Chapter I

Philosophy of Government’s Participation in Business in India

Background of The Study:

Privatization has become a novel symbol of economic growth the world over. It has come to be accepted and supported by all on the grounds of efficiency improvement, reducing corruption and relieving the national exchequer of debt burdens. Privatization is, therefore, now the part of liberalization and structural adjustment programme of the new economic order launched in the 90's with the considerable emphasis on effective and efficient resource use and tuning of private sectors to the market forces. This philosophy of tuning private sectors to market mechanism has gained currency in the context that the private sector and competition improve efficiency and prompt a company to offer better services to the society.

The prime minister of Great Britain, Mrs. Margaret Thatcher was a staunch supporter of the concept of private ownership. She privatized many state-owned enterprises between 1979 and in the mid eighties. In the late eighties, Britain was followed by West Germany (now unified), France, Japan, Singapore, Malaysia, Thailand, Brazil and many other developing economies including India as well.

As India is no exception for this craze of privatization, PSEs with enormous state funds in successive five year plans based on Nehruvian model of economic development has now been replaced with the concept of market-economies. The role of the public sector Enterprises, with the
advent of the new economic policy, is subject to contraction giving enough room for private sectors to operate and get tuned in accordance with market forces. Privatization, in India is now part & parcel of the process of Economic liberalization.

The present study academically examines the pros and cons of the government policy of privatization in the form of disinvestment of the shares of Public Sector Enterprises to withdrawing their capital and handing over the ownership, management and control to the private sector.

**Privatization: A Top Priority for Market Economies**

The third world economies; mostly of Asia, Africa and Latin America were left orphaned by the dismantling of the USSR and were required to fend for themselves in the world trade. The SOEs, instead of being beneficial to masses, proved to be fund-guzzling white elephants, which snatched limited resources that could have been gainfully employed for development programmes. This all had left no option but to turn to lessening of the state control ultimately leading to privatization.

**Why Privatization?**

One of the chief causes of privatization has been the lackadaisical performance of Public Sector Enterprises. A glimpse of the performance of various PSEs over the world paints a gloomy picture over a span of many years except a few of efficiently run and profit making enterprises.

According to World Bank estimates, "between 1989 and 1991, State Owned Enterprises (SOEs) in Argentina, Yugoslavia and some sub-saharan African countries, made losses, taken as a percentile of GDP, to
the tune of 9 percent, 8 percent and more than 5 percent respectively. In Turkey, during 1985-91 the marginal efficiency of SOEs capital was $\frac{1}{2}$ times less, Return On Capital Employed (ROCE) was $\frac{3}{5}$ times less and the productivity was about $\frac{2}{5}$ times less than the corresponding figures for the private sector. In 1980, an abysmal performance by half of Tanzaniyan Public Sector Undertakings pulled the entire public sector into red. In 1991, 30 percent Chinese SOEs made losses, which were about 8 percent of GDP.\(^1\)

In many countries, this hopeless state of affairs made it difficult for the budget and the banking systems to sustain the SOEs. Government allocation for the PSUs in Mexico was 3 percent of GDP in 1982, 4 percent of GNP in Turkey and 9 percent of GDP in Poland in 1990. The inflow of the income from the PSUs to the government were so meager that they could hardly be considered to balance the government expenditure on PSUs. The continued governmental support to the PSUs under ideological policy of political duress put further strain on the concerned economies. Had the handicap of poor performance been confined to the public sector, the growth and returns from the private sector could have proved to play a counter role, but the slow PSUs growth proved contagious and slowed down the private sectors growth too.

\(^1\) "Managing Disinvestments: Implications & Options", A.Q. Khan Pg. 6
Causes for the poor performance of SOEs:

1. The provision of undue concessions and advantages to the SOEs or enactment of constitutional procedures to thwart competition to PSEs. For example, in India, entire sectors and sub-sectors of industries like energy, shipbuilding, non-ferrous metals, telecom equipments, mining & steel plants were statutory monopolies of PSUs until the liberalization of economy in early 1990s.

2. Access to liberal credit lines reinforcing monopoly of SOEs. Instead of utilising these available funds for growth and development purpose, the funds ended up covering the capital accounts deficits. Poor servicing and repayment of debts by state enterprises forced winding up of some banking systems.

3. The bankers tend to understand that there is an implicit government guarantee for the lendings to PSEs whereas, in fact, there is none. Thus diversion of funds leads to a cash crunch for the private sector.

4. The inefficient exploitation of resources by PUSs, increase the cost of business for private sector.
Surmounting losses to national exchequers pulled down many of the economies down into abyss of financial crises, some of these economies were already struggling to stand on their own. To these countries, privatization became a tool to service their debts while developed countries privatized to increase the quality of product or service and thereby, improved financial results.

As the newly industrialized countries like South Korea, Taiwan, Singapore, etc gained economic power, they began to be looked up as role models by all the developing countries despite the discrepancies in the economic climate. Growth through economic prudence, intense competition and a broad outlook toward, world markets incorporating enhanced exports, became the stepping-stones to prosperity. “An overbearing role for the SOEs in the economy will not be able to accomplish these objectives, even more so after disenchantment from the command economy model of the socialist countries and the import substitution model of Latin America. This made a turn to privatization inevitable.”12

“Governments are taking course to privatization because the reasons for extended state control over the economy have gone away Technology and growth have introduced competition into traditionally monopolistic activities such as telecommunications and electricity generations; the emergence of a dynamic private sector gas weakened the argument that state ownership is needed as a substitute for frail or nonexistent domestic entrepreneurship in any developing countries; and with governments extending their control over transnational corporations,

1.2 Ibid
their role as guardians of nationality and sovereignty has faded in to blue

It is significantly striking to note that between 1980 and 1992, privatization became worldwide phenomena; so much so that more than 15000 enterprises were privatized (segmented analysis of the same is discernible in table 1.1 and 1.2 out of which 11000 were only in the former East Germany.)

Table 1.1

Percentage of SOEs Privatized Worldwide, by Region 1980-92

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Percentage of SOEs Privatized</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>71.0</td>
</tr>
<tr>
<td>OECD(Excluding Germany)</td>
<td>1.0</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>0.4</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>3.0</td>
</tr>
<tr>
<td>Eastern Europe and Central Asia</td>
<td>18.0</td>
</tr>
<tr>
<td>South Asia</td>
<td>0.5</td>
</tr>
<tr>
<td>East Asia and Pacific</td>
<td>0.7</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>6.0</td>
</tr>
</tbody>
</table>

Source: World Bank, Country Economic Department Sader, (1993); privatization International Year Book (various years);
Table 1.2

Percentage of SOEs Privatized In Countries that Borrow from the World Bank,
By Region 1980-92

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Privatized SOEs (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>-Eastern Europe and Central Asia</td>
<td>64.0</td>
</tr>
<tr>
<td>-South Asia</td>
<td>2.0</td>
</tr>
<tr>
<td>-East Asia And the Pacific</td>
<td>2.0</td>
</tr>
<tr>
<td>-Latin America and Caribbean</td>
<td>21.0</td>
</tr>
<tr>
<td>-Middle East and North Africa</td>
<td>1.0</td>
</tr>
<tr>
<td>-Sub-Saharan Africa</td>
<td>9.0</td>
</tr>
</tbody>
</table>

*Source: Ibid*

Among more than 3800 sales in countries that borrow from the world bank, the former socialist economics in Eastern Europe, central Asia and countries in Latin America together account for 85 percent. Table 1.3 gives a synoptic view as regards recent privatization transactions the world over valued at US$100 million or more between 1988-92.
### Table 1.3

**Recent Privatization Transaction Valued at US $100 Million or More**

**1988-92**

<table>
<thead>
<tr>
<th>Economy</th>
<th>Enterprise</th>
<th>Month of Sale</th>
<th>Gross transaction value (million of US $)</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mexico</td>
<td>Bancomex</td>
<td>10/91</td>
<td>2,500</td>
<td>Banking</td>
</tr>
<tr>
<td>Mexico</td>
<td>Bancomex</td>
<td>9/91</td>
<td>2,300</td>
<td>Banking</td>
</tr>
<tr>
<td>Korea, Republic of Korea</td>
<td>Electric Power</td>
<td>6/89</td>
<td>2,100</td>
<td>Power</td>
</tr>
<tr>
<td>Venezuela</td>
<td>CANTV</td>
<td>11/90</td>
<td>1,885</td>
<td>Telecommunications</td>
</tr>
<tr>
<td>Mexico</td>
<td>TELEMEX</td>
<td>12/90</td>
<td>1,760</td>
<td>Telecommunications</td>
</tr>
<tr>
<td>Brazil</td>
<td>Usiminas</td>
<td>12/91</td>
<td>1,430</td>
<td>Steel</td>
</tr>
<tr>
<td>Mexico</td>
<td>Mexicana de Cobre</td>
<td>10/88</td>
<td>1,360</td>
<td>Mining</td>
</tr>
<tr>
<td>Argentina</td>
<td>ENTEL</td>
<td>11/90</td>
<td>1,244</td>
<td>Telecommunications</td>
</tr>
<tr>
<td>Mexico</td>
<td>Multibanco Comermex</td>
<td>2/92</td>
<td>872</td>
<td>Banking</td>
</tr>
<tr>
<td>Malaysia</td>
<td>Telekom Malaysia</td>
<td>10/90</td>
<td>861</td>
<td>Telecommunications</td>
</tr>
<tr>
<td>Brazil</td>
<td>Capesul</td>
<td>5/92</td>
<td>839</td>
<td>Petrochemical</td>
</tr>
<tr>
<td>Mexico</td>
<td>Cananea</td>
<td>9/90</td>
<td>475</td>
<td>Mining</td>
</tr>
<tr>
<td>Argentina</td>
<td>Somisa</td>
<td>10/92</td>
<td>404</td>
<td>Steel</td>
</tr>
<tr>
<td>Philippines</td>
<td>Philippines Airlines</td>
<td>1/92</td>
<td>368</td>
<td>Airlines</td>
</tr>
<tr>
<td>Country</td>
<td>Company</td>
<td>Date</td>
<td>Category</td>
<td>Industry</td>
</tr>
<tr>
<td>------------------</td>
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<td>-------------</td>
<td>----------------------</td>
</tr>
<tr>
<td>Mexico</td>
<td>Aerovias de Mexico</td>
<td>11/88</td>
<td>339</td>
<td>Airline</td>
</tr>
<tr>
<td>Philippines</td>
<td>Nonoc</td>
<td>10/90</td>
<td>325</td>
<td>Mining</td>
</tr>
<tr>
<td>Taiwan (China)</td>
<td>China Steel</td>
<td>4/89</td>
<td>285</td>
<td>Steel</td>
</tr>
<tr>
<td>Argentina</td>
<td>Aerolinas Argentinas</td>
<td>4/90</td>
<td>285</td>
<td>Airline</td>
</tr>
<tr>
<td>Mexico</td>
<td>Banca Cremi</td>
<td>6/91</td>
<td>248</td>
<td>Banking</td>
</tr>
<tr>
<td>Mexico</td>
<td>Multibanco de Mercantil</td>
<td>6/91</td>
<td>204</td>
<td>Banking</td>
</tr>
<tr>
<td>Mexico</td>
<td>Banpais</td>
<td>6/91</td>
<td>182</td>
<td>Banking</td>
</tr>
<tr>
<td>Mexico</td>
<td>Sicartsa 1</td>
<td>11/91</td>
<td>170</td>
<td>Steel</td>
</tr>
<tr>
<td>Chile</td>
<td>Compania de Telefonos</td>
<td>1/88</td>
<td>170</td>
<td>Telecommunications</td>
</tr>
<tr>
<td>Mexico</td>
<td>Sidermex North</td>
<td>11/91</td>
<td>145</td>
<td>Steel</td>
</tr>
<tr>
<td>Venezuela</td>
<td>VIASA</td>
<td>9/91</td>
<td>145</td>
<td>Airline</td>
</tr>
<tr>
<td>Mexico</td>
<td>Mexicana de Aviacion</td>
<td>6/89</td>
<td>140</td>
<td>Airline</td>
</tr>
<tr>
<td>Brazil</td>
<td>Araorug</td>
<td>5/88</td>
<td>130</td>
<td>Pulp and paper</td>
</tr>
<tr>
<td>Turkey</td>
<td>Petking</td>
<td>6/90</td>
<td>125</td>
<td>Petrochemical</td>
</tr>
<tr>
<td>Peru</td>
<td>Hierro Peru</td>
<td>12/92</td>
<td>120</td>
<td>Mining</td>
</tr>
<tr>
<td>Poland</td>
<td>Kwidzyn</td>
<td>8/92</td>
<td>120</td>
<td>Pilp and Paper</td>
</tr>
<tr>
<td>Hungary</td>
<td>Tungsram</td>
<td>5/89</td>
<td>110</td>
<td>Electric - equipment</td>
</tr>
<tr>
<td>Mexico</td>
<td>Nikko Hotel</td>
<td>10/88</td>
<td>110</td>
<td>Hotel</td>
</tr>
<tr>
<td>Mexico</td>
<td>Terefaltos</td>
<td>1/88</td>
<td>106</td>
<td>Chemical</td>
</tr>
<tr>
<td>-------------</td>
<td>------------</td>
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<td>----------------</td>
</tr>
<tr>
<td>Columbia</td>
<td>Papelcol</td>
<td>8/90</td>
<td>100</td>
<td>Pulp and Paper</td>
</tr>
</tbody>
</table>

**Privatization and Its Impact: A Global View:**

The term Privatization is most commonly used to describe the process of de-nationalization i.e., the sale of all or part of a state company to private investors by means of such as a stock market or private placement.

It is a single, but significant element of policies aimed at reducing the role of the state in modern mixed economies. The objectivities of reducing the government intervention has political/ ideological and economic motives. Theoretically privatization provides a response to government failure to achieve technical and allocative efficiency.

The phenomenon of privatization swept nearly 50 countries across the globe in the last decades. These countries were operating different economic systems and were in different stages of economic development. But in India the process of privatization took a very long time to set in. The euphoria of the sixties and seventies over the giant public sector undertakings gave way to serious disenchantments. India had been fairly successful in mobilizing internal savings but efforts were offset by unwise and lopsided investments and cost overruns.

**The British Experience:**

The Thatcherite prescription has worked wonders to achieve higher levels of output, profitability and improvements in industrial relations for the firms, which were privatized. The state sector of the Industry, has been reduced by nearly half by the end of 1990, and 29 major businesses together with a number of subsidiaries of the nationalized industries had been privatized and about 8,00,000 jobs transferred to the private sector. The success of the British experience has caught the imagination of many
European nations, including Italy, Sweden, France and a number of communist countries. Steps in this direction were also initiated by USSR and Japan.

**Malaysian Experience:**

Malaysia also chalked out a master plan for the privatization of government-owned enterprises, during the nineties, to hasten the speed of industrial development. As many as 434 enterprises were earmarked for immediate action and 1400 enterprises were identified for the purpose.

**The Italian Story:**

The performance of the public sector companies has made a major contribution to the pace of growth established by the Italian industry during the eighties.

The remarkable performance of the public sector, is to a large extent due to the conditions conducive to competition, existing in the Italian economy. The major holding companies were given a great deal of autonomy. They have their own capital and an endowment fund is set-up as a part of the government budget and the holding companies have full responsibility over its utilization. In recent years, attempts have also been made to reduce the bureaucratic delays. The Italian public sector has thus achieved, to a major extent the objective behind efforts i.e. competition which in turn breeds sound management policies and profitability by enforcing the discipline of the market.

The Italian formula for the success in the performance of the public sector lies in injection of private capital into the state-owned enterprises, which as Tomano Prodi, head of Italy's enormous state-owned
conglomerate, "Institute per Is Ricostruzione Industrial" points out, "almost always makes management more accountable"

**The Pakistani Initiative:**

The premier, Ms. Bhutto, soon after taking over the reigns, while dispelling fears of nationalization commissioned a study on the viability of an extensive privatization program by the Rothschilds, a British Merchant Bank, which recommended the economy as suitable for privatization, under properly handled conditions, and in a phased manner. A major policy decision, based on the report of the Bank, was taken in 1989 to privatize a significant segment of the public sector through transfer of shares, to relatively profitable units. The decision was probably made consciously, taking a leaf out of Thailand’s experience. As the Chief Economist planning Commission commented, "It is vital that the first sale should be successful, that we begin with a good reputation and a track record, that will sell like hot cakes". Proposals for transfer of some of the branch, lines of the Pakistan railways, to the private sector, for operations on commercial basis were also under consideration.
New Zealand's experience:

Despite political coloring of the proposals, the government in New Zealand initiated steps to intensify its privatization program whereby billions of dollars worth of states' assets were proposed to be sold. Privatization was proposed to be extended to national railways including the ferry network and national bus company, state forests, the tourist corporation’s prestige hotels, the state insurance office, the tourist department's national and International travel offices and coal corporation i.e. the former state coal mining corporation. The privatization efforts attracted lot of criticism on account of sales being at too low prices. Most of the sales were opposed by the public services unions; whose membership rolls were drastically reduced with the privatization of government departments.

The American Experience:

In the U.S., privatization was dominated by the contracting out of services at the state and local government levels. However, there was no privatization of commercial public enterprises of any significance. The initiation in to privatization as in a number of other countries of USA was due to severe budgetary constraints, the reduction of the federal support to state and local governments and the drying up of other sources of revenue, combined with a strong political commitment in favor of private sector.

The American experiment had effectively shown that private provision of services is on the whole more cost effective. In solid waste collection, public provision of the service has been found to be a percent more costly than the private alternative. U.S.A. Also successfully
experimented in privatization of prisons, an experiment which hardly any other country has tried.

The existence of a strong private sector and well developed capital markets, as in the case of U.S., have assisted the economy in achieving a relatively fast pace of privatization.

**Japanese Initiative:**

Japan is another country where privatization has yielded rich dividends. Five years prior to privatization of Japanese National Railways (JNR), the railways had run annual deficits of about 1600 billion yen. After privatization in April 1987, JNR made profits totaling 150 billion yen. This effectively demonstrated that railways had a potential to be profitable if management undertook appropriate measures. The Railways, during the phase of state ownership suffered from several drawbacks as management responsibility being obscured by such factors as political intervention, regional interests and extensive cross-subsidization of unprofitable services by profitable ones.

The gains from privatization, as witnessed form the JNR experience include (a) the old bureaucratic attitudes have been replaced by the determination to make the new companies excel, (b) stabilization of the labour management relations. And (c) the unfavorable Image of railways was erased. The major privatization efforts in Japan include Nippon Telegraph and Telephone, Japan Tobacco Inc, Japanese National. Railway and Japan Airlines.
**The Russian Perception:**

The experience of erstwhile USSR is noteworthy in this context. The USSR in the wake of 'Perestroika' wanted to open its economy to direct foreign investment by selling enterprises needing major overhaul especially in engineering and consumer goods industries. In addition, there was some thinking on the lines of foreign investors being given access, to foreign currency auctions to repatriate their profits and be allowed to take equity stakes in Soviet enterprises. In fact sweeping reforms were proposed with a view to move towards a market economy, which included urgent measures to control monopolies—either breaking them up, or selling equity stakes, or enforcing competition, through an anti monopoly committee. The measures were adopted to achieve the goals of (I) Introducing competition & (II) achieving Increased production. The foreign investment was also to help Russia re-build and upgrade its enterprises.

**The French Perception:**

France has drawn up ambitious plans to re-establish private control. However, as a nation France believes that privatisation efforts needs to be undertaken only in sectors where these are called for. The experience of electrical industry shows that public sector can function in a well harmonized and cooperative set up reaping economies of scale, and exploiting knowledge and technology. Further, the decision to retain a particular sector under controlled ownership is also determined by the priority position it occupies in the economy. The Electricity De France (EDF) has shown positive results without the crutches of state subsidies
and has established an entirely self-financing set up generating electricity at lower unit rates.

In addition the above-mentioned countries, Latin America, Brazil, Turkey, Costa Rica, Bangladesh, North Yemen, South Korea, and Australia have all achieved privatization to varying extents.

The surprise package, of course, are the communist countries, which till the other day were staunch supporter of public form of ownership, and these nations too have decided in favor of privatization. Besides the Soviet Union, China, Hungary and Poland have taken steps in this direction.

**The Economic philosophy:**

“There (runs) an economic struggle through every religious struggle. The animal called man has some religious influence, but he is guided by economy. You may preach religion that may not be perfect in every detail but if there is an economic background, and you have the most ardent champions to preach it, you can convince a whole country.”

“Man is guided by the stomach. He walks and the stomach goes first and the head after words. Have you not seen that? It will take ages for the head to go first”. ¹⁴

--Swami Vivekanand

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Welfare and prosperity of the people is the very basic and crucial aspect if an economic system. Basically economic development is not possible without requisite social climate to be created by an economic system. There are three distinct economic philosophies, Viz, Capitalism, Socialism and communism to form the basic system of a nation. Each economic philosophy has its own strengths and weaknesses. These are discussed bellow.

**Capitalism:**

The system of capitalism stresses the philosophy of individualism. It believes in private ownership of all agents of production. It allows the market forces to have free play, promotes a competitive spirit and directs the scarce resources to most profitable uses. The weakness of capitalism is that it results in gross inequities of income, recurrence of trade cycles because of the free play of market forces, exploitation of the poor by the rich and the corrupt influence of vested interests over the state. Capitalism results in the wastage of resources. It has devastating effects on the environment. People in capitalist society earn more and consequently indulge in excessive and wasteful expenditure on consumers durables and luxuries.

Welfare state concept, which has developed in recent years, is a modification of modern capitalism. Welfare state concept provides for an increasing degree of state regulation when certain deficiencies appear in the economy. This limitation placed on the free market operation such as workmen’s compensation law, provision for social security, laws regulating industrial relations, or direct state financial aid to housing and agriculture etc. are accepted as a result of the members of a democracy. The welfare state is a short of state socialism, in that it does not sanction
the public ownership of the activities that are regulated. Some in fact, argue that acceptance of certain welfare state objectives is necessary to provide flexibility to capitalism, otherwise it may become static and be destroyed because of certain faults, welfare state then becomes modifications within the framework that constitute the basic postulates of capitalism. USA is the best example for capitalism.

Socialism:

Under socialism the tools of production are to be organized managed & owned by the government with the benefits next, with the benefits accruing to the public. A strong public sector, agrarian reforms, control over private wealth and investment and notional self reliance are the other planks of socialism.

Socialism does not involve an equal division of existing wealth among the people. But it advocates the egalitarian principle. It believes in providing employment to all and emphasizes suitable rewards to the efforts put in by every worker. Fabio socialism as it also called this philosophy is followed in our country and other social democratic countries in the world.\(^{15}\)

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1.5 K. Aswathappa, “Essentials of Business Environment”, Pg. 162
Communism:

Communism abolishes all private property rights to income. The state would own and direct all instruments of production. Sharing in the distributive process would have no relationship to the private property since this right would not exist. Alternatively called maxim communism was followed Russia, China and Ease European countries.

In common parlance, the term socialism and communision are used interchangeably. The east European countries are often called socialist countries though they follow Marxist ideologies.

The great October revolution of 1917 saw, for the first time the emergence of a state based on Marxist principle. It was Lenin who set up a communist state in Russia and from here, the ideology spread to Czechoslovakia, Poland, Hungery, Rumania, Yugoslavokia and China. It felt at that time that communism have answers for all the ills associated with capitalism. But communism after 60 years of its prevalence failed to over come the ills of capitalism and country after country started going back on communism and almost embracing capitalism.

The major weakness of Marxism is the denial of individual freedom. One of the essential requirements of human organism is freedom to work, to earn, to express, to choose and to indulge in the expenditure of one’s choice.

This freedom is denied to the people. The followers of Marxism believed that the ideology would guarantee individual freedom. This expectation was believed as it became clear in the communist countries. No individual freedom existed in these countries, contrary to the theoretical claim’s made about it.

Secondly, communism assumes total commitment of people to work and to contribute to the country’s welfare. But this has not been
forth coming from people in the communist countries. People worked more or less as they work in capitalism. In fact there was more slackness and more pilfering on the part of the workers and probably more corruption on the part of the management than in the capitalist societies.

Thirdly the communist economies failed to achieve significant economic growth. The rate of growth of these economies has been markedly lower than that of the economies relying on market forces. One of the most striking failure of the state or collective ownership has been in agriculture where a super-power like soviet union, possessing one-sixth of the land surface on earth, found itself unable to feed its people even after 70 years of revolution.

Fourthly, equality, which was the main plank of Marxists, did not succeed in the communist countries. The basic principle that every organized society is subject to stratification very much applies to communist societies also.

The communist motto of “for each according to his ability and to each according to his need” was changed to “From each according to his work”.

Fifthly, the rulers themselves did not set a fine example for the followers to emulate. There are many examples of the leaders who proclaimed equality but did not practice it. To quote few, Lenin lived in one room in Kcemlin though out his life where as Brezhnev lived in a equivalent of many palaces and owned a fleet of most expensive of the world’s cars. Late Caucescu and his wife in Romaniya lived in style and led a pompous life. Public anger against the couple was so much that together they died being shot by prosecutors mercilessly. More than 300 bullets were found on the dead bodies of caucescu and his wife. The number of bullets bears testimony to the public wrath against the leaders who proclaimed equality but did not practice it.
Sixthly, communism has obsessed with the rights of workers. This obsession has led to the tendency to strike work, often on unjustifiable grounds. If one walks in the streets of Calcutta or Thiruvananthapuram, he will find red flags hoisted at every business or industrial establishment. Public sector units have been taken as private properties to enjoy and squander.

Seventhly, the followers of communism have seem to have several contradictions. One such contradiction, which is too conspicuous, is the attitude towards religion. Seventy years of communists rule in the erstwhile USSR did not help eradicate religion. It is true in West Bengal and Kerala.

Finally, communism collapsed because of its inherent weakness lack of flexibility and the absence of resilience. Capitalism survives because of its flexibility. It abandons the market where the survival of people is at stake. Look at the way the government intervenes in chosen areas even in US economy.

**Socialism:**

Socialism seems to fall between capitalism and communism, partaking the strong points of both the philosophies and avoiding their weaknesses at the same time. It is for this reason that several developing countries of Asia, Latin America and Africa have adopted socialistic philosophy.

But the experience of several countries, particularly the African bloc, belies the expectations pinned on socialism. As the “Economic Times of 7th July 1986 commented, the ”common error of African rulers was to stick with economic policies derived from the half-understood European socialism of 1950s and earlier. Governments, they seem to have thought,
could create wealth by decree. People’s untidy lives could be improved by government management. So they set up huge bureaucracies to regulate every aspect of life.

**Mixed Economy - Its evolution and framework In India**

The mixed economy is the outcome of the compromise between the two diametrically opposite schools of thought. The one which champions the cause of laissez-faire capitalism and the other which strongly pleads for socialization of all means of production and control of entire economy by the state.

The failure of the capitalist system to respond to the needs of the peoples’ welfare during the great depression of thirties actually opened the eyes of economists and statesmen to its intrinsic weakness. As a direct reaction to the failure of the old capitalist order the socialist economy was advocated. Even Prof. Plgou the last of the classical had to admit "The system of socialistic control planning if it could be effectively organized would be in many respects preferable to our existing capitalist system".

The vast economic development of U.K., USA and all free nations of Europe, America, and Australia, was due to private enterprises. This explains why in the writings of the 18th and 19th centuries, the concept of mixed economy finds no mention since in those days economic liberty and non-interference of state in economic affairs were cardinal principles. Mixed economy is, therefore a compromise between capitalist system and Socialist economy. It was from the ideas of prof. Keynes that concept of mixed economy was evolved. Keynes' mixed economy thus admits the possibility of existence of private enterprise side by side with public enterprise. In mixed economy government has a positive role to play in the field of economic activity.
**Features of Mixed Economy in India:**

The following are the most significant features of mixed economy in India.

(A) Co-existence of public and private sectors.

(B) Economic Planning - A mixed economy is necessarily a planned economy. It does not mean simply a controlled economy in which the Government interferes in economic matters through fiscal and monitory policies. The public sector will have to operate through certain priorities and private sector will have a well-defined role.

(C) Features of capitalism and socialism - It has the salient features of both capitalism and socialism very clearly and cleverly incorporated. In India the State is pledged to the establishment of a socialistic order of society in which the glaring inequalities of wealth are sought to be reduced to the minimum but the state does not wish to eliminate the system of private enterprises. Our mixed economy is the result of our commitment to democracy and also to socialism.

(D) Planning process in mixed economy is much more complex where there is bound to be some sorts of conflict in goals. The success of planning depends upon the following factors: -

(a) To what extent public sector is able to pursue the goals.

(b) To what extent the Government can guide the private sector.

(c) To what extent the state is able to check distortions in Investment.

The Industrial policy also paved the way for the growth of mixed economy, which flourished along with public sector. The mixed economy is, however, being now considered outdated. In India the mixed economy did not fare well. The reasons for failures are: -
(I) Failure to control population.
(II) Distortion of production structure.
(III) Growth of unemployment despite creation of additional Jobs.
(IV) Failure to check concentration of economic power.
(V) Emergence of black money or parallel economy.
(VI) Failure to check Inflation
(VII) Failure to bring about redistribution of Income.

India is one of the countries that has remained untouched by privatization for a very long time, which has silently and rapidly engulfed over fifty countries during the last decade. The system of mixed economy is still useful to India to a certain extent and cannot be completely forsaken. For maintaining the balance between the command system and market economy the concept of mixed economy works like a middle path to save the nation from political submission and economic dependence.
Evolution of Public Enterprises

In modern democratic world not all production, manufacture, trade, commerce or business activity is left to private enterprise. In every country, to some extent, government also participates in this activity. Practical needs of economic development, of a utility or a commodity for which private capital is shying away or not available or insufficient appears to be the predominant reason for undertaking manufacture, trade or commerce by the government through establishment of public enterprises commonly known as public sector. The other compelling reason could be the security of the nation itself.

In India prior to 1947 there was virtually no public sector. The only instances worthy of mention were Railways, the Post and Telegraph department, the Port trusts the Ordnance and small Aircraft factories and a few state managed undertakings like salt factory, quinine factories etc. The Idea that economic development should be promoted by the state actually managing industrial concerns did not take root in India before 1947 even though the concept of planning was very much discussed by congress government in the Indian provinces as far back as 1931. The trend of government entering into business and industrial activities had been set since the industrial policy resolution of 1948, which got further impetus in the industrial policy resolution of 1956. Pandit Jawaharlal Nehru laid the foundation of modern India. His vision and determination have left a lasting impression on every facet of National endeavor since India’s independence. It is due to his initiative that India can boast of having a prominent place for public enterprises on the industrial map of the world.

The goals and objectives set out for the nation which was on the threshold, namely rapid agricultural and industrial development,
expansion of opportunities for gainful employment, progressive reduction of social and economic disparities, removal of poverty and attainment of self reliance culminated in the industrial policy resolution introduced by the Govt. in 1948. The resolution outlined the approach to industrial growth and development and gave primacy to the role of the state to assume predominant and direct responsibility in this sphere. The State was exclusively responsible to develop some basic industries. The rest of the industrial field was left open to private sector but it was made clear that the state would also progressively participate in this field.

After the adoption of the Constitution and the socio-economic goals the Industrial Policy was comprehensively revised and adopted in 1956. This resolution had as its objective the acceleration of the rate of economic growth and industrialization as a means of achieving a socialistic pattern of our society.

Around 1947-1956 capitals were scarce and the base of entrepreneurship was not strong enough. With a view to achieve an economic regeneration of the country and to improve the socio-economic well-being of the people the Government of India enunciated the goals of setting up in the country a socialistic pattern of society. To achieve this end it resorted to economic planning through five year plans on a large scale. The Government assumed an active economic role. The industrial policy resolution of 1956 defining the role of the Government in economic affairs of the country laid down that all industries of basic and strategic importance or in the nature of public utility services would be in the public sector. To meet new challenges the industrial policy was modified from time to time in 1970, 1973, 1977, 1980 and most recently in 1991, 1995 and 2000. The industrial licensing policy of 1970 also put greater emphasis on the development of public enterprises. The emphasis was repeated time and again in future policies. The post independence era has
witnessed the phenomenal growth of public sector. In the last four decades the public sector has blossomed, and thrived and was like a keystone of the edifice* of the Indian economy.

**Public Sector and Constitution of India:**

The Constitution of India played a significant role in the growth of Public Sector Enterprises. Several constitutional provisions have facilitated achievement of goals envisaged in the industrial policy resolution. The Directive Principles of State Policy in the Constitution lays down in clear and unequivocal terms that the state shall in particular so direct its policy that the ownership and control of the material resources of the community are so distributed as best to sub serve the common good, that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment. The manifestations of these ideals laid down in the Directive Principles of State Policy in the Constitution are obvious in the industrial policy resolution of 1956. The other provisions in the Constitution also equally important in this regard are (a) Art. 298 which extends the executive power of the Center and the States to carry on of any trade or business and (b) Article 19 which guarantees to a citizen right to practice any profession, or to carry on any occupation, trade or business: but the state can carry on any trade, business, industry or service by itself or through a corporation owned or controlled by it to the complete or partial exclusion of citizens. The Constitutional provisions thus provided an impetus for the development of the public enterprises and there has been a phenomenal growth of the public sector.
Objectives of Public Enterprises:

Retrospective View

The Public Enterprises have been assigned a specific role in the industrial policy resolutions and they have to function within that framework. The objectives of any organization cannot remain static and undergo change as per the circumstances. However, the main objectives of public enterprises as defined in the initial industrial policy resolutions are as follows -

(a) To promote rapid economic development by filling critical gaps in the industrial structure.
(b) To provide basic infrastructure facilities for growth of Economy.
(c) Undertake economic activity strategically important to the growth of the country, which if left to private hands would distort the national objectives.
(d) To achieve balanced regional development and dispersal of economic activity in less developed areas.
(e) Reduce disparities in income.
(f) Avoid concentration of economic power in few hands.
(g) Exercise social control and regulation of long-term finance through public financial institution.
(h) To exercise control over sensitive areas.
(i) Attain self-reliance in different fields of technologies.
(j) Enhance employment opportunities by heavy investment in industry, mining, transport and communication.
(k) Increase exports and earns foreign exchange to ease the pressure of balance of payments.

Besides the above macro objectives certain micro objectives were set for the public enterprises, which varied as per their nature of business
activity and field of operation and were made specifically applicable to the individual enterprise.

**The Changing Role:**

The role of public sector has gradually undergone change over the years. Initially public sector played the role as a countervailing power to the growth of large houses and large enterprises in private sector and socializing the means of production in strategic areas. But in industrial policy statement of 1977 it was made clear that, it will also be the endeavour of government to operate public sector enterprises on profitable and efficient lines in order to ensure that investment in these industries pays an adequate return to the society. The industrial policy statement of 1980 focused attention on the heed for promoting competition in the domestic market, technological up gradation and encouraging foreign investment in high technology area. This created a climate for rapid- industrial growth in the country. A number of policy and procedural changes were introduced in 1985 and 1986 aimed at increasing productivity, reducing costs and improving quality. The public sector was freed from a number of constraints and given a larger measure of autonomy. The industrial policy announced in 1991 (popularly known as economic reforms) by the government had the aim to bring a sea change in the working of the public sector. Thus the government has adopted a totally new approach towards public enterprises. The policy highlights that the government will ensure that public sector plays its rightful role in the evolving socio-economic scenario of the country. Government will ensure that the public sector is run on business lines and would continue to innovate and lead in strategic areas of national importance.
The system of reservation for public sector undertaking has been evolving towards an ethos of greater flexibility. The government has undertaken the review of existing portfolio of public investment in greater realism. Several measures like disinvestment of share capital, greater degree of management autonomy through the system of memoranda of understanding, broad basing of the boards etc., are being implemented.

In order to speed up the disinvestment process the Government constituted a Disinvestment Commission. The methodology adopted was that the Government would refer some cases of public sector to the commission, which in turn would study and recommend about their disinvestment back to the Government. The role of the commission was purely advisory and it lacked any power. After the chairman G.V. Ramakrishna quit, the commission was never reconstituted. However the NDA Government headed by A.B. Vajpayee created a separate Disinvestment Ministry under the charge of Arun Shourie to add more impetus to the process of disinvestment.
Emerging Trends And New Directions:

Emergence, development and thriving of public enterprises is primarily attributable to several factors like industrial policies of the Government, constitutional provisions and mixed economy. There are certain other factors, which also contributed to the growth of public enterprises namely -

I) Non-flow of private capital in many areas because of the risk and huge outlays involved
II) Long gestation period
III) Lack of Infrastructure
IV) Backwardness of the region and
V) Lack of political will or political interference.

The public sector has a long history of fluctuating fortunes and has witnessed many swings in government policies and approach; nevertheless it occupies a commanding position in the field of industry and commerce. The government provided from time to time a wider canvas with more potentiality injected into its system to operate on effectively. The public undertakings handle large amount of public funds, employs large number of personnel and perform variegated roles ranging from that of a producer, financer, establishing force for maintaining essential supplies to the end user, to catalytic agent. The myriad public sector undertakings take various legal/organizational forms like departmental undertakings example- Railways, Corporations formed by special Act of Parliament/State Legislatures, Companies Incorporated under the Companies Act, Nationalized Commercial Banks and Financial Institutions governed by special statutes.

The public sector has perhaps been attracting most of the criticism in the wake of changing economic scenario. It is being labeled as a
monster, which is overstaffed, overfed and pampered beyond belief. There is a feeling that the public sector can contribute a lot more than it has. A demand has been raised from some quarters for the change of ownership of public sector from government to public. The government has taken note of the criticism and the public sector is no more considered a holy cow. It has been subject to host of laws and rules and is being brought at par with private sector in some areas of legislation regulating the industry. The planning Commission has also suggested for re-examination and re-orientation of governments' role in public sector as a part of liberalization. Learning from the global experience in Industrial development it has stressed the need for creating an environment to instill and build the people's initiative rather than their dependence on the government. The government moves in limiting and redefining the role of public sector has been widely appreciated. The public sector plays a vital role notwithstanding its dismal performance and it will continue to dominate the industrial scene and occupy a prominent place in the economy of the country at least in certain sectors even after privatization/disinvestment.

**Co-ordination:**

**Department of Public Enterprises (DPE):**

With an objective to have better co-ordination among the numerous public undertakings the Bureau of Public Enterprises was created in the year 1965 within the Ministry of Finance. It is very interesting to note that the name of the department and its reporting ministry was changed from time to time. It is now known as Department of Public Enterprises (DPE) and falls under the Jurisdiction of ministry of Heavy Industries and Public Enterprises. It is a nodal staff agency and acts as the eyes and ears of the
government, and provides an over all critical review of the functioning of the Public Sector for identification of problems and suggesting concrete measures to remedy the shortcomings. The Bureau annually presents Public Enterprises Survey.

**Standing Conference of Public Enterprises (SCOPE):**

Standing Conference of Public Enterprises [SCOPE] which is the central representative body of Public enterprises provides the structured from of consultative mechanism for the Government. All Public Enterprises are its members and the CMD/MDs of the PSEs form various core groups. Its major activities are to consider issues of general interest, hold seminars, publicize literature and provide advisory services in various fields.

In the nutshell the public enterprise are subject to a series of controls by the government, legislature and Judiciary, and enjoy less autonomy vis-a-vis Private enterprises. In the recent years the approach of the Government has changed radically and is very pragmatic.
Economic Reforms Era (1991 and post 1991 period): -

The economic reform introduced in 1991 was a new chapter in the annals of the Indian industry. It was the brainchild of Late Prime Minister Rajiv Gandhi who had dreamt of a prosperous and progressive India. Unfortunately he did not live to see his dream coming into reality. It was the congress government led by Shri. P.V. Narshivarao who implemented the reforms under the able guidance of the Finance Minister Dr. Manmohan Singh, who is rightly credited as the architect of the reforms. The reforms have not only freed industry from the license-quota-permit raj but have created large, new companies in fresh sectors such as Pharmaceuticals, Telecommunications, and Information Technology. Foreign Investment has flowed in and the consumer has had far more choices. Reforms have also spelt death for inefficient companies. There is nothing like a supplier's market anymore, feels Pankaj Munjal of Majestic Auto (Hero group). "Customers have been the one ray of hope, if you can compete, you have them on your side." adds SRF's CEO R. Sinha. But consumers have become more demanding and the consumer is the king today.

Munjal feels that the industry and the government today work like a team, unlike before. "We can see the change everywhere, be it in Delhi, Lucknow or Chennai." Most industrialists also claim their attitudes have changed. From lobbying, they have us believe, their focus has shifted to issues related to competitiveness. That is only partly true, most companies that blossomed under the constraints of the License-Quota-Permit Raj (L-Q-P Raj) seem to miss the protectionism of those days. Clearly, the people who manage these companies are finding out the hard way that free market policies cut both ways, leaving no scope for the slow.
Economic Initiatives Since 1991:

1991: The Industrial Policy did away with licensing for all but 18 Industries, allowed foreign Investment up to 51 percent in high priority Industries, and reduced the number of sectors reserved for public sector from 12 to eight.
1991: Two reform packages allowed tradable import benefits against exports, pruned the canalized imports list, and scrapped actual user norms on several categories.
1991: The MRTP Act 1969 was amended to let companies expand without government permission.
1991: The Automobile Policy opened up the auto sector to foreign manufacturers.
1992: The disinvestment process was kicked off with the sale of 20 million shares of IPCL.
1992: The Securities Exchange Board of India Act [SEBI] was amended to make SEBI a statutory body; and new issue pricing was made market-determined.
1992: Cellular services were opened up to private players.
1994: The National Highways Authority of India Act was amended to allow toll-col action and private sector participation in the road sector.
1996: Towards effective and responsive administration- Focused on citizens' charters, speedier grievance redressal, punctuality in offices, charter of ethics, streamlining disciplinary procedures.
2000: The Insurance Regulation and Development Act was passed, opening up the Industry to the private sector.
2001: Expenditure reforms commission - In the reports, K. P. Geethakrishnan recommended the drastic downsizing and restructuring of 27 ministries and departments.

2002: FDI - foreign direct investment up to 26% allowed in the media sector.

**Major Policy Decisions in the Economic Reforms Relating to PSEs:**

Some major decisions taken by the Government as a part of the Economic Reforms agenda of 1991, which brought a sea change in the Public Sector working were- (1) Grant of more Financial and Operational Autonomy for profit making PSEs (2) Categorisation of profit making PSEs into Nav Ratnas and Mini Ratnas (3) Signing of Memorandum Of Understanding MOU with such PSEs and (4) Disinvestment of PSEs.

**Memorandum of Understanding (MOU):**

This was yet another step taken by the Government for giving more autonomy to the PSEs. MOU is a freely negotiated performance agreement between Government as owners of public enterprises and the public sector enterprises (PSEs). MOU is meant to measure the performance of the management at the end of the year in an objective manner. The MOU is executed well in advance as it relates to the future performance i.e. MOU for 2003-2004 is signed in 2002 -2003 itself. It should clearly specify the intentions, obligations and the responsibilities of the two parties. The contents of the MOU are generally divided into following five parts.

Part-I Mission & Objectives of the PSE
Part-II Commitments of the PSE
Part-III Delegation of Powers
Part-IV Assistance from the Government
Part-V Frequency of Monitoring and Information Flow.
Problems of Public Sector: Crown Jewels Or Bleeding Ulcers?

The seeds of the mammoth public sector were sown way back in 1951, when the first Five-Year Plan said: "The State has a special responsibility for developing key industries like iron and steel, heavy chemicals, manufacturing of electrical equipment and the like". The Industrial Policy Resolution, 1956- and later the Second Five Year Plan- reinforced this point, saying that "the State will progressively assume predominance and direct responsibility for setting up new industrial undertakings and for developing transport facilities".

The two main objectives of the public sector which Jawaharlal Nehru envisaged as occupying the commanding heights of the economy- were to help in rapid economic and industrial growth and create the necessary infrastructure; and to earn return on investment and generate resources for development. There were sundry other objectives as well, including redistribution of income and wealth, employment generation and balanced regional development.

However, the public sector seems to have succeeded only in employment generation- {the wages: net sales ratio for PSUs in manufacturing sector hovered around 10 % In the 1990s against an average of 8.1 % in the private sector}. The infrastructure for economic development is still inadequate and, far from generating resources for development, the 236 public sector undertakings under the central government have only drained the nation's resources. Between 1968-69 and 1999-2000, PSUs never earned post-tax profits that exceeded 5.6 % of the capital employed and Government, has to keep on investing more and more money Into them. Between 1990 and 1999, an extra Rs.61, 211 crores was pumped into the public sector. No wonder, Disinvestment Minister
Arun Shourie often asks whether the PSUs are crown jewels or bleeding ulcers.

Unrestricted entry into basic and domestic long distance telephony.

The following Table 1.4 and 1.5 give indication of profitability of PSUs. In table 1.4 the net profit to capital ratio (ROI) shows an increase in the year 1995-96 and 1996-97.

### Table 1.4

**Profitability of PSUs**

<table>
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<tr>
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</thead>
<tbody>
<tr>
<td>No. of profitable enterprises</td>
<td>123</td>
<td>133</td>
<td>131</td>
<td>121</td>
<td>130</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>No. of loss making units</td>
<td>111</td>
<td>102</td>
<td>106</td>
<td>117</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>ROI (%)</td>
<td>4.50</td>
<td>2.80</td>
<td>2.3</td>
<td>2.0</td>
<td>2.2</td>
<td>4.5</td>
<td>--</td>
</tr>
<tr>
<td>Gross profit to capital employed (%)</td>
<td>10.9</td>
<td>11.6</td>
<td>11.4</td>
<td>11.6</td>
<td>--</td>
<td>15.1</td>
<td>14.5</td>
</tr>
<tr>
<td>Gross margin to capital (%)</td>
<td>17.9</td>
<td>18.8</td>
<td>18.0</td>
<td>17.3</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Net profit to capital (%)</td>
<td>2.2</td>
<td>2.0</td>
<td>2.3</td>
<td>2.8</td>
<td>--</td>
<td>5.5</td>
<td>5.1</td>
</tr>
</tbody>
</table>

### Table 1.5

**Comparing PSEs with Private Sector**

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</thead>
<tbody>
<tr>
<td>PSEs including petroleum</td>
<td>-1.6</td>
<td>3.0</td>
<td>2.8</td>
<td>3.5</td>
<td>4.1</td>
</tr>
<tr>
<td>PSEs excluding petroleum</td>
<td>-3.8</td>
<td>-0.1</td>
<td>0.9</td>
<td>1.5</td>
<td>0.6</td>
</tr>
<tr>
<td>Private Sector</td>
<td>13.7</td>
<td>15.9</td>
<td>14.2</td>
<td>11.4</td>
<td>13.5</td>
</tr>
</tbody>
</table>

*Source: Vijay Kelkar & V.V.Bhanoji Rao, India-Development Policy Imperatives (Ed), New Delhi, Tata Mc-Fraw Hill, 1996, P200*
The table 1.5 shows the comparison of profitability of Public Sector and Private Sector. The Public Sector shows average ROI of 4.47% where as Private Sector’s average ROI is 13.74% over a period of 1980-81 to 1994-95. This shows PSUs have no justification to exits.

**Can Public Sector Be Revived:**

Most of the PSUs are suffering from maladies like high cost of capital, poor quality of goods/products/services, huge inventory-holding, overstaffing, lower productivity, inefficient workforce, frequent interference by politicians & administrative ministry, non-co-operative & militant type Trade Union leaders etc. Overspending is also rampant in PSUs e.g. a huge chunk of money is spent on publicity, tender notices, goodwill advertisements, product and recruitment advertisements. They are also squandering money-organizing events, functions, entertaining politicians & bureaucrats and staff meetings much of which is avoidable expenditure. A question therefore arises whether public sector can be run on commercial lines like private sector? Can the principles applicable to reviving privately managed companies be applied to public sector units (PSUs)? Is there any scope for professional approach in the management of PSUs? This is quite easily possible provided there is a political will.

Now let us again have a look at the background to understand the case of PSUs. The Industrial Policy Resolution of 1948 delineated the role of the State in industrial development both as an entrepreneur and an authority. The Industrial Policy resolution of 1956 and successive policy resolutions strengthened the bias towards the public sector, giving it a strategic tele in the economy. At that point of time when the country's industrial development lagged far behind the worlds and the capital market in the country was in its nascent stages, most policy makers
believed his was necessary. The rational was that private capital could not fund large-scale investments in essential infrastructure industries such as power, steel and transportation.

The PSUs had everything easily available on platter for them - the funds in plenty, the staying power of the State, possession of strategic locations and assets and monopolistic strangleholds on markets an Utopia like situation of sorts, where private promoters would have created world class corporations. In a world that was recovering from II\textsuperscript{nd} World War many private entrepreneurs, given similar resources & facilities like public sector, would have created transnational giants.

Out of the three key elements required to succeed in business vision, resources and organization the Indian state was able to provide only one: resources. Its contribution, in terms of both vision and organization, were lacking. At some stage, the government as the promoter was unable to get PSU managers to buy into the vision that the purpose of the PSUs was to create wealth from the assets entrusted to them. Consequently, each PSU appears to have defined its own goal, often missing the wood for the trees and ending up as a mere provider of jobs.

The other problem was organization. Despite well-meaning measures such as creating boards with invitees from the private sector wherever possible, a transparent selection process, and substantial investments in training and development programmes, the government was unable to attract the right talent owing to an unrealistic remuneration policy. There have been some exceptions. A few PSUs, which were fortunate enough to have a CEO with a vision, have done reasonably well, proving once again the axiom that businesses do not fall; it is the people.

If the government accepted that it has failed In Its role as promoter-cum-manager it must hand over the management to a freshly inducted board and a duly empowered CEO, there is no reason why PSUs cannot
be turned around. But neither the Central nor the State governments are in a position to give up control, for they do not have control in the first place. The bureaucrats do. Will the bureaucrats change? Prime Minister Vajpayee is once said, "To avoid one mistake, they are willing to commit 100 more. I have come to the conclusion that it would be easier for me to change rather than trying to change the bureaucracy".

Table 1.6 explains the trend of growth of sales in CPUSs. In 1987-88 percentage of sales to capital employed (CE) was 146 and this ratio declined to 123% in 2001-02 between 1987-88 and 2001-02, the annual average growth rate of sales was 13.5%, while that of capital employed was 14.9%. This is an “Eloquent measure of the dynamic expansion of public sector in India.”

### Table 1.6

**Growth of sales in Public Sector Enterprises**

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales Turnover</th>
<th>Capital Employed</th>
<th>% Sales to CE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987-88</td>
<td>81,270</td>
<td>55,620</td>
<td>146</td>
</tr>
<tr>
<td>1990-91</td>
<td>1,18680</td>
<td>1,02,080</td>
<td>116</td>
</tr>
<tr>
<td>2001-02</td>
<td>4,78,728</td>
<td>3,90,261</td>
<td>123</td>
</tr>
</tbody>
</table>

Annual Average growth Rate between 1987-88 to 2001-02: 13.5% 14.9%

*Source: Public Enterprises Survey, 2001-02*

Table 1.7 shows the contribution of PSUs to central exchequer during sixth, seventh and eighth plan periods, which indicates that the PSU’s contribution to the exchequer is roughly increase by 10 times in a period of 20 years.
### Table 1.7

*Contribution of Public Enterprises to Central exchequer*

(Rs. Crores)

<table>
<thead>
<tr>
<th>Year /Period</th>
<th>Amount Total</th>
<th>Contributed Average*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sixth Plan (1980-85)</td>
<td>27,570</td>
<td>5,510</td>
</tr>
<tr>
<td>Seventh Plan (1985-90)</td>
<td>69,410</td>
<td>13,880</td>
</tr>
<tr>
<td>Eighth Plan</td>
<td>1,33,780</td>
<td>26,760</td>
</tr>
<tr>
<td>1997-98 and 2001-02</td>
<td>2,69,110</td>
<td>53,822</td>
</tr>
</tbody>
</table>

* Figures rounded

*Sources: Public Enterprises Survey*