Chapter - 3

GENESIS AND GROWTH OF PUBLIC SECTOR ENTERPRISES IN INDIA

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Chapter - 3
GENESIS AND GROWTH OF PUBLIC SECTOR ENTERPRISES IN INDIA

3.1 RELEVANCE OF PUBLIC SECTOR ENTERPRISES

Introduction:

The growth of public sector in India has been guided by Industrial Policy Resolution, 1956, which gave the public sector a strategic role in the economy. At the time of India’s independence in 1947, there were various problems confronting the country which needed to be tackled in a planned and systematic manner. India was basically an agrarian economy with a weak industrial base, low level of savings and inadequate investment and near absence of infrastructural facilities. A vast percentage of population was extremely poor. There existed considerable inequalities in income level of employment as well as glaring regional imbalances in economic attainments and trained manpower in various fields of management. It was, thus, obvious that if the country was to speed up its economic growth and maintain it in the long-run at a steady level, a big push was required from the government. As such, State’s intervention in all sectors of the economy was inevitable because private sector had neither the necessary resources in terms of funds, managerial and scientific skills nor the will to undertake risks involved in large long-gestation investments. Among the imperatives were removal of poverty, better distribution of income, expansion of employment opportunities, removal of regional imbalances, accelerated growth of agricultural and industrial production, better utilisation of natural resources and a wider ownership of economic power to prevent its concentration in a few hands. Given the type and range of problems faced by the country on its economic, social and strategic fronts and the various imperatives, it become a pragmatic compulsion to deploy the public sector as an instrument for self-reliant economic

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growth so as to develop a sound agricultural and industrial base, diversify the economy and overcome the economic backwardness.¹

The predominant considerations for continued investments in public sector enterprises were to accelerate the growth of core sectors of economy; to serve the equipment needs of strategically important sectors like Railways, Telecommunications, Nuclear Power, Defence, etc., to enable the Government to exert a countervailing power on the operation of private monopolies and multinationals in selected areas; and to provide a springboard for the economy to achieve a significant degree of self-sufficiency in the critical sectors. Another category of a large number of public enterprises concerns essentially the consumer-oriented industries such as drugs, hotels, food industries, etc. The rationale for setting up such enterprises was to ensure easier availability of vital articles of mass consumption, to introduce check on prices of important products and services or help promote emerging areas like tourism, etc. Further, a large number of enterprises which were ‘sick units’ were taken over from the private sector in order to sustain production and protect employment. A number of public enterprises are also operating in national and international trade, consultancy, contract and construction services, inland and overseas communications, etc. The overall profile of public sector enterprises in India is, thus, a heterogeneous conglomerate of basic and infrastructural industries, industries producing consumer goods and engaged in trade and services, etc.

Some of the major objectives of setting up of public enterprises as envisaged originally could broadly be summarised to include the following:

1. To ensure rapid economic growth and industrialization of the country and create necessary infrastructure for economic development;

2. To earn return on investment and thus generate resources for development;

3. To promote redistribution of income and wealth;
4. To create employment opportunities;
5. To promote balanced regional development;
6. To assist the development of small-scale and ancillary industries; and
7. To promote import substitutions, save and earn foreign exchange for the economy.

After the attainment of independence and the advent of planning, there has been a progressive expansion in the scope of the public sector. The passage of Industrial Policy Resolution of 1956 and the adoption of the socialist pattern of society as our national goal further led to a deliberate enlargement of the role of public sector. It would not be appropriate to use any single measure to estimate the role of the public sector in the Indian economy, e.g., employment, investment value of output, national income generated, savings, capital formation and capital stock. Following description should be sufficient to convince one that public sector has played a definite positive role in the economy.

1. Public Sector and Capital Formation:

The role of public sector in collecting savings and investing them during the planning era has been very important. During the First and Second Plans, of the total investment, 54 percent was in the public sector and remaining in the private sector. The share of public sector rose to 60 percent in the Third Plan but fell thereafter. However, even then it was high as 45.7 percent in the seventh plan. With increasing trends of liberalisation in 1990s, the share of public sector in total investment fell drastically to 34.3 percent in the Eighth plan (i.e., only one-third) and further to 29.5 percent in the Ninth Plan. This reflects the increasing importance that is now being accorded to the private sector. The nationalized banks, State Bank of India, Industrial Development Bank of India, Industrial Finance Corporation of India, State Financial Corporations, LIC, UTI, etc. have played an important role in collecting savings and mobilization of resources.
However, savings in the public sector itself are not much. In fact, there has been a precipitous fall in the share of public sector in gross domestic savings. During the period of Sixth Plan as a whole, public savings was 19.6 percent of total domestic saving and this fell to 11.1 percent during the period of the Seventh Plan and just 6.6 percent in the Eighth Plan.\(^2\) During the First Year of Ninth Plan, 1997-98, share of public sector in total savings was just 5.8 percent. Savings in the public sector were negative in all other years of Ninth Plan. The First Year of the Tenth Plan, i.e., 2002-03 also recorded negative savings in the public sector. However, things have distinctly improved since. In 2003-04, savings in the public sector were Rs. 28,026 crore which rose significantly to Rs. 69,390 crore in 2004-05 (at 1999-2000 prices). The share of public sector in total savings was 3.5 percent in 2003-04 which rose significantly to 7.6 percent in 2004-05. The share of public sector in gross domestic capital formation (GDFC) which was 44.6 percent during Sixth Plan fell to 31.7 percent during Eighth Plan. It is estimated to have declined further to 27.3 percent in Ninth Plan and 24 percent during the first three years of the Tenth Plan.\(^3\)

2. **Strong Industrial Base:**

The share of the industrial sector (comprising manufacturing, construction, electricity, gas and water supply) in gross domestic product at factor cost has increased slowly but steadily during the period of planning. The share of the industrial sector in GDP at factor cost rose from 13.3 percent in 1950-51 to 21.6 percent in 1980-81 and further to 24.3 percent till 1999-2000 (at 1993-94 prices). At 1999-2000 prices, the share of industrial sector in GDP was 23.1 percent in 1999-2000 and 23.8 percent in 2004-05. This shows the increasing importance of the industrial sector in the Indian economy. Not only this, the industrial base of the Indian economy is now much stronger than what it was in 1950-51. There has been significant growth in the defence industries and industries of strategic


importance. The government has strengthened the industrial base considerably by placing due emphasis on the setting up of industries in the following fields - iron and steel, heavy engineering, coal, heavy electrical machinery, petroleum and natural gas, chemicals and drugs, fertilizers, etc. Because of their low profitability potential in the short run, these industries do not find favour with private sector.

As noted by A. H. Hanson, "Even the view that it is the function of State provide only basic ‘services’ leaves room for a great deal of public enterprise in manufacturing industry, as well as in power, transport, communications, etc. For consumer goods industries, which are usually capable of attracting some private capital, depend on the ‘services’ of the producer-goods industries in which private capital is at least initially less interested. Hence one can argue, without any ‘socialistic’ overtones, that as - for instance - textile or food-processing industries need the support of native metallurgical and engineering industries (the necessary equipment not being available from abroad owing to foreign exchange difficulties, delivery delays, etc.) and as no private entrepreneurs show any inclination to pioneer the latter, the State must step in and do the pioneering itself."*4

3. Development of Infrastructure:

The primary condition of economic development in any underdeveloped country is that the infrastructure should develop at a rapid pace. Without a sufficient expansion of irrigation facilities and power and energy, one can not even conceive of agriculture development. In the same way without an adequate development of transportation and communication facilities, fuel and energy, and basic and heavy industries, the process of industrialization can not be sustained. India had inherited an undeveloped basic infrastructure from the colonial period. After independence, the private sector neither showed any inclination to develop it nor did it have any resources to make this possible. It was comparatively weak both financially and technically, and was incapable of establishing a heavy

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*4 A. H. Hanson, Public Enterprises and Economic Development (London, 1965), p. 188.
industry immediately. These factors made the State’s participation in industrialization essential since only the government could enforce a large-scale mobilization of capital, the coordination of industrial construction, and training of technicians. The government has not only improved the road, rail and sea transport system, it has also expanded them manifold. The public sector has enabled the economy develop a strong infrastructure for the future economic growth. The private sector also has benefited immensely from these investment undertaken by the public sector.

4. **Import Substitution and Export Promotion**:

The foreign exchange problem often emerges as a serious constraint on the programmes of industrialization in a developing economy. This constraint appeared in a rather strong way in India during the Second Plan and the subsequent plans. Because of these considerations, all such industries that help in import substitution are of crucial importance for the economy. Bharat Heavy Electricals Limited, Bharat Electronics Ltd., Indian Oil Corporation, Oil and Natural Gas Commission, etc., in the public sector are of special importance from this point of view. Several public sector enterprises have also played an important role in expanding the exports of the country. Specific reference of Hindustan Steel Limited, Hindustan Machine Tools Limited, Bharat Electronics Ltd., State Trading Corporation and Metals and Minerals Trading Corporation can be made in this context.

5. **For Meeting Development Objectives**:

The PSU in the post independence period came into existence to achieve the country’s basic objective of development. In addition the PSUs have been used to meet certain other aims. The development objective in the field of industries was laid down in the Second Plan, which envisaged a rapid development of heavy industries to provide a strong basis for the future growth of the economy. Based upon the strategy, formulated by Mahalanobis, a large number of heavy industries, producing largely basic and capital goods were set up in the public sector. The rationale was that a quick building of productive
capacity would enable the country to produce, after some time, a much larger output of consumer goods and other goods needed in other sector like machines for agriculture operations. For the development of these industries, the public sector was preferred for simple reason that the private sector could not be interested in it. It could not, for example, command enough resources for these highly capital intensive industries. Nor could it be interested in putting its money in projects which were long gestating and promised profits after a very long wait. Nor did it possess adequate entrepreneurial ability for the task, with private investors interested mostly in quick money-making lines like trade, speculation, real estate, or the consumer-goods industries.

6. Removal of Regional Disparities:

The government in India has sought to use its power of setting up industries as a means of removing regional disparities in industrial development. In the pre-independence period, most of the industrial progress of the country was limited in and around the port towns of Mumbai, Kolkata and Chennai. Other parts of the country lagged far behind. After the initiation of planning process in country in 1951, the government paid particular attention to the problem and set up industries in a number of areas neglected by the private sector. Thus a major proportion of public sector investment was directed towards backward states. All the four major steel plants were set up in the backward states. It was believed that the setting up of large scale public sector projects in backward areas would unless a propulsive mechanism in them and cause economic development of the hinterland. These considerations also guided the location of machinery and machine tools factories, aircraft, transport equipment, fertilizer plants, etc.

7. Economies of Scale:

In the case of those industries where for technological reasons, the plants have to be large requiring huge investment, setting up of these industries in the
public sector can prevent the concentration of economic and industrial power in private hands. It is a known fact that in the presence of significant economies of scale, the free market does not produce the best result. Accordingly, consideration of economic efficiency require some form of the government regulation or public ownership. Even in the U.S.A firms in electric power, natural gas, telephone and some other industries are being regulated by Federal and State Regulating Commissions. Countries like France and the United Kingdom have explicitly preferred public ownership in these fields.

8. Check Over Concentration of Economic Power:

In a capitalist economy where the public sector is practically non-existent or is of a very small size, economic power gets increasingly concentrated in a few hands and inequalities of income and wealth increase. During the four and a half decades of planning in this country, it has been said time and again that the expansion of the public sector will help in putting a brake on the tendency towards concentration of wealth and economic power in the private sector.

Public sector can help in reducing inequalities in the economy in a number of ways. For instance (i) profits of public sector can be used directly by the government on the welfare programmes of the poorer sections of community; (ii) public sector can adopt a discriminatory policy by supplying materials to small industrialists at low prices and big industrialists at high prices; (iii) public sector can give better wages to the lower staff as compared to the private sector and can also implement programmes of labour welfare, construction of colonies and township for labourers, slum clearance, etc.; and (iv) public sector can orient production machinery towards the production of mass consumption goods.

3.2 GENESIS OF PUBLIC SECTOR ENTERPRISES

Public Enterprise means an activity of a business character managed and owned by government - central, state or local, providing goods/services for a price. The definition of a public enterprise has two dimensions, public ownership and business ownership. Public ownership implies that the major decisions would
rest on distinctive social criteria and the surplus would not accrue to private group. The business ownership implies that the government expects a return on the capital invested in public enterprises, and the goods and services are made available for a price, which may be adjusted from time to time to cover the cost of the inputs.

In the real sense, public enterprise in India are of recent origin. Its importance in the industrial sector increased after attainment of Independent. But the scholars have traced the history of public enterprises as far as back as 300 B.C. Kautilya, the founder Prime Minister of Maurya Empire in India, in his ‘Arthashastra’ spoke of public enterprises. There was a ‘Lavanadhyaksha’ incharge of manufacture of salt and fixation of its price. Likewise, the ‘Akaradhyaksha’, the ‘Rupadarsaka’ and the ‘Suvarnadhyaksha’ seem to have been incharge of mining, coinage and gold, all in the control of the State.5

In the Medieval period, India was cynosure of all eyes in the west. The ‘Golden India’ was famous for its steel and cloth. The iron pillar near ‘Kutab Minar’ has baffled many metallurgists how a pillar of this huge size and rustless quality could have been cast in those far off days. The fine cloth, particularly ‘Dacca Muslin’ was favourite wear of Western women. Mr. S. D. Sharma in an article ‘Public Enterprises in Medieval India’ has stated, “in the later part of Medieval period, mining also came in the ambit of State activity and a number of State monopolies such as manufacture of all kinds of ammunition, particularly lead and salt-petre were created.”6 He further observed that there was a large number of ‘Karkhanas’ – Royal Workshops which were attached to imperial household. About the importance of these Karkhanas, Mr. S. D. Sharma wrote – “the royal workshops occupied an important place in the economy. No single unit in the private enterprise was big enough in size which could be compared to the

5 N. N. Mallya, Public Enterprises in India – Their Control and Accountability, National Publishing House Delhi-6, p. 3.
Royal Workshop, in equipment and organisation also, the private enterprise were a poor match to the “Karkhanas”\(^7\). The whole medieval India was somehow or other engaged in production of consumer goods as well as arms and ammunitions.

In modern India, we find two sort of efforts – one by the alien government and the other by Swadeshi Movement headed by Indian National Congress which paved the base for public enterprises.

The British Ruler of India never intended to foster indigenous industry. They never tried to import the technological revolution of the west into this country. Rather they ruined trade and industries and worked to help their home industries by exporting raw material like jute, cotton, tea and oil seeds and enabled their nation to maintain their supremacy in the world trade. It was the First World War which interrupted and blockaded supplies and naval warfare that shook the British complacency about industrialization of India. They then thought of ammunition and ordnance factories. Whatever they did, they did to safeguard their trade routes and to perpetuate their ‘Empire’. During the colonial rule, the Indian Industrial Commission (1916) recommended – “It is vital therefore for the Government to establish those industries whose absence exposes us to grave danger in times of war.”\(^8\) Thus the alien Government started ordnance factories and took over the management of Indian Railways in 1922. Later, the Second World War provided a great impetus to the development and expansion of war industries (1939-45). The existing industries worked to full capacity. Some new industries were also started but only to supply war needs. Industries for manufacture of ferro-alloys, non-ferro metals, diesel engines, bicycles, sewing machines, machine tools and cutting tools were set up – some of these industries were granted protection.

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\(^7\) Ibid, p. 441.
\(^8\) Quoted by N. N. Mallya, Ibid, p. 10.
The Swadeshi Movement headed by Indian National Congress was more particular regarding industrialisation and planning. The working committee of the Congress in August 1937 recommended its provincial government to appoint committees of experts to draw up schemes of “National reconstruction and Social Planning”. The Committee felt that national problems can not be dealt with piecemeal or in provincial basis and so they suggested a joint conference of provincial Ministers of Industries.

In 1937, the Congress President, Subhash Chander Bose, called a Conference to discuss the ways and means for industrial development of country and drawing up a comprehensive national plan for this purpose. This resulted in the appointment of National Planning Committee under the Chairmanship of Pandit Jawaharlal Nehru. This committee classified industries into defence, key and public utilities and recommended that they be owned and operated by the state. The industries to be covered were: electricity and gas, public transport and communications, water supply and sanitation, power generation, fuel including coal, mineral oil and natural gases, machine tools, heavy engineering, fertilizers and refractories. In July 1944, the Department of Planning and Development was set-up. The Department issued a statement on the industrial policy of the government on 21st April, 1945. This statement confirmed the continuation of ordinance factories, railways, post-office and public utilities already under the state ownership and operations. It also declared that basic industries of national importance would be nationalized.

After independence, the Government of India continued to follow the policy of state ownership of important industries. The 1948 Industrial Policy Resolution divided industries into three broad categories. The first category, in addition to other industries included arms and ammunition and atomic energy. The production and control of these industries was to be in the hands of Government. For the second category, the state including the central and state government, and public authorities including municipal corporations, were to be “exclusively responsible for the establishment of new undertakings”, except when
the private cooperation was needed in the national interest. This category covered six industries, namely - coal, iron and steel, aircraft manufacture, ship-building manufacture, manufacture of telephone, telegraph and wireless apparatus (excluding radio receiving sets) and mineral oils. The rest of the industries were normally to be left to private enterprises subjected to that the state will also participate in this field.

This philosophy was also enshrined in the Indian Constitution. For instance, Article 38 of the Directive Principle of State Policy states “the state shall strive to promote the welfare of the people by securing and protecting as effectively as it may a social order in which justice - social, economic and political shall inform all the institution of economic life.” Pt. Jawaharlal Nehru’s⁹ speech before the National Development Council in November 1954 emphasized this role for the State. He said, “...the means of production should be socially owned and controlled for the benefit of the society as a whole”. In December 1954, the Indian Parliament passed a resolution proclaiming that ‘socialist pattern of society’ was the objective of the state.

The Industrial Policy of 1956 aimed at public sector operating as a dominant and pervasive force and private sector was only to complement and supplement it. According to this resolution, industries were classified into three categories. First, where the future development was to be exclusive responsibility of the state and it covered 17 industries. Second category included industries to be progressively state-owned and state was to take initiative to establish new undertakings. It covered 12 industries. The third category comprised of all the remaining industries, the future development of which was generally to be left to the initiative and enterprise of private sector. The Second Five Year Plan (1957) pointed out that the two sectors would have “to function in union” and were to be “viewed as parts of a single mechanism”. The plan emphasized the inter-dependence of two sectors and referred to investment in public sector in areas

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⁹ Nehru, Jawaharlal (November, 1954).
such as irrigation, power and transport which would increase the production potential of private sector.

According to the Third Plan (1961), an important purpose to be served by the public sector was to prevent concentration of economic power and growth of monopolistic tendencies. The subsequent five-year plan also reiterated the policy of strengthening public sector enterprises and make them to play a dominant role in the development of Indian economy. The Industrial Policy of 1977 envisaged PE as a mean of socializing the means of production in strategic areas and for producing a countervailing force to the growth of large houses and large scale enterprises in private sector. Thus, during the first 30 year of independence to India, the public sector continued to grow. The Central and State Governments initiated steps to establish and develop large-scale public enterprises. The number of public sector enterprises owned by the Central Government increases from 5 in 1951 to 237 in 2005. The State Government also owned a large number of business enterprises.

According to Minhas (1974), apart from ideological preferences for the public sector, planners believed in following:

(a) Private investor may demand a higher risk premium for investment in some industries than would be socially justified,

(b) the scale of investment effort in heavy industries may be beyond the capital raising capacity of the private sector,

(c) the public sector, through appropriate price policy for its output, will generate profits for further investment in the economy,

(d) by production and or distribution of crucial inputs, the State will be able to control the private sector, and

(e) the employment and wage policy of the public sector can be directed to benefit disadvantaged groups in the society. Successive Industrial Policy Resolutions of 1977 and 1980 also envisaged public enterprises as means of socializing the means of production in strategic areas. These policy pronouncements have reiterated
successive Government’s faith in the public sector for rapid and sustained industrial development of the country, until 1991, therefore, public sector was a holy cow.

Therefore, historically, public sector undertakings (PSUs) have played an important part in the development of the Indian industry. At the time of independence, it was felt that political independence without economic self-reliance would be detrimental to the country’s sovereignty and autonomy in policy-making.

3.3 CAUSES FOR THE EXPANSION OF PUBLIC SECTOR ENTERPRISES

The public sector has been central to our philosophy of development. In the pursuit of our development objectives, public ownership and control in critical sectors of the economy has played an important role in preventing the concentration of economic power, reducing regional disparities and ensuring that planned development serves the common good.

In a developing economy like India, some industries had to be brought within public ownership and control, for otherwise rapid growth of the economy was thought to be impossible. Nationalising some of the industrial, banking and insurance units and starting new units was expected to help in speeding up the rate of economic growth. Therefore, public enterprises become an essential part of the economic development programme of India. In this section, we shall study the need for or the rationale of public enterprises in the context of economic planning in India.

(i) Rate of Economic Development and Public Enterprises:

The justification for public enterprises in India was based on the fact that the rate of economic development planned by the government was much faster than could achieved by the private sector alone. In other words, the public sector was essential to realise the target of the high rate of development deliberately fixed by the government.
To fulfil this ambitious plan target, the government had to resort to compulsory saving through taxation. In the words of Professor Ramanadham, "Having gathered the resources, the government and other important policy making bodies like the Planning Commission are under the normal human temptation to use the funds under the government's own aegis and it appears to be an avoidable botheration for the administration to offer the money to private enterprises in the first instance and then go about instituting the necessary checks and balances for the sake of ensuring the safety and proper use of funds. Instead it appeals as preferable to Parliament as well as the administrative bodies to launch industrial enterprises in the public sector."\(^{10}\)

(ii) **Pattern of Resource Allocation and Public Enterprises:**

In Professor Ramanadham's words, "The main reason for the expansion of the public sector lies in the pattern of resources allocation decided upon under the plans."\(^{11}\) In the Second Plan, the emphasis was shifted to industries and mining, mainly basic and capital goods industries to be developed under the aegis of the public sector. Thus more resources for industrialization were funnelled through the public sector. Under these circumstances, "It is inevitable that the public sector must grow not only absolutely but also relatively to the private sector."\(^{12}\)

(iii) **Socialistic Pattern of Society:**

The socialistic pattern of society calls for extension of public sector in two ways. For one thing, production will have to be centrally planned as regards the type of goods to be produced, the volume of output and the timing of their production. It may be comparatively easy to achieve this through the public sector rather than through private sector. We may quote the Second Five Year Plans here: "The adoption of socialistic pattern of society as the national objective, as well as the need for planned and rapid development require that all industries of

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\(^{10}\) V. V. Ramanadham : The Structure of Public Enterprises in India, p. 56.

\(^{11}\) Ibid, p. 57.

\(^{12}\) Second Five Year Plan, p. 23.
basic and strategic importance, or in the nature of public utility services should be in the public sector. Other industries which are essential and require investment on a scale which only the state, in present circumstances, could provide, have also to be in the public sector.\textsuperscript{13}

Besides, one of the objectives of the Directive Principles of the Indian Constitution is to bring about reduction of the inequalities of income and wealth and to establish an egalitarian society. The Five-year Plans have taken this up a major objectives of planning. The public enterprises were used as major instruments for the reduction of inequalities of income and to bring about a more equitable distribution of income in several ways: (a) the profits of public enterprises would go to the government unlike those of private enterprises which go to enrich private pockets, (b) there would be effective regulation of income of top executives in public enterprises, taking, of course, steps to maintain high managerial efficiency, (c) the public enterprises could be asked to adopt discriminatory price policies which would benefit the low-income consumer; and (d) they, generally, make it easy to raise wage income of the low-paid staff.

Explaining the importance of the public sector in mixed economy and its role in the establishment of a socialist pattern of society, Professor V. K. R. V. Rao opined, “Sector of economic activity which involve either monopoly conditions of strategic economic power or possession of large resources in private hands should be publicly owned and operated as public enterprises. It also means that public enterprises should make itself responsible for the building of the economic overheads on the external economies like transport, power, fuel, and basic capital goods. Without increase in the production of consumption goods and services either on the required scale or necessary economic basis will not be possible, irrespective of whether it is to be in the private or public sector. It also means that the extension of the public sector, in economic enterprise will be followed by substantial growth in the volume of national saving and investment as well as the funds available for government outlay on social services - without public

\textsuperscript{13} Ibid, p. 45.
enterprise, there can be no enterprise. In fact, it is the former that enables the full growth of the latter."14

(iv) Sources of Funds for Economic Development:

Initially, state was an important source of funds for development. The surplus of government enterprises could be re-invested in the same industries or used for the establishment and expansion of other industries can also plough back whole or substantial amounts of their profits for expansion. However, profits in private enterprises are declared as dividend among shareholders. This would only create inequalities among people. But profits of public sector industries can be directly used for capital formation.

(v) Removal of Regional Disparities through Public Enterprises:

Another important reason for the extension of public sector was anxiety for the balanced development in different parts of the country and to see that there were no serious regional disparities. Public enterprises of the central government were set up in those regions which were under-developed and local resources were not adequate. Good examples are the setting up of three steel plants at Bhilai, Raurkela and Durgapur and the Neyveli Projects in Madras which were meant to help industrialise the regions surrounding the projects. In certain cases, the state governments were unable to raise adequate resources for development of its regions. The only alternative available was the setting up of projects by the Central Government or to start enterprises which were financed by the Centre.

(vi) Limitations and Abuses of the Private Sector:

The behaviour and attitude of private sector itself was an important factor responsible for the expansion of public sector in the country. When the Americans insisted on the Bokaro project to be set up in private sector, Mr. J. R. D. Tata openly confessed that the private sector was not in a position to mobilise resources to the tune of Rs. 700 crores. Thus, the private sector did not want to

move into certain sector or if it wanted to move in, it did not have the necessary resources. This was understandable but the private sector was unwilling to take even normal risks of business. During the Second Plan period and later, many of the licences issued to the private sector for setting up fertilizer units were surrendered when the need of fertilizer was paramount for the country to push an agricultural breakthrough. To give another example, the business recession of 1966-67 frightened the private sector cement industry from the expansion even though it had given an undertaking to the Government to expand. To safeguard the long-term prospects of the economy, the Government had to setup the Cement Corporation of India to boost the production of cement. The failure of the private sector drug industry to manufacture antibiotics and at the same time, its tremendous exploitation of the consumer to the extent of holding them to ransom was responsible for the entry of the Government in drug and pharmaceuticals industry.

In a number of cases, the Government was forced to take over a private sector industry or industrial units either in the interest of workers or to prevent excessive exploitation of consumers. The private sector Life Insurance Companies were taken over by the Government to protect the interest of the insured from the short-sighted and rapacious private exploiters. The top 20 commercial banks were nationalised, among other things, to prevent banks funds being used for building up private industrial and commercial empires. The takeover of sick cotton mills was due to the failure of the private sector. The point to note here is that often the private sector did not function as it should and did not carry out its social responsibilities. Accordingly, the government was forced to take over or nationalise the private sector units.

To sum up, the expansion of the public sector was aimed to the fulfilment of our national goals, viz., the removal of poverty, the attainment of self-reliance, reduction in inequalities of income, expansion of employment opportunities, removal of regional imbalances, acceleration of the pose of agricultural and industrial development, to reduce concentration of ownership and prevent
growth of monopolistic tendencies by acting as effective countervailing power to private sector, to make the country self-reliant in modern technology and create professional, technological and managerial cadres so as to ultimately rid the country from dependence on foreign aid.

3.4 GROWTH OF PUBLIC SECTOR ENTERPRISES

On April 1, 1951 at the time of initiation of First Five Year Plan, the total number of public sector enterprises in India was just 5, which has increased to 237 in 2005. The Table 3.1 shows the growth of public sector enterprises and investment therein.

More than 50 percent of total investment in central public enterprise is in steel, coal, minerals and metals, power and petroleum groups of enterprises. These basic industries provide linkages to host of other industries. The wide range of products and activities of central public enterprises include making steel, mining of coal and minerals, extraction and refining of crude oil, manufacture of heavy machinery, machine tools, instruments, heavy-machine building equipment, heavy electrical equipment for thermal and hydel stations, transportation equipment, telecommunication equipment, ships, submarines, fertilizers, drugs and pharmaceuticals, petro-chemicals, cement, textiles and a few consumer items such as bread, newsprint, paper, footwear and contraceptives, operation of air, sea, river and road transport, operation in national and international trade, consultancy, contract and construction services, inland and overseas telecommunication services, hotel and tourist services, etc.
### Table 3.1 Growth of Public Sector Enterprises and Investment Therein

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Total investment (Rs. in crores)</th>
<th>Enterprises (Numbers)</th>
</tr>
</thead>
<tbody>
<tr>
<td>At the commencement of 1(^{st}) Five-year Plan (01.04.1951)</td>
<td>29</td>
<td>5</td>
</tr>
<tr>
<td>At the commencement of 2(^{nd}) Five-year Plan (01.04.1956)</td>
<td>81</td>
<td>21</td>
</tr>
<tr>
<td>At the commencement of 3(^{rd}) Five-year Plan (01.04.1961)</td>
<td>948</td>
<td>47</td>
</tr>
<tr>
<td>At the end of 3(^{rd}) Five-year Plan (31.03.1966)</td>
<td>2410</td>
<td>73</td>
</tr>
<tr>
<td>At the commencement of 4(^{th}) Five-year Plan (01.04.1969)</td>
<td>3897</td>
<td>84</td>
</tr>
<tr>
<td>At the commencement of 5(^{th}) Five-year Plan (01.04.1974)</td>
<td>6237</td>
<td>122</td>
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<tr>
<td>At the end of 5(^{th}) Five-year Plan (31.03.1979)</td>
<td>15534</td>
<td>169</td>
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<tr>
<td>At the commencement of 6(^{th}) Five-year Plan (01.04.1980)</td>
<td>18150</td>
<td>179</td>
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<td>At the commencement of 7(^{th}) Five-year Plan (01.04.1985)</td>
<td>42673</td>
<td>215</td>
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<td>At the end of 7(^{th}) Five-year Plan (31.03.1990)</td>
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<td>244</td>
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<tr>
<td>At the commencement of 8(^{th}) Five-year Plan (01.04.1992)</td>
<td>135445</td>
<td>246</td>
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<tr>
<td>At the end of 8(^{th}) Five-year Plan (31.03.1997)</td>
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<td>242</td>
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<tr>
<td>At the end of 9(^{th}) Five-year Plan (31.03.2002)</td>
<td>324614</td>
<td>240</td>
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<tr>
<td>As on 31.03.2003</td>
<td>335647</td>
<td>240</td>
</tr>
<tr>
<td>As on 31.03.2004</td>
<td>349994</td>
<td>242</td>
</tr>
<tr>
<td>As on 31.03.2005</td>
<td>357489</td>
<td>237</td>
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</table>

Fig. 3.1 Investment for the Growth of Public Sector Enterprises

Fig. 3.2 Growth of Public Sector Enterprises

1. At the commencement of 1st Five-year Plan (01.04.1951)
2. At the commencement of 2nd Five-year Plan (01.04.1956)
3. At the commencement of 3rd Five-year Plan (01.04.1961)
4. At the end of 3rd Five-year Plan (31.03.1966)
5. At the commencement of 4th Five-year Plan (01.04.1969)
6. At the commencement of 5th Five-year Plan (01.04.1974)
7. At the end of 5th Five-year Plan (31.03.1979)
8. At the commencement of 6th Five-year Plan (01.04.1980)
9. At the commencement of 7th Five-year Plan (01.04.1985)
10. At the end of 7th Five-year Plan (31.03.1990)
11. At the commencement of 8th Five-year Plan (01.04.1992)
12. At the end of 8th Five-year Plan (31.03.1997)
13. At the end of 9th Five-year Plan (31.03.2002)
14. As on 31.03.2003
15. As on 31.03.2004
16. As on 31.03.2005
A long and arduous journey has been undertaken by the central public sector enterprises during its life span of about four decades. It has weathered many storms and successfully withstood much attacks on it. It has come to stay and will play an important role in future also. "The Public Sector" says the Seventh Plan document, "has initiated and sustained the industrial transformation of India and it shall continue to play this pivotal role in modernizing Indian industry and in reducing the concentration of economic power."\textsuperscript{15}

It is usual to judge the performance of private sector unit by the yardstick of net profit or loss since in their case, maximization of profit is the sole aim. This yardstick fails miserably in the case of public sector undertakings. Such unit are frequently started in those sectors where profitability is low and gestation period long. For instance, investment in infrastructure and basic industries is not likely to yield early returns and accordingly, profit in the beginning are likely to be very low and in some instances, may even be negative. Yet these investment serve important ends since they create the basis for expansion of industrial activities in future. Investments made by the public sector in steel industry, fertilizers, power projects, mining, etc. come under this category. Then, in some cases, public sector provides input to the private sector (for example, iron and steel to machine building, tools, automobile, industry, etc.). It is very easy for it to earn huge profits by merely hiking the prices of its output. However, this is likely to have an adverse impact on the industrial activity in the private sector on the one hand, and push up prices on the other. Accordingly, prices are intentionally kept low even though this cuts into the profits of the public sector seriously. Also, as noted by Hazari and Oza, private sector has invested mostly in consumer and lighter goods which have been granted far greater protection against external competition as compared to capital goods which were mostly produced by the public sector and which forced stiff competition from imports financed by aid and

\textsuperscript{15} Draft of Seventh Five-year Plan, p. 6.
foreign private investment. Another point that needs specific mention is that the public sector is not merely capital-intensive and characterized by longer gestation periods; in steel, which accounts for the bulk of investment, it is also material intensive, and to that extent its value added component is smaller than in items like, say, chemicals.

Because of considerations such as these, it is often maintained that the performance of the public sector units should not be judged by what they earn in the form of profit but by the total additions they make to the flow of goods and services in the economy. Thus, instead of profit, the yardstick should be the total value of the sales of an enterprise. For instance, if an iron and steel plant produces steel worth Rs. 5000 crore in a certain specified period but makes no profit because its aim is to provide steel at low prices to the industries using steel as an input; it would be wrong to say that its performance is disappointing on this count alone. What is important from the point of view of the industrial development of the country is the fact that this plant has added steel worth Rs. 5000 crore to the social pool of goods and services obtaining in the country.

**Growth and Performance of Public Sector Enterprises:**

There has been massive expansion in the public sector after independence. At the commencement of the First Five Year Plan in 1951, there were only 5 central public sector enterprises with investment amounting to Rs. 29 crore. As on March 31, 2004, the number of central public sector enterprises was 242 which fell to 237 as on March 31, 2005. However, investment rose from Rs. 3,49,994 crores at end of March, 2004 to Rs. 3,57,849 crores at end of March 2005 (an increase of Rs. 7,855 crores in a single year). The following Table 3.2 shows the growth of turnover of PSEs since 1991-92.
### Table 3.2 Growth of Turnover

<table>
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<tr>
<th>Year</th>
<th>Rs. in crores</th>
<th>%</th>
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<tr>
<td></td>
<td>Turnover/operating income</td>
<td>Capital employed</td>
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<tr>
<td>1991-92</td>
<td>133906</td>
<td>117991</td>
</tr>
<tr>
<td>1992-93</td>
<td>147266</td>
<td>140110</td>
</tr>
<tr>
<td>1993-94</td>
<td>158049</td>
<td>159836</td>
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<tr>
<td>1994-95</td>
<td>187355</td>
<td>162450</td>
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<tr>
<td>1995-96</td>
<td>226919</td>
<td>173948</td>
</tr>
<tr>
<td>1996-97</td>
<td>260735</td>
<td>231178</td>
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<tr>
<td>1997-98</td>
<td>276002</td>
<td>249855</td>
</tr>
<tr>
<td>1998-99</td>
<td>310179</td>
<td>265093</td>
</tr>
<tr>
<td>1999-2000</td>
<td>389199</td>
<td>302867</td>
</tr>
<tr>
<td>2000-01</td>
<td>458237</td>
<td>331401</td>
</tr>
<tr>
<td>2001-02</td>
<td>447529</td>
<td>389934</td>
</tr>
<tr>
<td>2002-03</td>
<td>534001</td>
<td>417931</td>
</tr>
<tr>
<td>2003-04</td>
<td>587052</td>
<td>452910</td>
</tr>
<tr>
<td>2004-05</td>
<td>700862</td>
<td>504826</td>
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</table>


The above table shows that the public sector enterprises have shown consistent growth in the turnover/operating income except for the years 2001-02, 2002-03 and 2003-04 as turnover has been taken after deducting excise duty w.e.f. 2001-02. It has increased from Rs. 133906 crores in 1991-92 to Rs. 700862 crores during 2004-05. The increase in turnover during this period works out to 423% and the public enterprises have registered a growth of 19.39% in the current year over the previous year. The table further reveals that the amount of capital employed which stood at Rs. 117991 crores in 1991-92 increased to Rs. 504826 crores in 2004-05 registering an increase of 327.85 percent during the same period.
Chapter 3: Genesis and Growth of Public Sector Enterprises in India

Fig. 3.3 Growth of Turnover in Public Sector Enterprises Since 1990-91

The Table 3.3 shows the performance of public sector enterprises during the study period. This table shows that the number of operating enterprises which stood at 237 in 1991-92 decreased to 227 in 2004-05. The amount of capital employed increased from Rs. 117991 crores in 1991-92 to Rs. 504826 crores in 2004-05 registering an increase of 327.85% during the same period. The table also shows that there is impressive trend of improvement in the financial performance of PSEs. Profit before depreciation, interest and tax has increased from Rs. 22224 crores in 1991-92 to Rs. 142606 crores in 2004-05 thereby registering an increase of 541.6% during the same period. Likewise, profit before interest and tax during this period has increased from Rs. 13676 crores to Rs. 108491 crores. The increase works out to 693.29%. Similarly, net profit during this period has increased from Rs. 2356 crores to Rs. 65429 crores, registering an increase of 2677.12%. The amount of dividend declared by the PSEs which stood at Rs. 687 crores in 1991-92 increased to Rs. 20713 crores in 2004-05 registering an increase of 2914.99% during the same period.
Table 3.3  Performance of Public Sector Enterprises

<table>
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<td>234</td>
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<td>226</td>
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<td>Capital employed</td>
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<td>140110</td>
<td>159836</td>
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<td>231178</td>
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<td>390162</td>
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<td>Profit before Dep., Int. Tax</td>
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<td>40161</td>
<td>44457</td>
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<td>56495</td>
<td>62212</td>
<td>69287</td>
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<td>9151</td>
<td>10754</td>
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<td>13542</td>
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<td>Profit before tax (PBT)</td>
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<td>6697</td>
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<td>PBDIT to capital employed</td>
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<td>PBIT to capital employed</td>
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<td>15.9</td>
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Source: Various issues of Public Enterprises Survey, Department of Public Enterprises, Ministry of Heavy Industries & Public Enterprises, New Delhi
Chapter 3: Genesis and Growth of Public Sector Enterprises in India

According to Economic Survey, 2006-07, the cumulative investment of all Central PSEs at end March 2006 was Rs. 3,93,057 crores of which the share of manufacturing Central PSEs was 51 percent followed by service Central PSEs at 40%, and by mining Central PSEs at 7%. As far as the share in national production is concerned, Central PSEs play a pivotal role in production of coal and lignite, petroleum and in non-ferrous metals such as primary lead and zinc. For example, Central PSEs contributed 85.52% of coal production, 85.87% of crude oil production and 74.51% of petroleum refining in 2005-06.

The table further reveals that the ratio of profit before interest and tax to turnover rose from 10.2% in 1991-92 to 15.6% in 2004-05 while the ratio of net profit to turnover rose from 1.8% to 9.3% over the same period. As far as return on investment (i.e., the ratio of profit before interest and tax to capital employed) is concerned, it increased from 11.6% in 1991-92 to 21.49% 2004-05. Similarly, the ratio of profit before depreciation, interest and tax to capital employed increased from 18.8% in 1991-92 to 28.25% in 2004-05. So far as dividend payout ratio is concerned, it has been fluctuating during the study period. It was highest (52.8%) in 2000-01. This ratio increased from 29.2% to 31.66% during the period of study.

What is more, the reliance of public sector enterprises on budgetary resources declined while their gross internal resource generation increased. Gross internal resource generation in 1991-92 was Rs. 12,943 crores which rose to Rs. 83,854 crores in 2004-05 registering an increase of 547.87% during the same period. Apart from generation of internal resources, public enterprises have been making substantial contribution to augment the resources of the central government through payment of dividends, interest, corporate tax, excise duty, customs duty and other duties, thereby helping in mobilization of funds for financing the needs for planned development of the country. The contribution made by PSEs to Central Exchequer on actual basis increased from Rs. 19951 crores in 1991-92 to Rs. 1,10,599 crores in 2004-05, registering an increase of 454.35% during the same period. Despite all this, the fact of the matter is that the ratio of net profit to capital employed continues to highly inadequate looking at
the colossal investments, that have been made in the public sector (in a number of years in recent past this ratio has been in the range 2.0 to 2.5 percent). Bimal Jalan has alleged that it is this 'low return on investment' in the public sector enterprises that is, to a large extent, responsible for the fiscal crisis of the Central Government.\textsuperscript{16}

The table also reveals that the number of profit making PSEs increased from 133 to 143 during the study period. The amount of profit of profit-making PSEs which stood at Rs. 6079 crores in 1991-92 increased to Rs. 74432 crores in 2004-05 registering an increase of 1124.41\% during the same period. Similarly, the number of loss incurring PSEs decreased from 102 to 73 during the study period. The amount of loss of loss incurring PSEs which stood at Rs. 3723 crores in 1991-92 increased to Rs. 9003 crores in 2004-05. There was only one PSE 2004-05 which was making no profit/loss. Similarly, there were 10 operating PSEs who did not furnished information in 2004-05.

\textbf{Employment and Labour Welfare:}

As far as this criterion of performance is concerned, the public sector seems to have done exceedingly well. It has contributed to a significant extent in improving the overall employment situation in the country and has acted as a model employer by providing the workers with better wages and other facilities as compared to private sector. The number of persons employed in the CPSEs as on March 1, 2005 was about 1.69 million. The average annual per capita emoluments which were Rs. 56508 in 1991-92 increased to Rs. 286888 in 2004-05. The industrial sectors which have a sizeable number of employees in public sector include coal, steel, textiles, heavy engineering, and medium and light engineering. The average wage per worker in public sector enterprises is also higher than in the private sector.

The public sector enterprises have also spent a considerable amount on the development of townships around them. These township were provided with

facilities like schools, hospitals, shopping complexes, etc. A substantial sum of money is spent annually on the maintenance and administration of these township and social overheads. For instance, gross expenditure worth Rs. 3,098 crores was incurred by public sector unit on March 1, 2005 on township maintenance, administration and social overheads. The employees of the public sector enterprises also enjoy medical amenities, subsidized canteen facilities, transport and educational facilities, etc.

Public Sector and Foreign Exchange Earnings:

Enterprises in the public sector have helped the economy in earning substantial amount of foreign exchange and also in saving the foreign exchange and expenditure via their efforts at import substitution. Capital goods, industrial machinery, and other equipment which were totally imported about four decades back are now being mostly manufactured in the country itself. This has saved valuable foreign exchange. The ONGC and Indian Oil Corporation have helped the country in reducing the dependence on foreign imports. The Hindustan Antibiotics Ltd. and the Indian Drugs and Pharmaceuticals Ltd., have entered the field of manufacture of drugs and pharmaceuticals in big way. While this has helped in saving foreign exchange on the one hand, it has also enabled the country to break the stranglehold of foreign companies in this field. As far as foreign exchange earnings are concerned, the public sector has contributed in three ways: (i) through direct export of items produced in the public sector, (ii) through services rendered by the public sector undertakings, and (iii) through trading and marketing services of the undertakings through which export are canalized. The public sector provided one fourth to one-fifth of the total export earnings through the 1980s.

Though there is no dispute regarding the role of the public sector undertakings in country’s economic development, yet the feeling widely prevalent is that the rate of profit in these undertakings is either too low or is negative. Accordingly, they are inefficient.
However, it is not so easy to decide about the efficiency of the public sector undertakings. As noted by us earlier, the rate of profit might be a good criterion to judge the efficiency of a private sector enterprise, but cannot be deemed so for a public sector enterprise. To judge the efficiency of public sector undertakings, A. E. Khan and Hollis B. Chenery have recommended the criterion of social marginal productivity. According to Chenery, the utility of investment in any project should be judged by its impact on the national income, balance of payments and distribution of income. According to Walter Galensen and Harvey Libenstein, the evaluation of investment in the public sector should be done on the basis of "marginal per capita reinvestment quotient". According to this criterion, we must examine whether investment of capital in any project will lead to maximization of income at any point in the public sector at this juncture, we would like to emphasize that evaluation of any State enterprise should be done on the basis of social benefit and social cost and not on the basis of rate of profit.

According to G. K. Shirokow, efficiency of a public enterprise should not be judged on the basis of profitability alone, "The economic efficiency of a public sector industry manifests itself alone in the transformation of the industrial structure, modernisation, higher labour productivity on a country-wide scale, etc." The fact is that a higher proportion of the value produced by the public sector industries is realised outside this sector, and it is, therefore, very difficult to estimate the efficiency of public sector enterprises in terms of cost and profitability. Most of the critics of the public sector enterprises fail to take social costs and benefits into account and consider only net profit or losses. They are guilty of ignoring the right criteria for judging the performance of public sector enterprises.

Not only this, even the losses incurred by public sector enterprises are, to a considerable extent, due to the takeover of sick units from the private sector to protect the interests of the working class. For instance, of the 102 loss making enterprises in 1991-92, about 40% constituted sick units, taken over by the

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17 G. K. Shirokow, Industrialization of India (Moscow, 1973), p. 139.
government from the private sector. Thus the losses of the private sector ‘spilled over’ to the public sector.

Before we conclude this section, the following comments from Arif Sharif are in order: “Now that decrying public sector performance has become fashionable, many seem to have forgotten the crucial role it has played in India’s development since the Second Plan, which can not be measured against the value of its output. The private sector never had to bear such responsibilities. Instead, it relied on the public sector to meet much of its technology and skilled manpower requirements.”

3.5 ECONOMIC REFORMS IN INDIA SINCE 1991: WITH MAJOR THRUST ON PSEs

Although economic reforms were introduced under Rajiv Gandhi regime, they did not yield the desired results. In the end of June 1991, country landed in an unprecedented economic crisis. Reserves of foreign exchange were just sufficient to pay for two weeks imports. New loans were not available. Balance of payment situation was leading towards a crisis. Faith of International Community in Indian economy was shaken. In order to pull the economy out of economic crisis and to put it on the path to rapid and steady economic growth, it was most essential to correct financial disequilibrium, curb rising prices, correct adverse balance of payment and replenish foreign exchange reserves. To achieve all these objectives, introduction of economic reforms or an appropriate economic policy was considered inevitable.

P. V. Narasimha Rao led Congress(I) Government after resumption of office on June 21, 1991 adopted a number of stabilization measures that were designed to restore internal and external confidence. The government adopted, as the centerpiece of economic strategy, a programme to bring about reduction in fiscal imbalance to be supported by reforms in economic policy that were essential to impart a new element of dynamism to the growth process in the economy. In

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this memorandum on Economic Policies submitted to IMF, Dr. Manmohan Singh proposed “The thrust will be to increase the efficiency and international competitiveness of industrial production, to utilise foreign investment and technology to a much greater degree than in the past, to improve the performance and rationalize the scope of the public sector, and to reform and modernize the financial sector so that it can more efficiently serve the needs of economy.”

Policy on Public Sector:

Policy on the public sector has been guided by the Industrial Policy Resolution of 1956, which gave the public sector a strategic role in the economy. Massive investment have been made over the past four decades to built a public sector which has a commanding role in the economy. Key sectors of the economy are dominated by mature public enterprises. Many of these enterprises have successfully expanded production, opened up new areas of technology and built up a reserve of technical competence in a number of areas. However, after initial concentration of public sector investment in key infrastructure and non core areas. This has resulted in poor general overall performance of the public sector which has manifested itself in low or negative returns to public investment.

In order to improve the portfolio and performance of public sector enterprises, the Government of India announced on 21 July, 1991 a part of an Statement on Industrial Policy or Statement on Public Sector Policy also. The Policy Statement contains the following decisions:

(i) Portfolio of public sector investments will be reviewed with a view to focus the public-sector on strategic, high tech and essential infrastructure. Whereas some reservation for the public sector is being retained there would be no bar for area of exclusivity to be opened up to the private sector selectively. Similarly the public sector will also be allowed entry in areas not reserved for it.

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(ii) Public enterprises which are chronically sick and which are unlikely to be turned around will, for the formulation of revival/rehabilitation schemes, be referred to Board for Industrial and Financial Reconstruction (BIFR), or other similar high level institutions created for the purpose. A social security mechanism will be created to protect the interests of the workers likely to be affected by such rehabilitation package.

(iii) In order to raise resources and encourage public participation, a part of the government’s share-holding in the public sector would be offered to mutual funds, financial institutions, general public and workers.

(iv) Boards of public sector companies would be made more professional and given greater powers.

(v) There will be a greater thrust on performance improvement through the Memoranda of Understanding (MOU) system through which management would be granted greater autonomy and will be held accountable. Technical expertise on the part of the Government would be upgraded to make the MOU negotiations and implementation more effective.

(vi) To facilitate a fuller discussion on performance, the MOU signed between Government and the public enterprise would be placed in Parliament. While focussing on major management issues, this would also help place matters on day to day operations of public enterprises in their correct perspective.

The new industrial policy announced by the government in July 1991 emphasized the following four major measures to ‘reform’ the public sector enterprises: (i) reduction in number of industries reserved for the public sector from 17 to 8 (reduced still further to 3 later on) and the introduction of selective competition in the reserved area; (ii) the disinvestment of shares of a select set of public sector enterprises in order to raise resources and to encourage wider
participation to general public and workers in the ownership of public sector enterprises; (iii) the policy towards sick public sector enterprises to be the same as that for the private sector; and (iv) an improvement of performance through an MOU (Memorandum of Understanding) system by which managements are to be granted greater autonomy but held accountable for specified results. In addition, there was a drastic reduction in the budgetary support to sick or potentially sick public sector enterprises.

Dereservations:

The 1956 Resolution had reserved 17 industries for the public sector. The 1991 industrial policy reduced this number to 8: (1) arms and ammunition, (2) atomic energy, (3) Coal and lignite, (4) mineral oils, (5) mining of iron ore, manganese ore, chrome ore, gypsum, sulphur, gold and diamond, (6) mining of copper, lead, zinc, tin, molybdenum and wolfram, (7) minerals specified in schedule to the atomic energy (control of production and use order), 1953, and (8) rail transport. In 1993, items 5 and 6 were deleted from the reserved list. In 1998-99, items 3 and 4 were also taken out from reserved list. On May 9, 2001, the government opened up arms and ammunition also to the private sector. Thus, now only 3 industries are reserved, exclusively for the public sector. These are atomic energy, minerals specified in the schedule to atomic energy (control of production and use order), 1953, and rail transport.

Policy Regarding Sick Units:

The 1991 Industrial Policy brought the public sector units at par with the private sector units. As a result, the public sector units were also brought within the jurisdiction of the Board for Industrial and Financial Reconstruction (BIFR). Thus BIFR was given the responsibility to decide whether a sick public sector unit can be effectively restructured or whether it has to be closed down. Upto September 30, 2006, 296 cases of public sector unit were referred to BIFR. Of these,

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213 (91 Central and 122 State) were registered. Of the registered cases, 47 cases were dismissed as not maintainable, rehabilitation schemes were sanctioned for 54 cases, while winding up was recommended in 69 cases (29 Central and 40 State). Twenty three public sector units (9 Central and 14 State) were declared “no longer sick” on successful completion of rehabilitation schemes.

In the process of restructuring of the sick and loss making enterprises, the government has liberalised the Voluntary Retirement Scheme (VRS) to enable the central public sector enterprises to shed their excess manpower. Cumulatively around 5.55 lakh employees have opted for VRS from Central public sector enterprises since October 1998 till March 2005.21

Memorandum of Understanding:

One of the major initiatives towards the public sector as outlined in new industrial policy of July 1991 was bring all public sector enterprises under the system of Memorandum of Understanding (MOU). The system of MOU envisages an arm’s length relationship between the PSU and the administrative ministries. It gives clear targets to PSUs and ensures operational autonomy to them for achieving those targets. The MOU system was started in 1987-88 with four PSU signing MOUs. It has now gone up to 102 MOUs signed in 2005-06 and 108 MOUs in 2006-07. As per evaluation of 99 Central PSUs which signed MOU for 2004-05, 44 PSUs were rated ‘excellent’, 33 as ‘very good’, 11 as ‘good’ and 10 as ‘fair’, only one PSU was rated poor.

Policy for Navratnas

In 1997, the government identified 11 public sector enterprises as Navratnas and decided to give enhanced powers to Board of Directors of these enterprises to facilitate their becoming global players. These enterprises are BHEL, BPCL, GAIL, HPCL, IOC, IPCL, MTNL, NTPC, ONGC, SAIL and VSNL. Two of these, namely IPCL and VSNL have since been privatised and presently there are

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21 Government of India, India – A Reference Annual (Delhi, 2007), p. 541.
only nine Navratnas. The Boards of these Navratna enterprises have been professionalised by induction of non-official part time professional Directors. These PSUs have been delegated substantial enhanced autonomy and operational freedom which include (i) incurring capital expenditure, (ii) entering into joint ventures, (iii) effecting organisational restructuring, (iv) creation and winding up of posts below Board level, (v) to raise capital from the domestic and international markets, and (vi) to establish financial joint ventures subject to equity investments with special limits.

The government has also granted financial and operational autonomy to some of other profit making PSUs subject to fulfilling creation conditions. These enterprises are categorised as Miniratnas. These enterprises which have made profit continuously for the last three years have earned a net profit of Rs. 30 crore or more in one of three years, with positive net worth are categorised as Miniratnas I. The category II Miniratnas should have made profit for the last three years continuously and should have a positive net worth. Both of these categories of public sector enterprises are granted certain autonomy like incurring capital expenditure without government approval upto Rs. 300 crore or equal to their net worth whichever is lower (for category I Miniratnas companies) and upto Rs. 150 crore or upto 50 percent of their net worth whichever is lower (for category II Miniratna companies). These enterprises can also enter into joint ventures subject to certain conditions, set up subsidiary companies and overseas offices, enter into technology joint ventures, etc. As on March 31, 2005, 44 enterprises has been categorised as Miniratnas. Their names are as under:

**Category I:**

1. Bharat Dynamics Ltd.
2. Bharat Electronics Ltd.
3. Bongaigaon Refinery & petrochemicals Ltd.
4. Central Warehousing Corporation
5. Chennai Petroleum Corporation Ltd.
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6. Container Corporation of India Ltd.
7. Dredging Corporation of India Ltd.
8. Engineers India Ltd.
9. Hindustan Aeronautics Ltd.
10. Hindustan Newsprint Ltd.
11. Housing & Urban Development Corporation
12. India Tourism Development Corporation Ltd.
13. IRCON (International) Ltd.
14. Kochi Refineries Ltd.
15. Kudremukh Iron Ore Company Ltd.
16. MMTC Ltd.
17. National Aluminium Company Ltd.
18. National Fertilizers Ltd.
20. Neyveli Lignite Corporation Ltd.
21. Numaligarh Refinery Ltd.
22. Oil India Ltd.
23. Power Finance Corporation Ltd.
24. Power Grid Corporation Ltd.
25. Rashtriya Chemicals and Fertilizers Ltd.
26. Rural Electrification Corporation Ltd.
27. Shipping Corporation of India Ltd.
28. State Trading Corporation of India Ltd.
29. Telecommunications Consultants India Ltd.

Category-II

1. Balmer Lawrie & Co. Ltd.
2. Educational Consultants (India) Ltd.
3. Ferro Scrap Nigam Ltd.
4. HMT (International) Ltd.
5. Hospital Services Consultancy Corporation (I) Ltd.
6. India Trade Promotion Organisation
7. Indian Medicines Pharmaceuticals Corporation Ltd.
8. MSTC Ltd.
9. Manganese Ore India Ltd.
10. MECON Ltd.
11. National Film Development Corporation Ltd.
12. PEC Ltd.
13. Rajasthan Electronics & Instruments Ltd.
14. RITES Ltd.
15. Water & Power Consultancy Services (India) Ltd.

Disinvestment of Shares:

The Government of India has decided to withdraw from the industrial sector and, in accordance with this decision, it is privatising the public sector enterprises in a phased manner. The main approach of the government in this regard is to bring down its equity in all non-strategic public sector undertakings to 26% (or lower) and close down those public sector undertakings which can not be revived. For purposes of privatisation, the government has adopted the route of disinvestment which involves the sale of the public sector equity to the private sector and public at large. All through the 1990s, successive governments at the Centre have advocated the sale of public sector equity as a means of public sector 'reforms'. Equity sale, as the industrial policy statement of July 1991 argued, was a means of ensuring financial discipline and improving performance. However, as correctly pointed out by C. P. Chandrasekhar and Jayati Ghosh, the experience suggests that fiscal convenience was the prime mover of such disinvestments. The proceeds from disinvestments were used to finance budget deficits thus to 'Windo-dress' budgets. "This meant that while there has been much talk of managerial reform, voluntary retrenchment, and greater public sector autonomy
for meeting the new market environment, the thrust of public sector reform was almost entirely concentrated on the sale of equity” 22.

Setting Up of BRPSE:

The UPA government at the Centre in December 2004 set up a Board for Reconstruction of Public Sector Enterprises (BRPSE) to recommend measures for restructuring/reviving Central PSUs referred to them. The BRPSE also recommends cases where disinvestment or closure or sale are justified. BRPSE has made recommendations in 47 cases including two for closure till October 31, 2007. The government has approved the proposals for revival of 26 CPSEs and closure of 2 CPSEs.

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