.0 lakhs. Of these, 13 enterprises earned an overall net profit of Rs. 7,346 crores during 1995-96, 104 enterprises suffered net loss of Rs. 3,951 crores, and the remaining one enterprise making neither profit nor loss.

The performance of the operational PSEs could be assessed by considering their achievements in respect of the following:

1. Gross Margin:
Gross margin of PSEs which was only Rs. 2401 crores in 1980-81 went are Rs. 26,137 crores in 1993-94.

2. Percentage of Gross Margin to Capital Employed:
The percentage of gross margin to capital employed which stood at 13.19 per cent in 1980-81 went up to 17.3 per cent in 1993-94.

3. Depreciation and Deferred Revenue Expenditure:
The depreciation and deferred revenue expenditure went up from Rs. 903 crores in 1980-81 to over Rs. 9,000 crores in 1993-94.

4. Gross Profit:
The gross profit of the PSEs went up from Rs. 4,418 crores in 1980-81 to Rs. 19,000 crores in 1993-94.

5. Percentage of Gross Profit to Capital Employed:PSEs have not been able to achieve high percentage of gross profit to capital employed. In 1980-81, this percentage stood at 7.79 and went up marginally to 11.82 per cent in 1993-94.

6. Net Profit:
In 1993-94, net profit of 240 PSEs are estimated at Rs. 3,396 crores as against net profit of Rs. 3,396 crores in the preceding year.

7. Non-Monetary Performance:
Public sector enterprises are not guided purely by monetary considerations. Their objective is to promote public welfare at large.

It is, therefore, suggested that the performance of the public enterprises should be assessed in terms of welfare criteria which involves the following considerations:

(i) Whether public enterprises have promoted welfare by providing essential goods and services at reasonable prices;
(ii) Whether public enterprises have generated additional employment opportunities;
(iii) Whether public enterprises have helped in the development of small-scale and ancillary industries;
(iv) Whether public enterprises have promoted balanced regional

development; and
(v) Whether public enterprises have created the necessary infrastructure for the speedy growth of industries.
Non-monetary performance of the public enterprises has been very encouraging. The enterprises have created a base for industrialisation, regional development and promotion of public welfare. However, the rate of growth and the performance could have been better.

Reasons for the Poor Performance of Public Enterprises:
The following reasons account for the poor performance of the public enterprises:

(1) Underutilisation of Capacity:
A large number of public enterprises function at a capacity far below the rated capacity. Because of the underutilization of the plant capacity, there is wastage of material and manpower resources which leads to escalation of the cost of production. According to the 1994-95 Public Enterprises Survey conducted by the Bureau of Public Enterprises, capacity utilisation in 20 per cent units was between 50 and 75 per cent, and 20 per cent units showing capacity utilisation less than 50 per cent.

(2) Over-Capitalisation:
Input-output ratio obtaining in many public enterprises is unfavorable. Factors like bad location of project, inadequate planning, delays in the completion of project, surplus plant capacity, expensive turnkey projects, etc., lead to over-capitalisation of the public enterprises.

(3) Administrative Inefficiency:
Public enterprises lack the strong cadre of professional managers. In most of the public enterprises the common practice is to use bureaucrats as chairman, managing directors and managers, no matter how much inefficient or incompetent they may be to manage these enterprises.

(4) Price Policy:
The pricing policy of the public enterprises is not guided solely by profit motive but social consideration as well. Public enterprises have to keep the prices of their products low even when costs and prices have been rising. Now, it is being gradually realised that profit should

be recognised as an index of efficiency.

(5) Takeover of Sick Units:
Public sector has taken over the management and control of several units declared sick in the private sector. Most of the loss making unitsin the public sector are the sick enterprises taken over by the government from the private sector.

(6) Less Remunerative Enterprises:
Most of the public sector enterprises are set up in those areas of production which have a very low rate of return on investment. These enterprises employ large capital and the gestation period is also too large. These enterprises are generally established in relatively backward areas, and this adversely affects their profitability.

(7) Higher Social Cost:
Public enterprises have to incur huge expenditure on social overheads like construction of labour colonies, development of townships, construction of roads, bridges, etc. Excessive expenditure on social overheads causes increase in total cost.

(8) Ministerial Interference:
The Parliamentary Committees and the Government do not allow the public enterprises to function independently. Purely political considerations have sometimes led to overstaffing, mismanagement and other inefficiencies, political interference also leads to unbalanced regional development of industries.