CHAPTER V

CONCLUSION & SUGGESTIONS
Observations:

The analysis of growth of the public sector in India in general and Uttar Pradesh in particular has revealed that in the last few years a huge investment has been made in public enterprises and a large number of capital goods industries have been established. The growth of the capital goods industries is important in the sense that they work as growth centres around which further development takes place. The purpose of establishing these industrial projects was to check the concentration of economic power, to make a thrustful move towards rapid and diversified industrial development to take the country towards self-sufficiency in the industrial production and create surplus earnings for the further development of the state. After the attainment of Independence, the interference of the government was felt essential because of many reasons.

Public sector investment was directed towards irrigation and power projects to overcome the food shortage. The investment was also made in the capital goods to accelerate
the process of industrialization in the country. At the same time, the heavy industries of the public sector, minimized the concentration of wealth and income in a comparatively few hands. The commercial and the manufacturing concerns of the government were also expected to create the surplus for the plan outlay.

Further, the government decided to have the balanced economic growth, through the planned utilization of available resources, consequently the major role of the state became inevitable. After independence, India adopted the system of mixed economy, where the public and private sectors work together. But the expansion of public sector was emphasized in all the succeeding five year plans, and it occupied pre-eminent position in the industrial field. Here the interference of the government is found almost in every sector and the number of public undertakings constantly multiplied since independence. But there can not be two opinions about the fact that their performance has not been up to the mark. Gross domestic product (GDP) growth rate declined in 1990-91 along with "a steep decline" in the public sector savings, while the household and private
corporate sector savings went up. So far as the achievement of socio-economic objectives of progressive reduction of social and economic disparities is concerned the public sector has not been able to make much of a dent in the problems of poverty, unemployment, illiteracy and malnutrition. The New Industrial Policy Statement admits frankly that, "many of the public sector enterprises have become a burden to the government. Far from being an engine of growth the public sector has become a drag on development in two ways. Firstly, it begins imposing an increasing burden on the budget for its investment needs, primarily because of its failure to generate adequate resources of its own. Secondly, due to overall inefficiency, the basic inputs that public sector enterprises produce, for example, steels, coal and power, have had to be priced high, thus escalating cost of production all along the line." It is criticised that the public sector is overstaffed, overfed and pampered beyond belief. It has been a major cause of the deficits of Government both at the centre and at the State level.

**Performance evaluation of Public Sector in Uttar Pradesh:**

Public enterprises in Uttar Pradesh too occupied a place of pride during the recent past, with their prolifera-
tion in expansion of public sector at a rate which is unique and unprecedented in the economic history of the State. It has set the pace of economic development in the right direction. The Industrial Policy Resolution assigned a key role for the public sector and reserved some core sectors for development only under this sector. There are 24 central public enterprises in Uttar Pradesh, which were entered in the State's economy in February, 1955 with the establishment of Naini Industrial Estate by NSIC to provide infrastructure facilities to small scale industries; oil and natural Gas Commission came into formation in 1955 and was converted later into a statutory body in October 1959. Thereafter, 2 units in the fifties, 9 units in sixties and 9 units between January 1970 to October 1974 were established. During 1978, UPDPL and PICUP were incorporated. High tension ceramic insulator factory of BHEL in Sultanpur was incorporated in February 1989. The concentration of public sector in some towns shows preferences of the government to develop these areas. There are about 12 central public sector units located in Kanpur, Allahabad and Lucknow alone. Mathura, Jhansi, Gorakhpur and Rae Bareli etc., are the other districts
where the central government has more units. The backward
districts of the State have drawn the attention of the
Centre and so far eight operating enterprises were esta­
blished in these areas. A number of projects of crores of
rupees are about to be completed in the State. Hence, the
Central Government paid its serious attention to develop
Uttar Pradesh through establishing public sector units.

Apart from these central enterprises the State
enterprises in Uttar Pradesh consisted of 50 Public Under­
takings by the end of December 1992. But now the situation
has been changed and the number of public sector enterprises
in the State has decreased continuously due to their un­
satisfactory performance. Presently the 50 Corporations
are working under the U.P. Government. These 50 enterprises
were incorporated under different categories i.e. 42 enter­
prises were incorporated under the Indian Companies Act
1956, 4 enterprises i.e. Uttar Pradesh State Electricity
Board, Uttar Pradesh State Road Transport Corporation, Uttar
Pradesh State Warehousing Corporation and Uttar Pradesh
Financial Corporation was incorporated under Vishisht Kendriya
Adhiniyam (Special Central Act) and 3 enterprises i.e.,
Uttar Pradesh Jal Nigam, Uttar Pradesh Forest Corporation and Uttar Pradesh Avas Evam Vikas Board were incorporated under 'Special State Act' and Uttar Pradesh State Employees' Welfare Corporation was incorporated under Societies Registration Act 1960.

These State Enterprises are mainly functioning in the area of developmental and promotional activities unlike the Central public sector units which are predominantly manufacturing and trading in nature. Central public sector enterprises have been established mostly in accordance with the industrial policy resolutions of the Government of India.

The public sector in Uttar Pradesh has served effectively, particularly in the field of financial sector, service sector and construction sector. Public sector in Uttar Pradesh plays an important role in providing fresh job opportunities for both skilled and unskilled labourers. Further, by putting an additional investment in the backward areas to bring them at par with the developed ones, public undertakings represent a landmark in the transformation of a predominantly rural State into an industrial one.
A proper analysis of the public sector in order to find out the performance of the present fifty enterprises taking into consideration, the data from 1988-89 to 1991-92, justifies a shift in the economic policy of the State.

As far as resources of these enterprises are concerned, they had paid up capital which was contributed by the Central and State Government as well as some other resources, subsidy and term loans provided by the Central Government as well as State Government and by some other institutions. These resources were utilized in the form of permanent assets, intermediate assets, total investment in various forms, working capital and fixed cost expenditure and also for the payment of losses incurred. Total expenditure on permanent assets comprising net assets and intermediate assets in the year 1988-89 was Rs. 668418.18 out of which Rs. 445886.99 was spent on net assets and the rest was on intermediate assets. The financial audit may rate them low but from social audit point of view they are the need of the day.

In spite of wave of liberalization they have a place in the economy of the State and the country.
In 1991-92 many U.P. State Enterprises have earned profits. But the performance of the different enterprises varies. Some of them have earned profits consistently. Some have a decreasing rate of profits and the profits of some other enterprises keep varying from year to year, as has been discussed in detail in chapter IV.

New Strategy:

The State Government has taken major steps in policy orientations, new incentives and creating new industrial climate. The strategy adopted by the State Government was to introduce new concessions such as exemption/defoerment of Sale Tax to new units, incentives to "Prestige" and "Pioneer" units, priorities in the licences and letters of intent for industries in backward areas and 'Zero Industry' districts and developing infrastructural facilities to the requirements of Industrial growth.

The new strategy also includes promotion of at least one small scale industry having an investment of more than Rs. 2 lakh in each development block of the State. This step, taken for the first time, will help in the promotion
of new projects in industrially backward areas in a planned manner. Organizational re-structuring was being done for promotion of cottage and household industries in rural areas. A scheme for providing self-employment to educated unemployed people has also been launched in the State under which financial assistance to the extent of Rs. 25,000 will be given to each person. A large number of beneficiaries are likely to be benefited under this programme.

Intensive efforts are being proposed for development of infrastructure mainly in the shape of industrial areas and estates during Seventh Plan. It was also expected that the Central Government's Plan to locate Export Processing Zone for Northern India at NOIDA will not only create biggest centre for export production but also buttress the efforts of State Government in creating infrastructural facilities and a very large investment.

Although there is a strong rhetoric in favour of privatization, but in reality it is becoming increasingly difficult to push through proposals of privatization.
The Government had to withdraw both the proposals of Scooters India and the Uttar Pradesh State Cement Corporation to be handed over to the private sector in view of the strong resistance by the Trade Unions. Later on, the present Uttar Pradesh Government had decided to hand over the 5 sick units of the State Enterprises, namely, U.P. State Sugar Corporation Limited, U.P. Textile Corporation, U.P. Agro Industries Corporation, U.P. Food and Essential Commodities Corporation and U.P. Cement Corporation to the private sector, and also assured that the employees of these Corporations will not be overthrown, they might be transferred from earlier to other Government departments.

It means that rest of their service is guaranteed at any cost. Government has also made a policy that those Corporations which are going into losses of more than 10 crores and have at least net worth of Rs. 50 crores will be shifted to private sector.

No doubt liberalization is expected to bring a new wave of economic strength to the country, but it has also its pains. We are now talking less of the economic miracles of Japan, Korea, Thailand, Taiwan and other countries to
which India has been looking with a degree of envy and awe. In raising foreign capital and putting it to good use, India despite the many weaknesses of infrastructure, told the world that it has the ability to be at least as good as many others. But India got lost in finding out how this resurgence could merge with the hard realities of life in the country. The admiration for liberalization is so widespread in certain strata that this country almost forgot that it was so poor that whatever happened it would take years before the poorest could be reached.

True, economic resurgence was to provide more television sets, motor cars and washing machines for use within the country as well as, if possible, for export. This is the promised miracle of liberalization. But does not count how many more jobs would it create to help the people who have now hardly anything to eat. We feel proud at the sight of foreign industrialists coming to find ways of investing in India. But forget that life is getting harsher for the poor, jobs are not there for all. And whatever is left for them is in fact shrinking because subsidies are getting reduced. The prices of rationed items and wheat
are rising and so also sugar. Buying clothes is getting
difficult. Medicines are getting costlier. The foreign
investors can not relieve the difficulties of the poor,
they have their own objectives to capture the Indian mar-
et in all respect through liberalization. It may be a
planning for the glorious future, but poverty has to be
tackled now. Therefore it is necessary to give the New
Economic Policy a human face.

Main Factors responsible for the Deficiencies of the
Public Sector:

A switch over to recent free market economy needs
a thorough understanding of the factors responsible for the
deficiencies of the Public Sector Undertakings. As far as
the reasons for their poor performance are concerned, fac-
tual information available clearly indicates the rising
trend of the cost of production in these undertakings.
Public sector has also suffered due to the wrong planning
at the preliminary stages.

Inadequate attention at the planning stage led to
the prolongation of the execution of projects. Again, due
to the unsuitable assessment of demand analysis, few undertakings have utilized their installed capacity. At the same time, improper market strategy for production leads to the heavy accumulation of inventories.

Overstaffed and overtime payment has been found almost in every project of public sector which raised the cost of labour per unit of production.

Jobs and job security has been the dominant consideration at the cost of efficiency and competitiveness. The government has demonstrated its inability to be a good owner of enterprise by frequent interference in the day to day operations, not appointing top executives in time, setting multiple and contradictory objectives, and not demanding as a primary objectives - performance through profitability and productivity.

Further, there is no continuity at the top management level. It has been rightly commented that the most public sector enterprises are "headless bodies."
As a result of administrative and managerial deficiencies, the cost per unit of production is unsubstantially high, while revenue earnings of some of the public sector operations are low due to their pricing policy. Defective selection of managerial staff has created a gap of skilled and trained management. Wrong planning of projects has led to delay in the completion of project's target schedule. Lack of material management and inadequate attention on the demand analysis cause heavy stocking of raw materials and finished products. Apart from the defective personnel management, overstaffing and industrial disputes, public sector in India has also been a victim of politics, many decisions are taken under undue political pressures.

The private sector in general does not suffer from these deficiencies. But it does not mean that the public sector has lost its utility in the country - though one thing is clear that public sector can no longer be treated as a "holy cow."

Suggestions:

The New Industrial Policy has made only half-hearted attempts to address itself to some of the chronic problems
mentioned above. It aims at (1) Distributing 20 percent of the Government's share-holding in some of the public sector institutions, general public and the workers. (2) Referring chronically sick public sector units to the Board for Financing and Industrial Reconstruction for the formulation of a revival scheme. But the point that seems to have been missed is that no industry should be allowed to become sick. Immediate measures must be initiated in order to improve the performance of the public sector.

The need of a national pricing policy of the public enterprises arises from the fact that many of the concerns are key industries and are engaged in the production of goods and services which are basic needs to the life of the community. At the same time self-financing of the enterprise is a desired motive, so surplus from them is necessary. Government now looks at the public enterprises as the creator of new wealth and expects them to yield resources for financing the five year plans. Again, if the prices of the products of a public enterprises are kept artificially low it might lead to a less careful and less economical utilization of its products.
For the above different motives, uniform set of principles cannot be applied to all classes of public enterprises.

The pricing policy in respect of any public enterprise depends upon its productive functions, i.e. whether it is a public utility or an industry producing basic goods. The enterprises should pay their wages and should not run into losses. In the case of public utilities and services, great stress should be laid on output rather than on profits, the former being extended up to a level at which marginal cost is equal to the price.

An efficient management which has tight grip over all departments and aspects of other undertakings, can secure economics of a significant order in the inputs, obtaining them at a nominal price and using them economically dispensing with avoidable wastes and overhead and distribution costs. Unless the management boards are equipped with suitable persons, the state of affairs in the public sector cannot improve. It should be the prime concern of the government to select the best men available for the jobs.
The methods of selection of the top executives in the undertakings should be changed. In place of retired or senior civil servants, dynamic and trained managers should be employed. Preference should also be given to the personnel working within the undertakings, if they have acquired the necessary qualification. The Bureau of Public Enterprises should also play its role in the selection of top executives for public undertakings.

In order to deal with the problems of planning, proper attention should be given on material management, financial management and assessment of labour requirements.

Location of the projection should be selected by making a comprehensive study of the site, so that the raw-materials and the skilled labour is easily available. An important factor involved in the planning for the public sector projects is related to the demand analysis of the finished products.

A public enterprise should also carefully review the trend of the products in the market. It must integrate the market thoughts of all sections.
So, far as the financial management is concerned, the financial director should attempt his best to keep the operation away from the financial crisis. He should determine the financial resources required to meet the company's operating programmes. He should be able to assess that how much of these requirements should be met by internal generation of funds, by the company and how much by the external resources. He should develop the best plans to obtain the external funds needed for the operation. The project should be free to draw a certain amount of the working capital from any financial institution for its running expenditure.

Now to sum up, with a minimum government presence leading to emergence of autonomous leadership, better management of resources and increase in productivity and emergence of a new, dynamic joint sector can really change the face of the public sector in the country.

The story of public sector is a mixed one with concrete achievements in certain directions and serious shortfalls in certain areas. In a mixed economy, the
performance of public sector units should not be judged in isolation. It has to be done in the overall context of the Indian economy. As public sector expanded in India, it has contributed to the simultaneous development of heavy, light and small industries in the private sector. As the bulk of the public sector output is likely to consist of capital and intermediary goods, it is quite conceivable that an improvement in this segment of manufacturing could have also contributed positively, increasing the growth of private sector through the well known linkages between public and private sectors. The public sector in India has made huge investments in building infrastructures like transport, power and communications, infrastructures within this private sector industries are accelerating.

The price policy of public sector units in infrastructural industries is mainly an administered price policy governed by normative principles of public finance. They produce output that is often not trade internationally. These industries are often characterized by scale economics, network externalities and long gestation lags
In investment. In power and transport sector there is a large element of subsidy in their pricing policies. In a country where 74 per cent of the population lives in villages, the infrastructural services have to be provided to rural masses at subsidies prices.

The trend in employment generation in the public sector has been impressive despite fluctuations. Between 1970 and 1991, the annual rate of growth in employment was 2.9 per cent in public sector as against 0.7 per cent in private sector.

The New Industrial Policy of 1991 provided for disinvestment in the public sector. Under this policy equity capital of public enterprises will be sold to mutual funds, general public and financial institutions. During the first phase of disinvestment in December 1991 bids were received from nine parties totalling Rs. 1427 crore. In the second phase in February 1992 bids were received from nineteen parties totalling Rs. 1611 crores. The total shares disinvested during 1991-92 amount to 8 per cent of the total Government share holding in 31
public sector enterprises. For the year 1992-93 a target of Rs. 3,500 crore of disinvestment was set. During the first phase in October 1992, the bids were received for Rs. 682 crore. In the second phase in December 1992 bids were received from twelve public sector enterprises amounting to Rs. 1184 crore.

The present policy of the Government is to use these sale proceeds for cutting down the current budgetary deficits. In India's mixed economy the cardinal principle of labour policy is to promote labour participation in management. Therefore, another healthy trend could be the allocation of equity of public enterprises to workers in public enterprises.

These alternative means of disinvestment are suggested in order to guard against the monopoly acquisition of shares of public enterprises (especially high profit earning enterprises) by vested interest. Such fear is not unfounded after the recent security scam and its aftermath.
Today there are over one thousand public enterprises about seven hundred or which are owned by the states and the rest in the central sector. The profits of profit making central public enterprises went up from Rs. 1293 crores in 1981-82 to Rs. 6149 in 1991-92. At the same time, the losses of loss making units also increased from Rs. 848 crore to Rs. 3674 crore over the same period. The gross margin of public enterprises as a percent of capital employed was 11.69 per cent in 1991-92. In this connection the Union Budget since 1991 has reduced the budgetary support to public enterprises so that they do not increase the burden on the scarce budgetary resource.

Management of public enterprises is in the hands of the Government officials.

In a mixed economy like India, the public sectors have to play a complementary role and provide the necessary support for private sector production. The process of liberalization in India should proceed with caution and far-sight. There should be no dogmatism in choosing
out development policy or sudden shift from one extreme to another extreme ideological position. The problems of perestroika in Russia should not be repeated in the case of Indian perestroika.

Never mind what the Industrial Policy of June 1991 proclaims about greater reliance on private sector initiative, on foreign investment and on the increasing need for exposing Indian economy to globalization. All this does not mean downgrading Indian public sector in any sense. In all these cases government has been carrying on the enterprises by meeting their cash losses through huge budgetary support for year, together.

Had these resources been spent on other industrial units with proper injection of funds, the same units could have become performing assets. Or they could have been invested in other priority areas of public action such as population control, maintaining vital infrastructure, promoting literary and elementary education, and providing drinking water to villages which, at present, do not have access to drinking water. Alternatively, had these
resources been spent on setting up new ventures in sunrise industries, even that would have contributed better to national development.

The fact remains that even after 26 months since the general programme on deregulation of government functions started, nothing worthwhile has been done in reducing the bureaucratic stranglehold of the ministries over the public sector enterprises. Interestingly, the MoU was supposed to be an instrument for protecting enterprises from day-to-day bureaucratic delay, but in reality this exercise is seemingly working in the opposite direction. The MoU has become pretext for a new system of vexatious bureaucratic controls.

Government can transfer these undertakings on an 'as is where is' basis with all the assets and liabilities, subject to an undertaking on the Sri Lanka model within the first two years. In the worst scenario government could take over the responsibility of paying the salary of all those found redundant till their superannuation from out of the National Renewal Fund. Regarding the enterprises which are run in competition with private
sector parties, the same procedure can be followed, it is reasonably certain that there will be enough takers from amongst private investors. Once this is pushed through, government will be relieved of the substantial burden of budgetary support and subsidies. This leaves us only with the monopolistic enterprises and the government concerns run as public utilities.

For the present those which are monopolies should, by and large, be kept under public control, but there should be no objection to setting off 49 per cent of the shares to private investors, thereby realising huge funds. As regards utilities, while there is every reason to privatise enterprises in the field of urban transportation telecommunication and the like, and there is great scope for privatising electricity generation and transmission, we cannot think in terms of outright privatization in these areas in the near future.

The major challenges for the public sector enterprises during the '90s and afterwards will consist in:

1) Getting accustomed to loss of budgetary support and loss of special privileges such as purchase
preferences and price preferences for purchase by the government or other public sector undertakings;

2) Restructuring and reforming the capital base involving converting huge loan amounts into equity and disinvestment of government shareholding to public share holders and access to capital market;

3) Managing competition from both domestic competitors and foreign competitors;

4) Taking advantage of the ongoing globalization process in sourcing raw materials from overseas at cheaper prices, in gaining to cheaper offshore funds and building up an export base;

5) Cutting down and controlling costs at every level;

6) Building up an overall culture of productivity and productive efficiency in the whole organization;
7) Identifying redundant manpower and appropriately dealing with it through means such as retraining redeployment, encouraging self-employment and providing handsome termination packages through national renewal fund, etc.;

8) Changing over from the psychosis of distribution of products to vigorous and aggressive selling and marketing involving consumer satisfaction and after-sales services;

9) Giving due attention to the conditions on the shop-floor and production system, upgrading technology, wherever necessary, ensuring proper working conditions, giving adequate incentives and ensuring adequate quality control and productivity; and above all;

10) Managing changes as a collective effort involving management, trade union and the government.

In conclusion, public sector managers should not regard the 1991 industrial policy as a constraint, but
as an opportunity to justify themselves by demonstrating their ability for growth, diversification, entrepreneurship, quality control and export capability in competition with overseas competitors.

Empirical evidence about the functioning of the public and private sector reveals that it would be incorrect to think that the working of the private sector is definitely superior to that of the public sector. The stark reality is that in India 2.42 lakh units were sick in the private sector by the end of December 1988, out of which 2.40 lakhs were in the Small Scale Sector. The total bank credit locked in these units was Rs. 7,705 crores. Incidentally, it may be pointed out that in December 1980, the total number of sick units was only 24,550 in which a total bank credit of Rs. 1,826 crores was locked up. Obviously, both in relative and absolute terms, there is growth of industrial sickness in the private sector.

This sickness is not confined to small scale sector alone, but even 1,700 large units with a bank credit
of Rs. 1 crore and above, were found to be sick. Among the industries in which sickness prevailed, were engineering, iron and steel, cotton textiles, chemicals, sugar, jute textiles, rubber, cement, paper and electrical machinery. It would be prudent for the Government not to present the public sector as the index of inefficiency and the private sector as the epitome of efficiency.

It is generally believed that public sector is credited with the social welfare function. A large number of persons working in the public sector enjoy better pay scales, better perks, more in the form of leave and retirement benefits. As against it, the private sector has the image of exploitative efficiency. Very few firms in the private sector provide better working conditions, assured and reasonable pay scales retirement benefits. The two sectors, therefore, by their very nature suffer from different kinds of weaknesses. The private sector needs to be made more humane and the public sector which is humane has to be made more efficient.

As against the Industrial Policy of 1956 in which the role of public sector was sought to be enlarged, the
Industrial Policy of 1991, proposes to limit the public sector to infrastructure and defence and open more and more areas to private sector. Besides this, a more congenial environment is being provided for direct foreign investment.

In short Public Sector though deprived of its dominant role has still to play an important role both at the Central as well as at the State level, if the economic development has to have a human face, particularly in the Indian context; hence revamping of the system and streamlining of its functioning needs serious attention.