CHAPTER IX
SUMMARY AND CONCLUSIONS

The relative role of the state and the market, as also of public and private ownership, has been a matter of long drawn debate. However, during the recent period, there has been a renewed interest in policy formulation with respect to what may be termed as the privatisation debate. Privatisation, which found its roots during the eighties all over the world, had the objectives like finance, information and control.

The primary impetus behind the privatisation programme was to avoid the imposition of unwarranted financial constraints on loss-making public sector enterprises on the one hand and to improve production efficiency (productive and allocative), on the other. The belief that since privatisation permits the introduction of unfettered competition in some cases, it will separate public- and private-good and will provide the information on which to base the regulation of the public sector enterprises. In addition it will allow more powerful incentives- market value related incentives, take-overs and bankruptcy. And, in the process, it will alter controls- from state control to private investors-that will come either from take-overs and bankruptcy or direct
participation of the private investors. Thus, in essence, a privatisation drive tantamount to questioning the institution of public ownership and rejecting it as an inefficient one.

In this context, while one team of analysts advocates property rights theory and holds that public ownership is inherently less efficient than private ownership, the other team predicts efficiency differentials on the basis of market structure and effective competition among firms as a basis of privatisation.

Under these circumstances, the role of state becomes crucial which has a direct bearing on the type of society to be built. In particular, in the developing economies, the role of the state gets its shape under the influence of dominant classes. To draw upon the World Development Report 1997, despite the fact that wrong kind of rules enacted by the state, the wrong application of right kind of rules and the frequently changing rules can do a lot of harm, the state can improve the development outcomes in a number of ways such as: by providing suitable macroeconomic and microeconomic environment that sets the right incentives for efficient economic activity; by providing the institutional infrastructures, property rights, peace, law and order and rules that encourage efficient long term investment; and by
ensuring provision of basic education, health care and the physical
infrastructure required for economic activity.

The present study, primarily concerned with the relative
efficiency of public and private sectors in India, is addressed to the
issue of privatisation without taking into account 'the surrounding
environment'. Therefore, it takes a different stand and assumes that
public ownership is not inherently less efficient. We strongly believe
that the structure of competition, the environment provided, the level
of development in general and of the region where the firm is located
in particular, the infrastructural set-up, and the policies related to other
inter-related industries do influence the performance of any enterprise,
be it public or private.

This argument is dealt with at two different levels i.e. the public
sector as a whole and at the level of an individual public sector
enterprise in comparison with its private sector counterpart in the core
sector of Indian economy. The chosen core sector is cement industry.
The approach to public sector as a whole has been dealt with indirectly
through discussing of the shifts in industrial policy, in general and
towards public sector, in particular. The public vs. private sector
debate is dealt with through the selected sample study of cement
As a result of the industrial policy shifts, the balance has tilted towards private sector over the years. Some of the public sector enterprises were already open to the market to mobilise funds for their investment. These shifts in policy towards public sector are the outcomes of the discontentment about the performance of the public sector enterprises. It has been pointed out that public sector has resulted in a number of operational drawbacks such as overmanning, low capacity utilisation, overcapitalisation besides a high degree of political and bureaucratic interference in the normal functioning of such enterprises.

However, different viewpoints have emerged. Some of them find no efficiency differentials between public and private sectors; others find public sector much less efficient in comparison with the private sector. Still some others are of the view that undoubtedly the public sector's performance has fallen short of the expectations, yet its shortcomings have often been exaggerated. Though a few others have tried to prove, through examples, that public sector enterprises are not inefficient and thus the negative posture itself was rooted in the insensitive assessment of public sector.
Cement industry, which is primarily a private sector dominated industry, experienced a number of policy shifts from time to time.

Broadly speaking, the privatisation in this industry was in terms of deregulation of the industry and opening it up to the market was largely in terms of lifting all types of controls. Major among these policy changes were shifting to the policy of partial decontrol in 1982 and then to the policy of full decontrol in 1989.

These two particular years and a few others close to them occupy a very significant place in the history of Indian cement industry. The performance of the industry after 1982 is characterised by generally competitive and capacity enhancing outcomes. The structure of the industry changed significantly after partial decontrol. It brought in a multiplication of manufacturers. However, combined with this was the tendency of real prices and profits to decline. And then, the partial decontrol years witnessed the transformation of the industry from the relatively oligopolistic to relatively competitive one. Of late, two opposite trends are emerging. On the one hand, the input costs are rising such as freight, diesel and power, thereby rising the cost of production in the cement industry. On the other hand, due to the continuing expansion of capacities, supply has already outstripped the demand.
A careful perusal of the period under study (1975-1992) reveals that the shift towards deregulation and thus privatisation witnessed increasing capital intensity, displacement of labour; and a rise in labour cost in the industry as a whole.

Going down to the level of individual enterprises, representing public (CCI) and private (ACC) sectors and comparing them as far as their performance over a period of seventeen years (1975-76 to 1991-92) is concerned, highlight some interesting points, as summarised below.¹

A comparison of public and private sectors in terms of financial analysis shows that public sector is not inherently inefficient. In fact, to begin with, during the period under study, it is managing its liquidity, accounts receivables and payables in a relatively better manner. However, the trend over the years shows that in terms of all the indicators, be they liquidity, capital structure or the management of capital, policy shifts have brought about similar changes, irrespective of the form of ownership i.e. the trend have been positive/negative in both the enterprise types irrespective of the form of ownership.

¹Incidentally, compared to the private sector units, out of eleven units in the public sector, as many as eight are located in the backward regions of the country. This locational difference has a bearing towards loading and transportation costs.
Reviewing the performance from the point of view of cost of production, we find at first glance that overall, the public sector is at a disadvantage position as compared to private sector. However, going deeper into the production and operational details, we discover that raw material and labour costs are relatively higher in the private sector during the period under reference. At the same time, the cost of power, energy and depreciation along with the average loading and transportation cost were responsible for the relatively higher cost of production in public sector enterprises. In particular, the consistently rising loading and transportation costs in the public sector cement enterprises owes itself to the location of its units in the far-off backward areas; except for three units, the rest of the eight units of the public sector enterprises, under study here, are located in far-off backward areas.

The differences in costs notwithstanding, privatisation and deregulation have resulted in similar trends in both enterprise groups, irrespective of the form of ownership. Privatisation and deregulation brought with it, a clear decline in labour and raw materials costs. On the other hand, the cost of manufacturing overheads, such as power, fuel, excise duties, and depreciation, and selling and distribution such as advertisement costs and loading and transportation costs
increased. Moreover, similar to the analysis for the industry as a whole, the two enterprise categories also headed towards substitution of capital for labour when the policy titled towards privatisation, most noticeably since the inception of full decontrol regime in 1989.

So far as the issue of industrial efficiency is concerned, we examine both technical and allocative efficiencies. The private sector is observed to be comparatively more efficient, compared with the public sector from the viewpoint of technical efficiency. Allocatively, however, both enterprise categories witness inefficiency. Moreover, irrespective of the form of ownership, the derived demand functions for capital, labour and energy also indicate that the factors are not optimally allocated in the cement industry as such. So, the commonplace belief about the relative inefficiency of the public sector enterprises seems to be misconceived. To say the least, it needs to be qualified. The specific points of strength must necessarily be sifted from the achilles' heel of the public sector enterprises, especially those exogenously mandated for them by the state or compulsions of regional development aspirations.

Similar to the results at the industry level, individual enterprise groups also reveal that labour has become costlier, compared to
However between energy and capital, since the former is costlier for the public sector enterprise, these units depend more on capital use. On the other hand, energy is comparatively cheaper for the private sector. Consequently these units depend more on energy use.

The study shows that the cement industry has observed an unchanging pattern of production, more expressly with respect to complementarity and/or substitutability of factors of production during the period under study. On the whole, labour and energy are found to be complementary factors of production and capital has emerged as a substitute both for labour and energy, during the period under study. The results show that in the Indian cement industry, while there is scope for energy-saving and capital intensive technology, there is little scope for labour saving and capital-intensive strategy.

In fact the results reveal that the technological change is labour using. It has brought about concrete benefits to labour in terms of higher income shares. Yet the demand for labour has declined over the years in both the enterprise groups under study. This trend is more prominent during the period of deregulation and privatisation. Higher income shares associated with declining demand and thus
displacement of labour during deregulated period imply growing unemployment in general and higher demand for skilled labour (associated with higher rewards) in relation to the unskilled, in particular.

Policy Implications

The foregoing analysis has some important policy implications. It shows that an unqualified use of the policy of privatisation is of little use, unless there is clear understanding of the institutions and the norms embedded in the markets. In fact, a clear understanding of the development strategy as the choice between state or market, is of utmost importance. In the ultimate counting, however, it is the state that plays an important role in sketching out the broader institutional environment that sets the basis for the behaviour of the constituent elements such as public, private or joint sectors.

Moreover, when there is an oligopolistic market structure, deregulation and thus privatisation may both improve the efficiency in short run and reduce it in the long run. As new competitors enter the market, individual output and thus the profits may decline. In the long run, it reduces the competitive pressure for the firm and ultimately
increases the inefficiency in the industry. This is the case of the Indian cement industry in general; the public or private ownership of individual production units does not seem to alter this relativity.

Although it is clear that there are significant cost differences between public and private sectors, yet deregulation and privatisation has not resulted in the reduction of cost of production in the industry, irrespective of the form of ownership over the years. In fact, for some of the heads such as manufacturing overhead cost, selling and distribution cost and general administration cost, it has increased. This reinforces the point that deregulation of the industry, as such will not be of any help in improving the efficiency. A concrete reduction in production costs requires policy changes towards the other linking (forward and backward) industries. Therefore, the necessary policy changes in such industries including those for the cement industry, are called for.

The study shows that deregulation and privatisation is associated with displacement of labour. Moreover, the focus is more on skilled labour. In a labour-abundant country like India, such policy formulations lead to unemployment, both in public and private sectors. Therefore, a wholesale and unqualified drive towards privatisation,
without taking into account the local conditions pertaining to a country, may not be a wise course to follow, at least in the short run. Rather in a country like India, liberalisation and privatisation can accomplish their objectives only when these are conceived and implemented with a human face.

The results indicate that there seem to be significant possibilities for growth in cement industry by improving the technical efficiency of public sector units and allocative efficiency of both public and private sector enterprise groups. Future allocation of investment resources should take into account the existing lack of technical efficiency in the public sector units and allocative efficiency both in public and private sector units.

The available evidence suggests that even after the five decades of Indian Independence, we lack regional self-sufficiency, which has been one of the avowed development pre-requisites. The northern and the eastern regions are still the receiving regions and the southern along with the western region are the despatching ones. So, the future course of action requires that steps should be taken towards the regional self-sufficiency if the process of development is to be meaningfully accomplished.
Furthermore, the analysis shows that both public and private sectors have responded similarly to the policy shifts, a few exemptions notwithstanding. To reiterate, our study clearly indicates that the public sector is not inherently inefficient. It, therefore, deserves to be emphasised that a developing country's problem of performance of public sector and thereby the case for privatisation does not necessarily derive from ownership structure. Instead, the root of the problem is traced broadly to the changes in the environment provided to the particular industry such as cement in India. Interregional flows at the pre- and post-production stages within the broader national policy contexts, infrastructural build-up and institutional set-up etc. are the necessary ingredients for the performance of individual enterprises, whether operating under the umbrella of public or private sector ownership.

However the present study, like any other of the kind, is not free of its limitations. First, despite the fact that annual reports (which have been the basis for our enterprise level analysis) are the only major as well as systematic source of data at the individual enterprise level over the years, has the limitation of the authenticity of the information provided in these reports. Second, the index numbers used by us, although the best chosen under diverse constraints are not free of their
own shortcomings. Third, the formulation of variables adhering to the standard practises, can be a point of debate, at least for some of them. Fourth, comparing enterprises of differing age composition has its own limitations; however, it is rare to get enterprises belonging to two different enterprise groups, that are of same age. Fifth, cost analysis in chapter VII would have been ideal if that the disaggregated labour cost analysis could have been attempted to. However, the study has the limitation of the paucity of the comparable labour cost data at the disaggregated level and therefore, only an aggregate labour cost data has been looked into for comparing the two sectors. Sixth, an easier way for the production analysis was to go by Cobb-Douglas function, however, we consciously chose Translog Cost Function, the relevance and advantages for our choice are discussed in the relevant chapter VIII on 'Technical and Allocative Efficiency'. Finally, we had to weather some limitations in the estimation of cost function.