CHAPTER - I

PUBLIC SECTOR IN INDIA
State intervention in the economic or business activities is regarded these days an inescapable part of the obligations of present day governments to redress economic imbalances, to safeguard the interests and welfare of the community as a whole, to plan for an overall prosperity and to undertake and execute schemes and projects vital to the needs of the nation.

Today, the state is discharging these heavy responsibilities through the public enterprises, which cover a vast and varied range of industrial and commercial activities, such as mining and metallurgy, manufacturing of electrical goods, machine tools, chemicals and fertilizers, building of ships, aircraft and locomotives, provision of air, sea and road transport industrial financing, banking business and undertaking the business of life insurance and general insurance etc.

Consequently, public enterprises are considered to be a catallactic agent for attaining the cherished goal of a welfare state.

A variety of terms have been used for public enterprises, which leads to confusion. For instance, they are stated as:

"Public Sector Undertakings, state enterprises, Government concerns etc. According to their political and administrative structure, they are known as Public Corporation in Great Britain,
Crown Corporation in Canada, Statutory Corporation in Australia, Government sponsored Corporation in Pakistan, and Government Corporation in U.S.A. The Administrative Reforms Commission in its report has used the term 'Public Sector Undertakings' and the standing committee of parliament calls them simply 'Public Undertakings'.

Keeping in view the difficulty of terminology a few definitions have been examined below:

"Public enterprises means state ownership and operation of industrial, agricultural, financial and commercial undertakings."¹

"The term usually refers to government ownership and active operation of agencies engaged in supplying the public goods, the goods and services which alternatively might be supplied by privately owned profit motivated firms."²

"Public Enterprise is an institution operating a service of an economic or social character, on behalf of the government, but as an independent legal entity, largely autonomous in its management though responsible to the public through government and Parliament and subject to some direction by the government equipped on the other hand with independent and separate funds of its own and the legal and commercial attributes of a commercial enterprise."³

"Public Enterprises are autonomous or semi-autonomous corporations and companies established owned and controlled by the State and engaged in industrial and commercial activities."  

"Public Enterprise means the industrial, commercial and economic activities carried on by the central government or by a state government or jointly by the central government and state government and in each case either solely or in association with private enterprises, so long as it is managed as a self contained management."^5

An analysis of the above mentioned definitions reveals that the government ownership, government control and management, public accountability, public purposes, profit motive, wide range of activities and autonomous functioning may be summarised as the main features of public enterprises.

In precise manner the concept of public enterprises can be understood as follows:

a). Government ownership with Government management,
b). Government ownership with private management,
c). Mixed ownership and mixed management of government and private bodies,

From this explanation it can be concluded that any enterprise which is predominantly controlled and managed by the state or any other public authority is called public enterprise.

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In public sector enterprises either the whole or a major part of the capital is invested by the government. It may be, by central or state or local government or jointly by these governments.

The first public corporation to be created was Port of Autonomy in London in 1908. This was gradually followed by other Corporations. Now the concept of public sector has gained importance in almost all the countries of the world. In developing countries, they are undoubtedly conceived as an instrument used for accelerating the role of economic development and bring about a social change.

Causes of the Evolution of Public Ownership:

The Government has three major responsibilities towards its citizens. The first responsibility is to protect society from the violence and invasion of other independent societies. Second, to protect every member of the society from injustice of every other member of it, and, third responsibility is to maintain certain public works and certain public institutions, which can never function for the interest of any industrial or a small number of individuals. Hence, the role of the government can not remain passive. Consequently many of the developing and even advanced countries adopted the public ownership of business and commercial activities on a large scale.
The factors such as exploitation of labour, monopoly position of the capitalist, mis-direction of resources and the lack of public welfare etc., were responsible for assigning the public sector an important position, as being discussed in the following pages.

1). **Economic Rationale of Public Sector:**

Public enterprises are expected to be the principal agent for rapid economic and social transformation, by developing infrastructure and the core sector, and closing the gaps in the industrial structure. Its dominant position in the financial field is intended to control and guide the private sector, wherever necessary. It is also likely to step in, if and when private enterprise fails the economy. And the economic growth via public enterprise is supposed to be adequately leavened with social justice. The objectives of establishing new enterprise and reasons for nationalizing some existing ones are varied and often differ from case to case and from time to time.

The tendency of profit maximisation of the capitalists had resulted in the disparity in distribution of national wealth as well as instability of national economy, which ultimately opened the avenue for public ownership of production, distribution and consumption.

Socialisation of production was the comprehensive and judicious decision against indifferent attitude of few capitalists towards poor workers and consequently these prevailing economic conditions urged the governments to create
public sectors particularly in the developing countries. The notable development of the idea of socialism emerged since the period of Fabian essayists. They conceived the public ownership of the economic institution essential because if it was left to private sector, the whole economy was likely to be deteriorated. The private entrepreneurs abstained to establish such enterprises which were of strategic significance for the entire economic development of the country due to low profit and long gestation period. Therefore, the basic and strategic industries could be established by the public sector because the development and growth of other industries depend on them.

2). **Exploitation of Labour:**

The labour class of people constituted majority in the total population of every country. But they were exploited by the capitalists and were deprived even from their due share in the national economy. Almost all the economic fields were captured by few individuals and the majority of labour class had very nominal share in the national income. That is why the plight of these workers was very miserable.

Prof. Bowley in 1910, made a study about the ownership of property "that just 1% of the population took 30% and 5¾% took 44% of the national income leaving 70% of income to 99% of the population and 56% of the income to 94¾% of the population." As stated by Bernard Shaw the theory of capitalist

system "is to make the material sources of production private property, enforce all voluntary contracts made under this condition, keep the peace between citizen and leave the rest to the operation of individual self interest. Thus, it would guarantee to every worker a subsistence wage while providing a rich leisured class with the means of upholding culture and saturating them with money enough to enable them to save and invest capital without personal privation."

3). **Monopoly Argument:**

The Laissez Faire economy in the capitalist system where everything gets adjusted through price mechanism ceased to function properly. Perfect competition was nowhere in the economic set up and monopoly of the productive power dominated the economy. This widespread monopolistic nature exploited the consumers. The handful of sellers controlled the best part of the supply. They decided the prices in favour of their vested interest to increase the profit margins.

It may be argued that the nature of the early capitalist system has changed. The individual industrialist have been gradually out classed by the partnership and the Joint Stock Companies which mean the diffusion of economic powers through share-holding, therefore, the state was forced to undertake directly the productive institutions. It did so "because the process of concentration reached already its logical end, and a clear cut private monopoly

had been created in the form of an omnipotent single firm.

4). Economic Instability:

The inequality of distribution created the gap between demand and supply. The capitalists class was not willing to purchase the products of the nation due to their over-consumption, at the same time the poor class was unable to purchase because of the lack of purchasing power. It was not surprising therefore, that this was the cause of slumps which prevented economic system from functioning properly.

The great depression of thirties made the state realize its duties towards the national economic and social well being of masses.

Consequently, the state was forced to participate directly in the process of production in order to avoid the fearful consequences of inflation or shrunk.

5). Mis-Direction of Resources:

The private ownership of property created the inequality of wealth which led to mis-direction of production. It directed energy from useful production to the multiplication of luxuries. A large part of the goods which was called wealth was not meant for meeting the essential requirements of the society because it consisted of articles which should

8. Strachy, John, Contemporary Capitalism, London, Gollannoz Ltd., 1956, p. 34.
have been produced only after other essential articles were produced in abundance.

It was because of the fact that the surplus with capitalist was not necessarily used into productive articles. It was the vested interest of the private entrepreneurs that the resources were invested where they brought maximum profits irrespective of the necessity of the products; public ownership was evolved to avoid such uncertainties and to make the investment according to the needs of the society, its object was not only to establish the state management of industry "but to remove the dead hand of private ownership when the private owner has ceased to perform any positive function." 9

6). Welfare Economy:

Another argument for the public ownership was the creation of welfare economy concept. There was an assumption in the past that private interest and the public welfare functions were mutually consistent, however, the two ceased to harmonize and in practice performance of the capitalist order and the methods and results of private enterprise appeared to be anti-social.

Individuals enjoyed the freedom of organizing and conducting the business in such a way likely to improve their own interests. The system of private enterprise was incapable of achieving the social justice as the profit motive could not always reconcile with the welfare concept.

Therefore, with a shift of emphasis to problems of welfare the inherent weakness of the economy was being more and more felt.

Consequently, the intervention of an external agency, particularly the state, to bring under control any morbid development of the economy was required.

7). Public Utilities and the Basic Industries Argument:

Public utilities and the basic industries essential for the welfare of the community and for the sound foundation of the industrial development also required direct state control. These are the industries on which the prosperity of the community depends and where the private enterprise has no major drive for the following three reasons:

Firstly, it requires large outlay of investment in a single project. Laying down a railway line or developing posts and establishing a heavy steel plant generally requires an amount of capital which is beyond the capacity of the private entrepreneurs.

Secondly, such outlay need relatively a time before it start paying off.

Finally, many important projects such as defence and irrigation etc. can not be left to the private entrepreneurs. Consequently, Keynesian economic assigned the central role to the public sector in the developing countries in levelling out the zigzags of private investment to fill up the gaps of the deficiencies.
a). **Generation of Resources:**

One of the important factors responsible for the emergence of public ownership of the economic institution is the creation of resources through their surplus. In the developing countries the development programmes of the Government rely on the public expenditure.

Functions of the state which were originally limited to the maintenance of law and order have considerably expanded now. For these enlarged objectives the government cannot depend merely on the taxation and borrowing, and the state in addition to the taxation and borrowing has to explore the possibilities of resource creation through non-tax devices, i.e. profits of the commercial and industrial concerns of the government.

Non-tax revenue forms an important element in the government income. In recent years the trends towards increasing nationalization or state participation in economic enterprises has led in several countries to some shifts on emphasis in favour of non-tax revenue through their surplus earnings. Consequently, the governments rely more and more on the surplus earnings of the public sector enterprises and making a bulk of the investment in the commercial and industrial projects.
The idea of economic planning was not mentioned by the early Fabian Essayists. It was afterwards that the Fabian Essayists used the concept of planning for full employment and to control the investment of key industries. In order to achieve this objective, they supported the case of nationalization, because if the economy is left uncontrolled, the economic growth will be in a haphazard fashion. Therefore, since the control of economic power is necessary in a planned way, the direct participation of the government is imperative.

The developmental function of the national governments of the third world countries have substantially contributed to the growth and development of public enterprises. Planning boards and commissions were created to make the developmental activities more effective. It was also realized that the untapped resources should be fully tapped for economic development. There was need for development of those sectors which private sector may not undertake for want of profit and initiative. State by entering itself into the economic activities can have a full grip over the economy and thus the objectives of planning can be achieved. Hence, the planning and the direct state participation are considered supplementary to one another.

From the above discussion it becomes clear that the need of public sector arises for various reasons. Since
the activities of the government differ from country to country according to the circumstances prevailing there, various countries have adopted this method for different reasons, some countries give an extensive role to the public sector, while others confine it only to the public works.

Actually in advanced countries, with abundant resources the role of the government is minor as everything gets adjusted itself with little commission. But in developing economy, like India where the resources are scarce the role of state becomes significant, since the economy is very sensitive and a little negligence can disturb the whole process of economic development.

Public Sector in India - A Historical Background:

As a result of the experience gained during the first world war, the government of India decided that the establishment of certain industries was necessary from the point of view of effective defence. Therefore after the commencement of the first world war the government attempted to examine the question of industrial policy which led to the appointment of first Indian Industrial Commission, 1916-19. The Commission recommended that in future the government must play an active role in the industrial development of the country. Then came the World War II, which affected most of the eastern countries due to the cut of
the supplies from Europe. So during the war period, government began to recognize the necessity of industries meeting the defence and certain requirements.

"In 1931: Karachi Session of the Indian National Congress for the first time attempted to define the economic and social contents of the Swaraj, and decided that it shall own and control key industries and services, mineral resources, railway, water-ways, shipping and other means of public interest. After that, Congress set up a National Planning Committee with Jawaharlal Nehru as its Chairman and K.T. Shah as the General Secretary.

This Committee appointed two sub-committees in 1940 to report on principles of National planning and administrative machinery for India's National Plan. However, due to the outbreak of second world war and Congress involvement in the struggle for freedom the reports of these sub-committees could become available in 1948. The National Planning Committee supported state intervention in the country's economy and recommended increasing state control over it, including nationalization of industries.

In 1943 the Bombay Plan was prepared by eight leading industrialists of Bombay. Consequently, people started thinking about planning and development. Those ideas later were embodied in the new Indian Constitution in Part IV of Directive Principle of state policy. Art. 39, provides the government to direct its policy towards securing the
ownership and control of material resources of the country, are so distributed as best subserve the common goods and that the operation of economic system does not result in concentration of wealth and means of production to the common determinant.  

The economic planning for rapid and rational economic development created the need of public sector because in its absence, proper and adequate economic growth was quite impossible. In this context of Indian economy, the charter of public sector enterprises was embodied in the industrial policy resolution of 1948.

With the emergence of public sector the government was assigned significant role with a view to accelerate economic development by the expansion of its activities. Therefore, the rationale of public sector in India can be identified with the rationale of economic planning. Hence, the government made conscious and comprehensive efforts towards economic development by reserving the fields of economic activities and brought a desirable development in the critical economic field. Further, public sector was the media through which the concept of welfare economy was to be realized.

"On 21st April, 1945 the planning and development division had issued a policy statement specifying a crucial role for the industrial development of the country. Certain

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industries must be taken under central control in the interests of coordinated development. Government should play active part in the industrial development of the country. It was also stated in the Policy Statement that basic industries of national importance might be nationalized provided adequate capital was not forthcoming and it was regarded as essential in the national interest to promote such industries.\(^\text{11}\)

The economic planning which has been adopted in many countries for rapid and rational economic growth was difficult without the cooperation of public ownership. The planning cannot be successfully implemented without controlling certain key industries by the Government. As far as the Indian Economy is concerned the charter of public sector was embodied in the Industrial Policy Resolution of April 1949. The role assigned to the state in the Resolution was significant for bringing a rapid economic development by expanding its activities. The rationale of public sector in India can be identified with the rationale of economic planning.

To start with "only three government monopolies were established, i.e. manufacturing of arms and ammunitions, the production and control of atomic energy and ownership and management of railway transport."\(^\text{12}\)


Public Sector and Industrial Policy
Resolution of 1956:

The Industrial Policy of 1949 did not contain any specific activity for public sector, then a new policy was envisaged in 1956 with a view to create socialistic pattern of society as a national goal. In the industrial policy resolution of 1956, the role of public sector was duly recognized. The policy also stated the power of the state to take over any industrial enterprise in the public interest. This policy made a clear division of the economic fields for the public and private sector. This policy reiterated the necessity of adoption of socialistic pattern of society as the national objective as well as the requirement for the planned and rapid development of the country. The rapid economic growth needs that all industrial undertakings of basic and strategic importance or in the nature of public utility services, must be under the purview of public sector.

Other industrial enterprises of paramount importance, involve huge investment which are beyond the financial capacity of private sector, they must also be in the public sector. Therefore, the government was assigned direct responsibility for the development of industries in the country.

The industrial policy of 1956 classified all the industries into three different categories. In case of first category development and growth of important industries was assumed to be exclusive responsibility of the government. In the second category, other industries were categorised in
which the state would be required to play a significant role and private sector would also assist the state's efforts in this regard. In the third category the rest of the industries were for the private sector and the government was also entitled to participate in this category. In short it was decided that "certain basic industries are to be permanently in the hands of the state and certain other types of economic undertakings are to be thrown open to private enterprise and third group is to be mixed, through the establishment of Joint Companies." Emphasizing the industrial policy of the government, Pandit Jawaharlal Nehru said that we must put forth our best efforts on this foundation to build up industrialization in the country. In developing countries like India, the government is responsible for industrial and infrastructural development.

**Industrial Policy of 1977:**

"The industrial policy of 1977, which was announced on 23rd December, 1977, envisaged public enterprise as a tool of socialising the means of production in strategic areas and for providing a counter vailing force to the growth of large houses and large scale enterprises in the private sector. The new policy also envisaged a greater role for public enterprises in several fields, e.g. production of important and strategic goods of basic nature, acting as a stabilising force for maintaining essential supplies for

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the consumers, and encouraging wide range of ancillary industries in the small scale and cottage sector. The government is also interested to operate public enterprises on profitable and efficient lines in order to ensure adequate return on investments made in them. Therefore, this policy made a clear cut classifications of the government's approach and initiatives towards public sector and it will be the endeavour of the government to operate public sector enterprises on profitable and efficient lines in order to ensure that investment in these industries provides an adequate return to the society. The main thrust was to build up a professional cadre of Managers for these enterprises who would be assigned an independent autonomy in order to ensure efficient management of such undertakings.

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The expansion of the public sector has been emphasised in each and every succeeding Five Year Plan upto Seventh Five Year Plan.

**TABLE 2.1**

**Public Sector Investment during Five Year Plan**

<table>
<thead>
<tr>
<th>Period/Plans</th>
<th>Total Public Sector Rs. in Crores</th>
<th>Percentage share</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. First Plan (1951-56)</td>
<td>3,360</td>
<td>1,559</td>
</tr>
<tr>
<td>2. Sec. Plan (1956-61)</td>
<td>6,831</td>
<td>3,730</td>
</tr>
<tr>
<td>3. Third Plan (1961-66)</td>
<td>10,400</td>
<td>7,185</td>
</tr>
<tr>
<td>4. Annual Plan (1966-69)</td>
<td>16,089</td>
<td>6,571</td>
</tr>
<tr>
<td>5. Fourth Plan (1969-74)</td>
<td>22,635</td>
<td>13,655</td>
</tr>
<tr>
<td>6. Fifth Plan (1974-79)</td>
<td>63,671</td>
<td>36,703</td>
</tr>
<tr>
<td>7. Sixth Plan (1980-85)</td>
<td>159,710</td>
<td>84,000</td>
</tr>
<tr>
<td>8. Seventh Plan (1985-90)</td>
<td>322,710</td>
<td>154,218</td>
</tr>
</tbody>
</table>


The above table shows that during this period the public sector investment has increased from Rs. 1,559 crores to Rs. 1,54,218 crores.
Forms of Public Enterprises as they emerged in India:

Various forms of public enterprises have been set up in India, according to the statutes which include departmental undertakings, Public Corporation and the Public Companies. Public enterprises in India have been divided into three categories, viz., the departmental management, public corporations and the public companies. These different forms of organizations have different features to suit the various needs of the country.

1). Departmental Management;

It is a traditional type of public enterprises in developed and in under-developed countries and has been used for Railways, Communications, Posts & Telegraph, commercial or industrial monopolies of revenue raising character. The principal characteristics of this form of organization are:

i) The enterprise is financed by annual appropriation from the treasury and all or major share of its revenues are paid into the treasury.

ii) The enterprise is subject to the budget, accounting and audit controls applicable to other government activities.

iii) The permanent staff of the enterprise are civil servants, and methods by which they are recruited and the conditions of service under which they are employed are ordinarily the same as per other civil servants.
iv) The enterprise is generally organized as a major sub-division of one of the departments and government is subject to the direct control of the head of the department.

v) They are accountable to Parliament through the concerned ministers. The growth policy and functioning of public enterprises are communicated to Parliament.

vi) Whenever this applies in the legal system of the country concerned, the enterprise possess the sovereign immunity of the state and can not be sued without the consent of the government.

"If suitability of departmental form the government wishes have substantial control over its enterprise, the departmental undertaking would be most suitable one." 15

From this point of view the railway, the Posts and Telegraphs, ordinance factories, transport and communication etc. have been set up as departmental undertakings. The Estimates Committee was of the opinion that the industries relating to defence and the industries established for financial control could be organized on departmental lines." 16


"The great departments of states are not organized for business administration."17

The characteristics reveal that these departmentally managed concerns are wholly under full control of the state administration where perfect accountability and supervision is possible.

There is also no conflict of opinion between management and the ministry responsible for the undertaking. Undertakings under the category provide the infra-structure and industrial base.

2). Government Companies:

Another form of an autonomous authority for running state enterprise is a government company. The term here is used to denote an enterprise formed under the Companies Act of 1956, in which the government has the controlling interests through its ownership of all or some of the shares. The operations and management of a government company are regulated by section 620 of the Companies Act, the central Government however has a right to accept parts or fully the application of any provision of the Act, accept Sections 618, 619 and 619A to government companies. It, thus covers enterprises through which the government enters into partnership with private capital. The Public company

may attract the fund by issuing the interest bearing debentures and bonds. But in underdeveloped countries people respond more to an offer of equities for the concern. The reasons for the adoption of the company form is relevant. The Government may have to acquire shares of an existing enterprise in an emergency in response to a financial or employment crisis or in order to maintain production or provide services of basic necessities which have become unprofitable under private enterprises. This happened in many European countries during the World War period, where the Government transferred the shares to the public as soon after the establishment of the company, the capital of the company is owned wholly either by the Government or with private capital, domestic or foreign.

In India, the state holds generally major shares, but in countries like France, Pakistan, minor state participation is common. Both government and private participants can take part in management. It is exercised either by a special agreement to that effect or by normal practice of electing board members in proportion of their equity holdings. The company is registered under the statutory law enforced in the country. Its legal status is identical to that of the companies in the private sector. "It is also accountable to Parliament, is secured as provided under sections 619 and 619A of the Companies Act of 1956, which relates to audit and submission of the annual reports,"
respectively. The members of the governing boards are the elected representatives of various interested groups. These government bodies are not dictated by the ministers concerned. 18

Financially, it is free from treasury and budgetary appropriation. Its capital fund is derived from the sale of stock to government or to private investors. It can use its own revenues. It is free from audit and accounts rules of the government. Its final accounts are prepared and audited as in the case of a private establishment. The Auditor General approves the names of Auditors.

In the Company from all or most of the functions are vested in the share-holders but they are reserved for the government. The Estimates Committee in its report has observed that "Indian Companies are more or less extension of departmental organization." 19

Public Corporation:

With the rapid expansion of Public enterprises, it becomes necessary to evolve a new institution to manage them. And the solution was found by the formation of Public Corporation.

These Corporations were thus made responsible for their own finances i.e. financed by the users of the services. The importance of such organisation is to form the nearest equivalent to organisation in private sector. The principle characteristics of Public Corporation are:

1) It is wholly owned by the state.

ii) It is generally created by special Act, which defines its powers, duties and immunities and prescribing the form of management and its relationship to established departments and ministers.

iii) As a body corporate, it is a separate entity for legal purposes and can sue and be sued, enter into contracts and acquire property in its own name. Corporations conducting business in their own names have been generally given greater freedom for making contracts and acquiring and disposing off the property than ordinary government departments.

iv) Except for appropriation to provide capital or to cover losses, a public corporation is unusually, independently financed. It obtained its funds from borrowing either from treasury or the public. It is authorised to use and re-use its revenues.
v) It is generally exempted from most regulatory and prohibitory statutes applicable to expenditure of public funds.

vi) It is ordinarily not subjects to budget accounting and audit laws, and procedures applicable to non-corporate agencies.

vii) In the majority of the cases, employees of public corporation are not civil servants, and are recruited and remunerated under terms and conditions which the corporation itself determines. It is free from civil service regulations and from the danger of red-tapism of bureaucracy.

The Public Corporation is an autonomous body which is free from Parliamentary enquiry into its management. It has no interest of its own except promoting the interests of the public for which it is created.

The Public Corporation is left to conduct its operation independently as the private business. It has no share-holders in the ordinary sense of the term and is not supposed to meet the interest of the share-holders. It exists for the fulfilment of the tasks enjoined upon by the law. The Public Corporations are not set up only for profit motive but to meet the public ends.
The Public Corporation is financially self-supporting. Its finances are separate from the national budget, though the treasury keeps sufficient control over certain aspects of finance. Its establishment is made through funds provided by the State.

And once it is sanctioned the Corporation has to make its own plans.

The Public Corporation is free from parliamentary enquiry into its management. Its policies are subjected to parliament and ministerial control, but being a separate legal entity, it is not accountable to parliament about its day to day workings.

The Public Corporation is governed by the special Act, which provides its certain immunities which are not extended to other corporate bodies of the land.

The formation of Public Corporation requires the lengthy process of going through the whole legislative procedure. Any subsequent change needs the amendment of the original Act.

Finances of Public Enterprises:

The super-structure of enterprises can be built only on the sound financial base. Its continuous expansion and growth depends upon the availability of adequate finance
smoothly, regularly and at the reasonable cost. The original requirements of the public enterprises in India depended wholly upon the budget resources. Besides, there are various sources of their finances. Now the heads are many, such as public issue shares, issue of debentures, loans from special credit institutions like Industrial Finance Corporations and Investment Corporations, loans from bank and assistance from International Agencies like World Bank and Foreign Companies which are collaborating with some of the new undertakings. Public Companies are financed through the private participation. "Self financing" of the enterprises, through their surplus earnings is considered an important source of finance. Different forms of organizations draw their finances from a variety of sources, depending upon a number of factors which include the quantum of fixed capital and working capital, conditions prevailing in the money market, and the provisions made in the legal statutes.

As far as the Departmental Organization, the finances are exclusively made by the annual appropriations from the treasury, and all or the major share of their revenues is paid into the Exchequer. This form prevails in the old enterprises of the country such as Railways and Post & Telegraphs etc. The initial and subsequent capital is provided through the budgetary grants. A separate account is maintained with the government and shown as the capital
at charge against the undertakings concerned. But in due course of time some modifications have been made. Railways now have their separate finances and budget. They have to pay a fixed rate of interest which is decided by the Railway Convention Committee from time to time. The finances of other Government Departments are not separated from its revenues of the capital or state governments.

Public Corporations, draw their finances in different way. In Public Corporations, the original capital has been provided out of Parliamentary appropriation either as an outright grant or as an interest bearing capital.

The financing method of the statutory Corporations is generally indicated in the statutes. Under the Air India Corporation Act, the entire capital of Indian Airlines and the Air India International shall be provided by the Government. Under the D.V.C. Act, 'each participating state (Centre, West Bengal and Bihar) shall provide its share of the capital.' If any Government fails to raise such share by the prescribed date, then the Corporation may raise the loan to make up that deficit at the cost of Government concerned.

Most of the public enterprises in India have been set up as private or Public Joint Stock Companies. The Companies have been set up under the Indian Companies Act. They are generally wholly Government-owned and all the shares are held either by the President of India or by the
respective state governments. Some Companies have private (Indian as well as Foreign) participations.

Except in the case of mixed enterprises, the whole of the initial capital for the public sector undertakings comes normally from the Government directly, or through the three forms or combinations of a) grant, b) equity investment, or c) loans.

**Finances Through Grants, Equity and Loans:**

When a government starts a new undertaking, the initial investment is always made out of the budgetary allocation through the grants, equity, capital loans. Grants capital are sanctioned generally to the public utilities are made in a lump-sum amount. But the disadvantage of the grants is that it imposes no financial disciplines on the enterprise. Therefore, except in a few cases, where the grants are used exclusively, the enterprises are equipped with equity-type capital and loan capital.

**Private Participation:**

Public enterprises can be used not only as a means of generating resources for investment in the developmental programmes, but also as a means of mobilizing domestic private capital. This role is clearly illustrated by the mixed enterprises, where private parties participates in providing the equity and with the right of representation.
on the Board of Directors. The mixed enterprises attract private capital more successfully than the purely private enterprise because dependence on the Government offers the investor an extra degree of security.

External Capital:

External capital is the important source of finance of public undertakings. Many of the public undertakings are collaborated with the foreign investors. External capital for public enterprise may be private or public, direct or indirect. Private capital is invested directly in the enterprises concerned, for the profit motive. Public capital takes the form of Government grants or loans which are made available to the recipient government for investment.

The problems faced by foreign financing of public enterprises are related with the balance of payments, projects typing and political relation between the countries. Therefore, there are certain limitations of the external finance. At the earlier stages, the Government has utilized a considerable amount of foreign grants and loans but dependence upon such capital is not considered proper for ever and it is avoided due to its political backgrounds.

Self Financing:

The initial capital of the enterprise is provided through the Government budgetary appropriation. But the
question is for the further developmental process. The primary objective of the public sector is not to make the huge profits. But it is desirable that public operating should make the surplus atleast for their expansion. In developing countries, these issues may be somewhat academic. The major problems are (a) to ensure that the public industrial enterprises achieve profitability, so that they contribute to the development of national resources and do not impose a drain on them, (b) to use their profit as sources of capital formation. Therefore, public enterprises are given profit-targets which are formulated in the light of the programme for raising of capital resources embodied in the national economic plan.

The self-financing by public enterprises reduces the claims on the nation's savings. If the nationalized industries finance a greater proportion of their investment by ploughing back profits, this docs not means that the nation as a whole need a less; all that is implied is a shift in the burden of saving from tax payers to the consumers of public sector production. Therefore, the method of self financing of public enterprises is not contrary to their objectives. But actually, it depends upon the price policy of Government. Public undertakings are set up for the wide social considerations, hence, they charge lower prices to reduce the burden on the consumer's purse. The public concerns, like multipurpose projects, need not make any surplus for they confer many indirect benefits to the community.
There are instances of higher prices charged by Government on certain luxury goods to create the surplus for self-financing. But it is not possible for the essential commodities. Therefore, the problems of self-financing depends solely on the objectives entrusted with the different categories of the concerns.

**Deficiencies of Public Sector:**

Inspite of substantial contribution of the public sector enterprises in the economic development of the country their performance in general has not been up to the mark.

Managerial efficiency and effectiveness is at the heart of the functioning and performance of any enterprise. However, public sector enterprises are with a few exceptions very inefficiently and ineffectively managed due to the following reasons.

(a) No continuity at the top management level. It has become almost to say that most public sector enterprises are headless bodies.

(b) Conflicting and confused objectives: The number of guidelines issued by the bureau of public enterprises totals the astonishing figure of 800. To complicate matters further, there is very often a conflict between existing political ideologies and current management practices.
(c) Dominance of politicians in policy making:
There is continuous political interference in the day to day functioning of enterprises. This exists to such an extent that in reality managers have practically no autonomy in taking important decisions. 20

Further, instead of confining itself to core industries, the Government strayed into pathless woods and every act of nationalization of a sick industry has pushed it deeper into the mire. 21

According to a recent government survey, out of 244 central undertakings in the country, barely 20 were found to be highly profitable, 74 moderately profitable, four without profit or loss, and as many as 135 registered aggregate negative profits. Of the latter, 54 units were chronically sick with labour force of 3.3 lakh persons and net liabilities touching Rs. 4,600 crore.

There are also the state-level public enterprises (SLPEs) which were set up to accelerate the pace of national development, and which in recent years have proliferated to a great extent. For instance, during the seven year period from 1980-81 to 1986-87, 350 SLPEs were set up, raising the total investment in State level enterprises

20. The Economic Times (New Delhi), 22 August, 1991
21. The Hindustan Times, New Delhi, 31st August, 1992
from Rs. 2,060 crore over to Rs. 13,000 crore. Investment in State level public enterprises grew at an average rate of 45 percent per annum between 1976 and 1997, as against 30 percent in the case of central undertakings. Yet for all the states taken together, the asset turnover ratio for the state level public enterprises had been as low as 3:1 (indicating that for every rupee invested, the returns have been barely 33 paise). About 40 percent of these enterprises were in the red at the gross marginal level while 50 percent incurred losses at the operating margin level. The remaining 10 percent showed small surpluses.

It was because of these reasons that a new industrial policy emerged and the role of the public sector was entirely changed.

**The New Industrial Policy:**

The new Industrial Policy has made efforts to address itself to some of the chronic problems of the public sector. It aims at:

1). Distributing 20% public sector units to the mutual funds, financing institutions, general public and the workers.

2). Referring chronically sick public sector units to the Board for financial and Industrial Reconstruction (BIFR) for the formulation of survival scheme. In
his budget speech, Dr. Manmohan Singh said,

"A special security mechanism will be created to fully protect the interests of the workers likely to be affected by the rehabilitation package of the BIFR. Autonomy management and the corresponding accountability would be provided through a system of memorandum of understanding (MOU) between the government and the public sector enterprises."

This new industrial and commercial policy for revamping and restructuring the economy is also named as privatization. Privatization in simple terms is the transfer of ownership for the public sector, but with the provision that there is no bar to operating these areas to the private sector. The industries include those dealing with the production of steel, oil, power, pharmaceuticals and petrochemicals. Enterprises in areas where continued public sector involvement is judged appropriate greater degree of managerial autonomy is being provided by the government. It also proposes the system of monitoring the units. A weighty argument in favour of privatization of these enterprises is that it would help a fiscally strapped government to cut down on its deficits. This could serve as a bone to an economy facing a resource crunch and enable it to get out of the debt trap.

21. - The Economic Times, New Delhi, 22nd August, 1991
Another benefit stemming from privatization is stated to be the potential increase in the operational efficiency of the enterprises. Improved efficiency comes through changes in objectives, higher incentives, reduction of operational constraints, greater accountability and measurability of performance at various levels. The British example of privatization is widely quoted in this context. The magic turnaround of the British telecom through privatization is a landmark in itself. Within a couple of years of Margaret Thatcher's experiment, this state sector giant in the U.K. which had accumulated losses in billions of pounds sterling, has been brought back to health.

In case of India also, privatization has started making wages in a big way. Certain examples are provided by the government's attempts to disinvestment in state sector units like the National Thermal Power Corporation (NTPC) and Hindustan Machine Tools (HMT) by selling shares through bonds.

"The main plank of the votaries of privatization is the inherent and built-in inefficiency of the public sector. Because it cannot go bankrupt it has compulsion to compete or excel. When an industry knows that the government will always pull its fat from the fire, the result is inertia, inefficiency and scant attention to the needs
To conclude, liberalization should not mean indiscriminate privatization, but efficiency and competitiveness in industry. Thus, minimum government presence leading to emergence of autonomous leadership, better management of resources and increase in productivity, emergence of a new dynamic joint sector, are expected to change the face of the public sector in the country.

Though public sector has still to play a key role in the development of the national economy but it has lost its dominance position. The following chapter of is a detailed evaluation/its performance during the recent past.

23. Hindustan Times, August 31st, 1992, New Delhi