CHAPTER III
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Rational Behind Public Sector Undertakings

Under socialistic pattern of society the public sector was expected to play a key role in the economic development of India. Hence, an attempt has been made in this chapter to explain the rationale behind public sector undertakings in a market economy.

Policy Developments

Consistent with the Industrial Policy Resolution of 1948, the Industries (Development and Resolution) Act of 1951 was passed which came into force on May 8, 1952. This was intended to regulate the industries at the time of launching the first plan of India. The Act gave wide powers to the Government to take up any industrial unit in the private sector after giving due notice. The industries aimed at were those in the first schedule of the Industrial Policy Resolution, 1948. In the first instance 37 industries were covered. In 1953, this number was raised to cover 45 industries. In eighties the number of industries covered increased to 162, which came under the purview of the Act.

Under the revised policy of 1956, schedule A, 17\textsuperscript{1} industries were listed.

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Schedule A

Areas and communications

2. Atomic energy
3. Iron and steel
4. Heavy castings and forgings of iron and steel.
5. Heavy machinery and plant required for iron and steel production.
6. Heavy electrical plant.
7. Coal and lignite
8. Mineral oils
9. Mining of iron, manganese, chrome, gypsum, sulphur, gold and diamonds.
10. Mining and processing of copper, lead, zinc, tin etc…
11. Minerals specified in the schedule to the atomic energy.
12. Aircraft
13. Air transport
14. Railway transport
15. Ship building
16. Telephones, cables and wireless apparatus.
17. Generation and distribution of electricity.
New Industrial policy, 1991

During the eighties the Government announced a New Industrial Policy on July 24, 1992. The new policy de-regulates the industrial economy in a substantial manner. The major objectives of the new policy are to build on the gains already made, correct the distortions, maintain a sustained growth in productivity and gainful employment, and attain international competitiveness.

Public Sector’s Role Diluted

The number of industries reserved for the public sector since 1956 was 17. The number has been reduced to 6. The new industrial policy has removed all these industries from the reserved list. The six industries which are reserved for public sector are as follows:

- Arms and ammunitions and allied items of defense equipment, defense aircraft and warships.
- Atomic energy.
- Coal and lignite
- Mineral oils
- Minerals specified in the schedule to the atomic energy order 1953, and
- Railway transport.
Public Sector Enterprises

In the 19th century most of the public utility industries with the combination of essential character and monopoly were under private ownership, management and control but subject to strict Government control and regulations in the interest of the communist.

The trend in the 20th century is in favour of public ownership of all public utilities, i.e., towards municipalisation or nationalization of all such public utilities.

Usually the term "public Enterprises" means an undertaking owned and managed by the state or a public authority. It also covers nationalized institutions and industries.

A public enterprise may be defined in a more comprehensive manner as any enterprise,

1. Owned by the state
2. Managed by the state
3. Owned and managed by the state.
3.1

Public Sector Enterprises

Central Govt

State Govt

Local Govt

1. Transport
2. Electricity Board
3. Milk

Non-Departmental

Departmental

Departmental

Non-Departmental

Financial

Non-Financial

Reserve Bank
1. Damodar Valley Corporation
L.F.C.I
2. Air India
I.D.B.I
3. Food Corporation of India
Nationalized Banks
4. Oil and Natural Gas Commission
L.I.C
5. Gas Commission
U.T.I
6. Central Warehousing Corporation
State Bank of India
Agricultural Finance Corporation

1. Railways
2. Post and Telegraph
3. Defence Industries
4. Radio & Television

1. Govt. Printing Presses
2. Milk Dairies
3. Forests
4. Fisheries
5. Irrigation Works
6. Road & Power
7. Transport Services

1. Statutory Electricity Boards
2. Road Transport Corporation
3. Financial Corporations
4. Warehousing Corporation

1. Govt. Companies
2. Industrial Development Corporations
3. Small Industries Corporations
4. Agro-Industries Corporations
Forms of state Enterprises

There are five types of organizations for management of state enterprises.

1. Departmental on the lines of other Governmental activities.
2. Joint stock company
3. Mixed ownership corporations
4. Public corporations and
5. Management through private agency.

Departmental Management

Post and telegraph, Broadcasting, Railways and Defence industries are the leading examples of departmental organization and management of enterprises in India.

Features

1. It is managed by a Government department.

2. The minister in charge of the department exercises direct control on the enterprise.

3. The enterprise is financed by annual appropriations from the treasury and the income paid into the treasury.
4. The enterprise is subject to the budget; accounting and audit controls just like other Governmental activities.

5. The enterprises posses the sovereign immunity of the state and cannot be sued without Govt. consent.

6. The management of the enterprise is in charge of Govt. employees.

**Government Company**

The prominent features of Govt. company organization managing and running the state enterprises are.

1. The entire capital or 51% or more of the share capital is owned by the share capital is owned by the central or state Govt. one or few shares in the name of officials to fulfill the legal needs.

2. All or majority of the directors are nominated by the Govt.

3. The concerned ministry performs the functions of shareholders and exercise ultimate control over the entire operations of the company.
4. It has all the features of limited companies, e.g., a separate legal person having all the rights and obligations just like an individual.

5. It is free from the budget, audit and accounting laws applicable other departments.

**Public corporation**

Public corporation is only a means and a mechanism for enterprises. It is an institution or legal person clothed with the power of government but possessed of the flexibility of private enterprise. It represents compatible state intervention constituting state ownership minus managed by the government.

**Features**

1. Corporate body: It is an artificial person created by a special Act of the legislature.

2. Power and functions: It has defined powers and functions, which are governed by a special Act. It has financial independence, and a clear-cut jurisdiction over a specific area, industrial or commercial activity.
Growth and performance of public Enterprises

There has been a phenomenal growth of the central govt. enterprises since the commencement of planning. In fact, even before the commencement of planning and the adoption of the goal of the "socialist" pattern of society; the public sector was assigned a very important role in the industrialization and economic development of the country. The Industrial Policy Resolution of 1948 made it very clear that the manufacture of arms and ammunition, the production and control of atomic energy, and the ownership and management of railway transport would be the exclusive monopoly of the central government. It was resolved further that in another six industries the state alone would set up new undertakings. These six industries were: coal, iron and steel, aircraft manufacture, ship building, manufacture of telephone, telegraph and wireless apparatus, excluding radio receiving sets, and mineral oils.
Table 3.1

Growth of public enterprises

<table>
<thead>
<tr>
<th>Five year plans</th>
<th>Total Investment in Rs</th>
<th>Number of Enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Commencement of I plan - 1951</td>
<td>29</td>
<td>5</td>
</tr>
<tr>
<td>2. Commencement of II plan - 1956</td>
<td>81</td>
<td>21</td>
</tr>
<tr>
<td>3. Commencement of II plan - 1961</td>
<td>953</td>
<td>48</td>
</tr>
<tr>
<td>4. Commencement of IV plan - 1969</td>
<td>3902</td>
<td>85</td>
</tr>
<tr>
<td>5. Commencement of V plan - 1974</td>
<td>6237</td>
<td>122</td>
</tr>
<tr>
<td>6. Commencement of VI plan - 1980</td>
<td>18,225</td>
<td>186</td>
</tr>
<tr>
<td>7. Commencement of VII plan - 1985</td>
<td>42,811</td>
<td>221</td>
</tr>
<tr>
<td>8. Commencement of VIII plan - 1992</td>
<td>1,18,492</td>
<td>237</td>
</tr>
<tr>
<td>9. Commencement of IX plan - 1997</td>
<td>2,01,500</td>
<td>238</td>
</tr>
</tbody>
</table>

Parliamentary Control and Public Accountability

Parliamentary control is a very important aspect of the performance appraisal of public enterprises in India. One of the former speakers of the lower house of parliament, shri G.V. Mavalankar, once observed. "Merely because the system makes them autonomous, it does not follow that the system can take away the jurisdiction of parliament for having a full probe into the administration of the autonomous body".

Parliamentary control on public sector enterprises

**Direct Impact**
- Questions in Parliament
- Submission of Annual reports to Parliament
- Approval of Budgets, subventions, outlays etc.
- Enquiries by Committees.

**Indirect Impact**
- Ministerial and Executive Accountability of Parliament
- Board Membership
- Through the Govt Audit system.
- By appointment Of act hoc Commissions of enquiry Of inquiry.

- Directives
- Informal interventions
Public sector undertakings, till now have been owned and managed by the government. Therefore, it is but natural that they should be held responsible and accountable to the nation. A system of parliamentary control was started for proper evaluation of such undertakings. The system of parliamentary control was started for proper evaluation of such undertakings. The system works in 4 ways.

1. At the time of question hour in the parliament
2. At the time of budget discussions in the parliament.
3. At the time of presentation of annual reports pertaining to govt. companies under sec 619 of the companies Act.
4. At the time of consideration of reports by various parliamentary committees.

The primary point of contact between the enterprise and the Government is provided by the administrative ministry, as for example the ministry of industry in the case of understandings like BHEL, HMT, Hindustan paper etc..., The public understandings conduct their dialogue with parliamentary committees, Comptroller and Auditor – General of India and other Government agencies through the administrative ministry. The ministry exercises general powers, which include appointment of chairman-cum-managing director, executive director and other member of the board,
approves company’s capital budget, its long-term borrowings and investment proposals, and also issues general directions in national interest from time to time.

In some industries, the administrative ministry also exercises some measure of price and distribution control. The ministry is also expected to maintain an overview of the undertakings, overall performance, through periodical performance, review meetings, briefing by government directors, periodic appraisals with the Bureau of public enterprises etc.,

The Public Accounts Committee

It is an important committee in parliament. It is charged with the task of examining the audit reports on public undertakings and discussing them with the chief executives of public undertakings and the secretaries of departments. It makes its observations on them and submits recommendations to parliament.

The Estimates Committee

The estimates committee of parliament has a standing sub-committee, which examines the working of public enterprises to ascertain how the funds invested in them are being utilized. The estimates committee submits periodical reports on individual enterprises.
Committee On Public Undertakings

With the rapid growth of the public sector, it was felt that the public accounts committee and the estimates committee not review the public sector effectively and a separate committee was needed for the public enterprises only. Accordingly a joint standing committee of both the houses of parliament known as the committee on public undertakings was constituted on May 21 1964.

Functions of Public Undertakings Committee

i. To investigate the annual reports of public sector undertakings.

ii. To look into the comments and observations made by the Comptroller & Auditor general of India about public sector undertakings.

iii. To make study to ascertain whether the working and management of public sector undertakings is based on business principles and policies.

iv. To perform other incidental functions relating to public sector undertakings.
Rationale of Public Sector Undertakings

1) The first justification of public enterprises was provided ironically by the advocates of free enterprise like Adam Smith.

2) Most of these social overheads and other basic and key industries need huge amounts of investment.

3) Most governments of under developed countries consider it their duty to help in economic growth.

4) The role of public undertakings in economic growth can be viewed from another angle also. Leaving out the details of the form and precise ways in which these undertakings may help the economy, the economic growth is intimately connected with and department upon the economic surplus is utilized.

5) It is a well-known fact that final choice of a project, in the interest of the economy as a whole, should depend upon the social marginal benefit relative to the marginal cost instead of the private marginal cost and benefit.
6) The case of merit goods also deserve consideration. For example, education or medical aid.

7) The overall economic policy of a country also may indicate the use of public undertakings in some sectors.

8) Another argument closely connected with the last one is where effective economic control of the economy is sought to be brought in the hands of the state.

9) In the case of some natural resources like, forests, mines and the like the commercial interests of private enterprise.

10) Apart from the above consideration which favor the creation of public undertakings, there are some projects which by their very nature have to be in the public sector.

**Conclusion**

Initially 17 industries were reserved for public sector. At the end of 2002 only 6 industries were reserved for public sector. Paper industry was in the licensed sector. All public sector undertakings are under the parliamentary or legislative control. There are arguments in favour of public sector enterprises.