CHAPTER I
INTRODUCTION

Concept of Public Sector:

The term 'Public enterprise' refers to any industrial or other economic enterprise owned and managed by the State of any Public Authority - Municipal Board, Statutory Bodies like Public Trusts, Corporations and Commissions. It also broadly refers to nationalised or socialised industries and institutions involving manufacture or production of goods or supply of services. In many of the developed and developing nations, state participation is regarded as conclusive answer to the question of planned economic development. So these state controlled organisations are treated as Public Sector. According to Henry H. Schloss, "By Public enterprises I generally mean, unless the contrary is clear from the text, an enterprise that is owned and managed by government, often the Central Government, but at times also other levels of government". Public Sector is a synonym of Public Enterprises. "In the wide sense of the word, the public sector or the government sector may be defined to include: (i) Government administration at all levels (Central Government, State Government and Local Government) including defence and (ii) Economic activities undertaken by the Government through its departments or through autonomous organisations that are wholly or largely owned by the Government."

The concept of Public Sector is associated with the idea of nationalisation of private industry. It is associated with the take-over by the state of assets created by private enterprise, and indeed, public enterprise has emerged on this basis. In Britain, this is particularly so. In the emerging developing

countries of Africa and Arab World, Public enterprise is a result of nationalisation of private enterprise and take over of foreign commercial interest. In this context the Indian Public Sector emerged on a qualitatively different basis. We have had, of course, nationalisation of Banking and Insurance sectors and, more recently, of coal mining.

But apart from these, public sector activities in India is mainly due to enterprise by the State itself. For today the state has emerged as the greatest entrepreneur in the country, as Rs. 55000 of million of public investment, represents investment decisions of the state, Capital and entrepreneurship of the state. In this sense what we have in India is not nationalised industry but national industry.

HISTORICAL BACKGROUND:

It is now universally recognised that, in order to overcome the rigidities and complexities in the process of development of an under-developed economy, State will have to play a positive role and should not remain a passive spectator. The ideological debate about the entry of the State into business enterprise has now somewhat-abated. The victorian concept of laissez faire economy does not, in fact, exist in reality anywhere in the world, even in the citadels of the classic Capitalist countries.

In Italy the giant holding companies of the State stride like colossus over the economic scene. In Britain the commanding heights of the economy (steel, coal, power and transportation) are state owned and state managed. Even in the United States of America public enterprise has emerged from the days of Tennesee Valley Authority to those of the Commodity Credit
Corporation. According to W.R. Kidwai, "Whether it is a blue-blooded capitalist society or a pink or even bloodred socialist one, it has to take upon itself the task of fashioning the shape of the economy of the country."³

If we go through the pages of history, State control of economic activities and even direct participation in industry could be traced to ancient times. The traditions were high up and found running through the Greek and Roman Empires, down the Mercantialism of the 16th and 17th century. It continued to be so, though in limited sense, during the following centuries the period of Free Economy. Even Adam Smith, the greatest pioneer of Free economy, later on, reconciled himself and said that, "the state has..... duty of erecting and maintaining certain public works and certain public institutions which it can never be for the interest of the individuals or small number of individuals to erect and maintain; because the profit could never repay the expense to any individual or small number of individuals, though it may frequently do much more than repay it to a great society."⁴ Economic thinkers like Rodbertus, Lasslle, and Wanger, what to say of Marx, wanted to expand Government action in the economic field as far as possible.

The same is true even of India. In Mauryan age, mining and shipbuilding, besides production of arms and ammunition, were a state monopoly.⁵ In the Mughal times state owned Karkhanas and held monopoly rights in the trading of certain articles.⁶ The real story of the evolution

3. Waris R. Kidwai, 'Public Sector-Towards Commanding Heights or in Retreat' in Eighties for the Public Sector, p.129.
5. Dr. R. Shamsastry, 'Kautilya's Arthasastra', pp.86 & 110.
of public sector in India, as it is understood—today, is as old as the political independence of the country which was attained in the year 1947. Prior to 1947, there existed virtually no public sector in the economic map of the country. The only instances were the Railways, the Post & Telegraph, The Port Trust, The Ordinance and Aircraft factories and a few State managed undertakings like the government salt factories, quinine factories etc. A large country of our size with a huge population has to face a colossal task of developing the country and raising the standard of living of its impoverished millions. Such a gigantic task was rightly considered, by our nation builders, to be beyond the calibre and capacity of individual entrepreneurs. It is in this context and in the context of 'Directive Principles of State Policy', that the foundation of public sector in India was laid down. The growth and development of public sector in the country was also guided by the principles underlying Articles 39, of the Constitution.

The Directive Principles of the State Policy and the Principles underlying Article 39 of the Constitution found expression in the formulation of Industrial Policy of 1948. Under the 1948 Resolution the Government of India for the first time accepted the principles of mixed economy and democratic socialism as the basis of economic development of the country. The Resolution clearly laid down, "there can be no doubt that the state must play a progressively active role in the development of industries, but ability to achieve the main objectives e.g. increase in national wealth, should determine the immediate extent of state responsibility and the limits of private enterprise ........., meanwhile private enterprise, properly directed and regulated has a valuable role
to play. The 1948 resolution divided industries into four categories. The first category became Government's exclusive monopoly. In the second category, the Government reserved its right to start new ventures. The third category included industries of basic importance. The Government intended to regulate them. The rest became the fourth category which was open to the private sector.

The 1956 Resolution inter-alia stated, "the adoption of the socialist pattern of society as the national objective as well as the need for planned and rapid development. It also required that all industries of basic and strategic importance or in nature of public services should be in the public sector. Other industries, which are essential and require investment on a scale which only the state in the present circumstances can provide, have also to be in the public sector. The state had therefore to assume direct responsibility for the future development of industries over a wider area.

The resolution also stated that in order to realise the objective of socialist pattern of society, it was essential to accelerate the rate of economic growth and to speed up industrialisation and in particular to develop heavy industry and machine building industries, to expand the public sector and to reduce the disparities in income and wealth and concentration of economic power in the hands of a few. Under these circumstances therefore the government has necessarily adopted the role of an innovator. The Industrial Policy Resolution categorised industries into three sections: first, the future development of which was to be the exclusive responsibilities of the state; second those in which the State would play an increasing role and the efforts of the state; the
third category of those in which the private sector will have complete initiative. Such categorisation however does not mean they are put in water-tight compartments. The emphasis is on complementary role of the private sector. Expatiating on the industrial policy of the government, Pt. Nehru emphasised that, "Essentially we should lay stress on this solid foundation upon which industrialisation can be built. The work of laying the solid foundation does not generally attract private industry because it does not pay for years to come. In a country like India, the burden of development therefore falls on government".

Really speaking, the public sector started moving towards commanding heights in various fields of industrial and commercial activity only from the financial year, 1966-67. In the earlier period, the public sector did grow but its activities were confined to a few areas on a modest scale and at the foundation level of the infrastructural industries.

In particularly all areas, with few exceptions the public sector was only a junior and complementary partner of the private sector both in terms of investments and turnover. Decisive break through state for the public sector was set in 1966, when in June of that year, (within a few months assumption of office as the Prime Minister of India) Smt. Indira Gandhi spelt out the contours of the role of public sector in very specific and precise terms which not only removed the doubt and dust on the macro objectives of public sector but also gave it a clear cut mandate for growth. She had then said that, "We advocate a public sector for three reasons (i) to gain control of the commanding heights of the economy, (ii) to promote critical development in terms of social gains or strategic values rather than primarily on consideration of profit,
and (iii) to provide commercial surplus with which to finance further economic development." Thus from 1966 onwards, the public sector started working for the grandiose and glamorous future envisioned by the Prime Minister.

Later on, in the Industrial Licensing Policy of 1970, the government announced the decision that in all joint sector units, they would ensure for themselves "an effective role in guiding policies, management and operations". The new industrial policy of 1977, while clarifying the government approach towards the public sector, observed as follows" it will be the endeavour of the Government to operate public sector enterprise on profitable and efficient lines in order to ensure that investment in these industries pay an adequate return to society. The Government attach as high priority to the building up of a professional cadre of Managers to the public sector who would be given the necessary autonomy and efficient management to such enterprises."

Inspite of the above declaration during the brief Janta regime, the public sector became an easy target of much malicious criticism and "righteous" indignation. Matters came to a head when ministers thundred at low profitability of the public enterprises without understanding the situation had threatened dire consequences to the managers and thus the morale of public sector was shattered.

**Growth of Public Sector Enterprises in Five Year Plans:**

Prior to the First Plan there were five enterprises with an investment of Rs. 29 crores. During the First Plan, 16 enterprises with an investment of Rs. 52 crores were established. In the Second Plan
Period 27 Units with a total investment of Rs.872 crores were established. Between 1961-69, 37 enterprises with Rs.2949 crores were established.

Thus, the seventies ended with a crises for the public enterprises. The pride which had been given to the public sector in the Second and Third Plan was gradually eroded in the Three Plan-less years that followed and was not restored in the Fourth Plan. Moreover, during this period the planning process itself lost its enthusiasm. The annual investment during the Fourth Plan remained in the real terms below the level of Rs. 2300 crores which was attained in the last of the Third Plan, except for one year namely 1972-73. A real push was given during the Fifth Plan period. The number of units increased by 54 with an investment of Rs. 9365 crores. But the Fifth plan came to a sudden end on account of political changes in 1977, and the concept of rolling planning introduced, "Which was, in the words of R.C.Dutt, "in fact negation of a time-bound, target-oriented blueprint." Resultantly the public sector suffered in the process.

This interlude ended in January 1980 and the new government declared their intention to restore the image and the morale of the public sector.

The Sixth Five Year Plan assigns 53 percent of the total investment of Rs. 158,710 crores to the Public Sector i.e. Rs.84,000 crores. Even allowing for the increase in the price level in recent years, the step up in investment in the Sixth Plan comes to 80 percent over the Fifth

---

Plan investment outlay. The Seventh Five Year Plan (1985-90) assigned 52% of total investment of Rs. 348148 crores to Public Sector i.e. 180000 crores. The magnitude of this increase in investment, which will be substantially in the core and basic industries, calls for determined effort on the part of the Government and the managements of the enterprise to maximise the resource utilisation and improve the capital-output ratio through intensive capacity utilisation.

FORMS OF ORGANISATION OF PUBLIC SECTOR UNITS:

Though the Post-Independence period witnessed the emergence of public-ownership of economic enterprises, the problem of the form of organisation has not yet been fully solved. The public sector in India finds itself in a labyrinth of various structural forms, each claiming the supremacy over the other in one or the other way. It is still in a experimental stage. In determining the form of organisation for the Public-sector in India, internal stock-taking is essential, because the idea of the developed countries may not always be imported with profitable result.

In developing countries, like India, the growth of public-sector being a case of necessity for the economic uplift, experimentation of different types of organisation is bound to follow, before an opinion could be expressed in favour of a particular type or types. India has still to introduce such types of economic institutions in the Public-sector which may suit to her peculiar-circumstances.

Since the idea of Public ownership of enterprises found place very late in underdeveloped countries of Asia, no great importance has been laid on any particular type of organisation and so various types of
organisation were introduced in different countries. Public undertakings in India cover the various industries under the following groups:

(a) Public utility and social service;
(b) Industrial and trading activities;
(c) Non-industrial and non-trading activities.

The seminar on 'Organisation and Administration of Public-Enterprises in the Industrial Field' held in Rangoon in March 1954 under the auspices of the Economic Commission for Asia and Far East, noted that in the ECAFE region the form of organisation in the public sector were held to be mainly of the following types:

(a) Organisation Managed on Government Departmental lines.
(b) Public Corporations.
(c) Joint Stock Companies.
(d) Mixed ownership companies;
(e) Operating Contracts.

The organisation of the Indian Public enterprises very much conforms to the above pattern.

(a) Departmental Management:

Departmental Management can be said to be the oldest form of the 'line & staff' organisation. This type, in the earliest process of nationalisation, was introduced in Post and Telegraphs, Railways, Transport & Communication, Defence industries and in some public utility services. An analytical study of the undertaking under this type of organisation were introduced in different countries. Public undertakings in India cover the various industries under the following groups:

(a) Public utility and social service;
(b) Industrial and trading activities;
(c) Non-industrial and non-trading activities.

The seminar on 'Organisation and Administration of Public-Enterprises in the Industrial Field' held in Rangoon in March 1954 under the auspices of the Economic Commission for Asia and Far East, noted that in the ECAFE region the form of organisation in the public sector were held to be mainly of the following types:

(a) Organisation Managed on Government Departmental lines.
(b) Public Corporations.
(c) Joint Stock Companies.
(d) Mixed ownership companies;
(e) Operating Contracts.

The organisation of the Indian Public enterprises very much conforms to the above pattern.

(a) Departmental Management:

Departmental Management can be said to be the oldest form of the 'line & staff' organisation. This type, in the earliest process of nationalisation, was introduced in Post and Telegraphs, Railways, Transport & Communication, Defence industries and in some public utility services. An analytical study of the undertaking under this type of organisation were introduced in different countries. Public undertakings in India cover the various industries under the following groups:

(a) Public utility and social service;
(b) Industrial and trading activities;
(c) Non-industrial and non-trading activities.

The seminar on 'Organisation and Administration of Public-Enterprises in the Industrial Field' held in Rangoon in March 1954 under the auspices of the Economic Commission for Asia and Far East, noted that in the ECAFE region the form of organisation in the public sector were held to be mainly of the following types:

(a) Organisation Managed on Government Departmental lines.
(b) Public Corporations.
(c) Joint Stock Companies.
(d) Mixed ownership companies;
(e) Operating Contracts.

The organisation of the Indian Public enterprises very much conforms to the above pattern.

(a) Departmental Management:

Departmental Management can be said to be the oldest form of the 'line & staff' organisation. This type, in the earliest process of nationalisation, was introduced in Post and Telegraphs, Railways, Transport & Communication, Defence industries and in some public utility services. An analytical study of the undertaking under this type of organisation were introduced in different countries. Public undertakings in India cover the various industries under the following groups:

(a) Public utility and social service;
(b) Industrial and trading activities;
(c) Non-industrial and non-trading activities.

The seminar on 'Organisation and Administration of Public-Enterprises in the Industrial Field' held in Rangoon in March 1954 under the auspices of the Economic Commission for Asia and Far East, noted that in the ECAFE region the form of organisation in the public sector were held to be mainly of the following types:

(a) Organisation Managed on Government Departmental lines.
(b) Public Corporations.
(c) Joint Stock Companies.
(d) Mixed ownership companies;
(e) Operating Contracts.

The organisation of the Indian Public enterprises very much conforms to the above pattern.

(a) Departmental Management:

Departmental Management can be said to be the oldest form of the 'line & staff' organisation. This type, in the earliest process of nationalisation, was introduced in Post and Telegraphs, Railways, Transport & Communication, Defence industries and in some public utility services. An analytical study of the undertaking under this type of organisation were introduced in different countries. Public undertakings in India cover the various industries under the following groups:

(a) Public utility and social service;
(b) Industrial and trading activities;
(c) Non-industrial and non-trading activities.

The seminar on 'Organisation and Administration of Public-Enterprises in the Industrial Field' held in Rangoon in March 1954 under the auspices of the Economic Commission for Asia and Far East, noted that in the ECAFE region the form of organisation in the public sector were held to be mainly of the following types:

(a) Organisation Managed on Government Departmental lines.
(b) Public Corporations.
(c) Joint Stock Companies.
(d) Mixed ownership companies;
(e) Operating Contracts.

The organisation of the Indian Public enterprises very much conforms to the above pattern.

(a) Departmental Management:

Departmental Management can be said to be the oldest form of the 'line & staff' organisation. This type, in the earliest process of nationalisation, was introduced in Post and Telegraphs, Railways, Transport & Communication, Defence industries and in some public utility services. An analytical study of the undertaking under this type of
management would reveal that this type was favourably chosen for those activities which were either yielding revenue to the government or considered strategically important. The Principal merits of a Departmental type of organisation may be enumerated as under:

(i) It ensures a maximum degree of control by Government;
(ii) It generally suits the Public utility services and defence industries which either yield revenue to the government or are considered strategically important;
(iii) It works well in countries with a stable Government and its competent civil services;
(iv) It is subject to close ministerial direction and control;
(v) It works under rigid rules and regulations and as such carries little risk of misuse or misappropriation of funds.

While this form affords the maximum degree of control, it fails far short of providing the flexibility, which is very essential for effective operations. Too much centralisation of authority results in the loss of flexibility, initiative and swift action.

(b) **Public Corporations:**

In Britain, all nationalised industries, manufacturing or otherwise, have been given the autonomous pattern of management in the form of public corporations. So is the case with the French nationalised industries. On the other hand, the Government of India has favoured this form of organisation only in respect of non-industrial public sector units. The consensus of opinion is.
however, on the point that where an enterprise is wholly Government owned, it should be set-up in the form of a public corporation or administered departmentally.⁹

In Ceylon too, the Commission on Government and Commercial Undertakings recommended the public corporation form for administration and management of such enterprises about which the State decides that it should be the sole owner, and the form of joint stock company for enterprise with varying degree of Governments' participation in their capital and management. The main features of this form of organisation may be summarised in the following paragraph.

It is wholly owned by the State and is generally controlled by, a special law defining its power, duties and immunities and prescribing the form of management and its relationship to established departments and ministries. As a body corporate, it has a separate entity for legal purposes and can sue and be sued; enter into contracts and acquire property in its own name. Except for appropriation to provide capital or to cover losses, a public corporation is usually independently financed. It obtains its Funds from borrowings either from the treasury or from the Public and from revenues derived from the sale of goods and services. It is authorised to use and reuse its revenues. In the majority of cases, employees of Public-corporations are not civil servants and are recruited and remunerated under terms and conditions which the

corporation itself-determines. The Principal benefits of the Public Corporations as an organisational device may be viewed to be its autonomy, freedom from unsuitable government regulations and controls, quick decisions and its high degree of operating and financial flexibility. It is generally exempted from most regulatory status applicable to expenditure of public funds and is not ordinarily subjected to the budget, accounting and audit laws and procedures applicable to non-corporate agencies. By virtue of its autonomy, it can readily finance expansion schemes without undue delay by use of revenues or by borrowings.

While the Public corporation have eliminated many weaknesses of traditional governmental organisation (specially Departmental organisation), it has given rise to new and equally difficult problems in respect of autonomy, public accountability etc.

(c) **Company Form:**

The Joint Stock Company is the another form, which is frequently adopted as a most suitable form of organisation for public enterprises and it has been accepted as most popular form in the South East Asian Countries. The Government of India has accepted the same form, in principle, for running State-undertakings particularly of commercial and manufacturing types. Thus, in India, Joint Stock Company form has been used extensively for the organisation of manufacturing activities in the Public Sector.  

10. 'At a certain stage government held the view that a statutory semi autonomous corporation was better than a joint stock company but this view no longer find acceptance'. NG.Dass,'Industrial Enterprise In India.'
Joint Stock Company form is surely more flexible than the public corporation, and any business undertaking could be accommodated in the company structure. It possesses the necessary freedom in finance and autonomy in administration and at the same time allows full Governmental control, thus reflecting a true democratic institution. The main features of Joint Stock companies are being put in the following para:

Joint Stock Company Form is completely free from the strict financial rules, restrictive procedures and delayory actions to which a departmental organisation is invariably subjected to, but nevertheless allows full control of the Government on anything and everything relating to activities of the undertaking. It also possesses the best of the characteristics of the Public Corporations, but is free from the defects with which these corporations have been charged with. The company structure is built on Financial Freedom and administrative autonomy. It is certainly more flexible in all respects. any business-type-activity undertaken by the Government could be accommodated without any long and troublesome procedure, while the government control, to any desirable extent, is very well assured. Even the easy formation is one of the major virtues of the Joint Stock Company form. It is enough for the government to comply with the formalities envisaged in the Indian Companies Act 1956.

The adoption of the company form in the Public-Sector is accompanied by a point of philosophical significance. The Joint Stock company has proved its organisational suitability to the successful working of private enterprise over a long time. When the Government organises public enterprises in the same form, the healthy impression
is promoted all round that the public sector wishes to function under fairly equal conditions of organisation and under the same laws. There is, therefore, some justification for the company form of organisation in the Public sector from the angle of the co-existence of the two sectors.

The secret of the significant growth of the Joint Stock Companies in the Public Sector and also its popularity with the Government lie in the fine combination of flexibility and autonomy and government control. But the working of the Joint Stock Companies in the Public Sector has revealed that financial flexibility and autonomy are more a myth and less a reality.

(d) **Mixed Ownership Companies:**

The term mixed enterprise does not describe a legal or organisational form, but it signifies an economic concept. It includes various forms of Joint enterprises shared between the State and Private interest. The later may be national or foreign and they may represent the shares of individual firms participating in the ventures on the subscription of members of the public at large. When for such a mixed enterprise, the company form is adopted as is usually done, the organisation is termed as 'Mixed Ownership Company'.

The mixed ownership company has been looked upon as an important means of securing the representation of public interest in industries started by private enterprise or associating private enterprise in industries established by Government. The principal characteristics of the mixed ownership companies may be enumerated as under:
Mixed ownership companies may be created by a special law or pursuance to general laws authorizing the establishment of private companies. The capital stock of the company is owned by the Government and Private shareholders. The percentage of Government holdings may range from fifty one percent to ninety nine percent. Thus both the Government and the Private share holders generally have the right to name directors and as a body corporate mixed ownership companies have a separate entity for legal purposes and can sue and be sued, enter into contracts and acquire property in its own name.

The principal merits of mixed ownership company type of organisation may be noted as under:

(i) It is elastic and flexible; it can act quickly and with initiative;
(ii) It can operate on business principles;
(iii) Usually it is organised as a Private limited company which takes advantage of limited liability and keep the business as private as possible.

A number of mixed ownership companies registered mostly as private limited companies under the Indian Companies Act 1956, have come into existence in India, in which both public and private interests have participated.

11. A concern wherein the State (Central or State Government or both) hold not less than fiftyone percent of share capital, is legally termed as 'Government company' under section 617 of the Indian Companies Act, 1956. In that event the enterprise will be known as Government company and not as mixed ownership company.
(e) **Operating Contracts**

This is a comparatively new device of administering public enterprises. Under such an agreement, the Government enters into contracts with a well reputed and established company for the management of the public enterprise; on the basis of reimbursement of the costs incurred by the contractor and also a fixed fee for the services rendered by them.

The contractor holds the entire responsibility in terms of the contract for the internal management and successful running of the enterprise. Though the managing company has less freedom than what it would have, if it operated privately, yet, nevertheless, it has greater freedom and more flexibility in the management as compared to any other form of organisation so far discussed. The contracting agency is able to run the company almost with the same freedom and authority, as it would, if it were a subsidiary of its private company.

However, the operating contracts, have so far been popular in U.S.A. only. There, too, it is restricted only to work of 'Atomic Energy Commission' and the 'Department of Defence', concerning the research and operating the laboratories. It has not been used in the field of public utilities, manufacturing industries or commercial activities.

The greatest advantage of this form is that it makes available to the Government the managerial skill and technical knowledge of the private management. It possesses greater degree of flexibility in matters of management, otherwise not possible even under public corporations. It can also be used with greater advantage for the development of such
project which Government will ultimately takeover.

However, it raises the several basic issues of public policy. The element of competition is usually absent, so that the Government cannot rely on conventional economic incentives to assure that contractors operate with maximum efficiency and economy.

There is, however, no recent example in India of the use of the operating contracts for running the public enterprises, nor there seems any opportunity for the same, so on the basis of the limited experience with the working of this agency, no definite opinion could be expressed as to its suitability and implications thereto.

IMPORTANCE OF PUBLIC SECTOR:

The public sector today in India "touches every part of our lives" and it is in control of 'many commanding heights' of our economy. It is today the leading sector having been given the "position of centrality" and conceived "as a crucial part of process of planning" by the founder-architect of this sector—First Prime Minister Pt. Nehru. Its role can neither be minimised nor its physical existence may be atrophied and altered.12

In fact, public sector has provided a model for developing world. It is intended to the Prime mover and pace setter of industrial development of the country.

12. Dr. R.K. Nigam, Eighties for the Public sector, 'Some Central issues' Eighties for Public Sector by Dr. R.K. Nigam.
Late Pt. Nehru thought the public sector the kingpin of all our developmental efforts, not only in the strict sense of economic growth but more so in the type of society and social relations that were envisaged for the nation. The rapid transformation of Indian economy on modern lines, ensuring social justice and avoiding sharp inequalities together with rising level of consumption—this sums up the goal of our planned national endeavour. The public sector has to play a vital role in realising each one of these goals. The role of public sector can not therefore, be marginal or peripheral. It has to be decisive and crucial.

Thus the public sector is an instrument of State policy for bringing socio-economic transformation in our country. As a creature of state policy, it has to translate the objectives of state into reality. The objectives and goals sought to be achieved through the public undertakings are :-

(i) The adoption of a fully socialistic model.
(ii) To provide the infrastructure for promoting a balanced and diversified economic growth.
(iii) To promote self reliance in strategic areas;
(iv) To manage and control, "natural" monopolies.
(v) To generate full employment;
(vi) To pioneer Technological Development;
(vii) To prevent concentration of economic power in the hand of a few individuals;
(viii) To help the economically weaker sections of society to achieve high standard of living;
(ix) To reduce regional imbalance;
(x) To generate foreign exchange earnings;
(xi) To generate surpluses for reinvestments by the state to accelerate economic development;

The public sector has contributed significantly in strengthening the economy, in providing the infra-structure and the initial momentum for triggering economic development in traditionally backward regions. The 14th Report of the Committee on Public Undertaking (5th Lok Sabha) emphasising the role of public sector has observed that the tendency to put the public sector against the private sector while measuring profitability is unfair. Apart from the profits in terms of surplus, the public sector makes a substantial contribution to the exchequer in the form of various taxes. The contribution of the public sector to social and national good by starting industrial units of vital importance should not be lost sight of. If it were merely a question of financial profits for the public sector operates would be logical. The public sector has gone into many new areas and set a fairly high order of standardisation and quality control, developed necessary skills and technical know-how in many vital sectors of industry. The contribution of the public sector to Research and Development is larger than that of the private sector.

A quick glance over the Indian economy shows that with the rapid expansion of the public sector during the last 10 years in a number of industrial and service areas more than 50 percent of the activity in the organised sector has been brought under its command. Their
commanding position is noticeable in about 50 industrial products and specialised services which are of crucial importance to the economic development of the country and to the common man. Total control by the public sector exists today in such areas as coal & lignite mining, newsprint, hydro and steam turbines and boilers, telephone and teleprinters, radio receiving valves, shipbuilding, railway locomotives and coaches, locomotive boilers, films of all kinds, namely, cinematographic, photgraphic and X-ray and certain pharmaceutical drugs like Vitamin B₁ and B₂. In such public utility services as electricity, gas and water supply and power generation, the share of public sector units has now crossed 90 percent. Apart from the core sector and strategic industries, public enterprises have expanded into such diverse fields as tea, textiles, bakery, leather, consultancy, road and bridge construction etc.

Public sector has become the archstone of Indian economy and its pivotal position in Indian economy may be discussed from the following point of view:

(A) Resource Generation:

One of the objectives of public enterprise is to generate adequate resource for plough-back into new projects without being a burden on the general budgetary resources of the state. The sixth plan (1980-85) had set a target of Rs. 5,848 crores as contribution from the public enterprise by way of gross surplus, (i.e. retained profits, depreciation provision and additional resource mobilisation through revision of prices etc.). The enterprises have generated a total of
Rs. 3,893 crores as internal resources during the preceding Five Year period 1975-76 to 1979-80 and they generated Rs. 5,848 crores during period 1980-85 e.g., an increase of Rs. 1,955.

(B) **Employment:**

The public sector has also provided ample opportunities for employment in the country. The 6.60 lacks employees strength in 1970-71 with wage bill of Rs. 361 crores has grown to 36 lacks with a wage bill of Rs. 4302 crores.

(C) **Social Welfare:**

Public enterprises are expected to act as model units in the matter of employees welfare. The major enterprises, and especially those located in green-field areas, maintain large townships, hospitals and schools besides providing facilities for cultural and recreational activities of their employees.

The 36 lacks employees of the Public enterprises received Rs. 4302 crores as Wages during 1982-83 and the total expenditure on social overheads e.g., townships, health-care, education and recreational facilities, amounted to Rs. 430.20 crores or 10 percent of their emoluments. The gross capital expenditure on township was Rs. 1430 crores as on 31.3.83.

(D) **Exports:**

The Public enterprises during the ten-year period 1973-74 to 1982-83 earned Rs. 15104 crores of foreign exchange. Of this Rs. 2805 crores were earned by sale of engineering and other products while Rs. 4107 crores were earned by sale of services etc. The trading and
Marketing companies earned Rs. 8192 crores. In the recent years the EPI, NBCC, NPCC, BHEL, RITES etc. have undertaken many jobs abroad and won a series of contracts and tenders in global bids against stiff competition. By their size and Government's manifest support, public sector enterprises producing goods and rendering exportable and foreign-exchange-yielding services, have to serve as leaders for their counterparts in the private sector and as standard-bearers of the country.

\( E \) \textbf{Regional Development:}

An important object of setting up public sector has been to reduce regional imbalances in the economy and to develop backward regions. During the period 1974-83 an investment of the order of Rs. 4400 crores had been made in the economically backward regions in such states as Himachal Pradesh, Assam and the other states and Union Territories in the North Eastern Part of the country, Bihar, Orissa, Madhya Pradesh, Rajasthan, Uttar Pradesh, Public Sector enterprises are going into the backward parts of the country as a matter of conscious policy whereas private enterprises have to be coaxed to do so through incentives and concessions.

\( F \) \textbf{Capital Formation:}

Perhaps, by far the most important role of the public sector in India has been in respect of capital formation. Here indeed the public sector has been playing a strategic role of major importance.

It can be seen that during the First Five Year Plan, the share of the public sector in the total gross fixed capital formation in the country was 41 percent. During the Second Plan and the Third Plan, the share of the public sector increased to 51 percent. However, in
1966-67 and 1967-68 the share of public sector declined to 50 percent and 44 percent respectively.

(G) Widening Horizons:

Despite its several handicaps, the public sector has made a place for itself in the national economy. Over the past ten years the number of its industries has doubled, the investment in it increased five-fold, turn-over multiplied by a factor of seven and profits, before tax, by a factor of ten.

In the words of Dr. R.K. Nigam, "The public sector today is moving forward covering larger and larger areas of economic activity and strengthening its position in the crucial segments of the economy with full social consciousness. It is showing improvement in performance in a steady manner by employing and evolving self-corrective measures. In both these respects it stand in sharp contrast with the private sector which has neglected both quality and cost in the setting of "sellers market" in the country and the result of this has been loss of public support and esteem for it in the country and a shrinking share in the international trade. The emphasis of the public sector is on winning community appreciation inside the country by accelerating the rate of economic growth, by building a wide distribution network for goods of general consumption at reasonable prices in adequate quantities uninterruptedly. By promoting indigenisation to reduce dependence on foreign equipment and knowhow, by evolving a system of industrial democracy in the enterprises. The concentration is also on quality and
price so that its products meet the challenges in the international markets. The social ethos of the public sector makes a public enterprise a good corporate citizen of the country judged by its actions in relation on the community of which it is a member as well as by its economy performance. They are also consciously trying to avoid the curse of bigness since they are making the small business feel safe and developed long with them. As Peter Drucker says an industrial society can not survive if the social beliefs, and values which the enterprise fulfils, contradict the beliefs and values which society professes. Such a clash would cause constant friction and conflict. The citizen demands of the representative institutions that it fulfils sufficiently the promise on which society rests. Society will lose its rationality and cohesion if the enterprise denies the social beliefs or if it fails to give them adequate fulfilment. 13

In the words of R.C. Dutt "If the vision of the founding fathers of our Republic is true, and there is no reason to doubt it, the growing problem of India's poverty cannot be solved, nor growth with justice ensured, without heavy reliance on the public sector. If a Mixed Economy has to exist without messing up the economy and distorting it, the economy will have to be under the discipline of a dominant public sector. This will, however, be possible only when the public sector dominates the economy, and not merely occupies the commanding heights, as at present, in a statistical sense. The need for such domination will be demonstrated sooner or later when the present process of illusory growth

fails to solve the basic problem of poverty.\textsuperscript{14}

**PROBLEMS AND HYPOTHESIS**:

Within the framework of the objectives, the public sector is expected to be a model employer and also the trendsetter in the practice and application of modern management techniques. Since the public sector units are births of public policy, they are not expected to operate for profit motive objective. But at the same time, operating these units at loss would amount to wastage of public funds which is not the goal of a democratic government. Over the years the public sector has been criticised as a "white elephant", an 'unfathomable ocean' where vast amount of resources are pumped in but with a resultant return of investment which is to say, the very least and dis-couraging.

Investment in a project can be viewed as a combination of fixed and working capital. Since fixed components of the capital is already sunk in, it is the optimum utilisation of working capital which would guarantee an adequate return on investment in public sector units.

A public sector unit needs working capital mostly for the same purposes as its counterpart in the private sector. A private sector units needs working capital for its day to day running. It has to keep current assets at a level much higher than its current liabilities in order to meet the short term obligations. It implies that the amount of working capital should always be kept at a minimum level just to meet the basic

---

requirements. It appears that unsound, ineffective and unhealthy management of working capital has been responsible for the very low return on investment. Too much working capital invested in cash; inventory and receivables would have caused lower return on investments. Had Public sector units in U.P. managed working capital in an efficient and effective manner, they would not only have generated resources for their own expansion but also have contributed towards economic growth.

PUBLIC SECTOR IN U.P.- OVERVIEW:

Public Sector in U.P. has taken rapid strides in recent years. There were only 11 public sector enterprises in 1970 but their number stands at 53 as on 31.3.83. Excluding the Electricity Board which is a giant among the U.P. public enterprises with an investment of well over Rs.1600 crores, the investment in the other public enterprises has exceeded 432 crores and is soon likely to touch the Rs. 600 crores mark.

Unlike the centrally sponsored public sector enterprises of the Government of India, the U.P. State Enterprises are predominantly in the field of developmental activities. A brief look at the classification of these enterprises will help to portray this aspect in greater perspective:

<table>
<thead>
<tr>
<th>Area</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>6</td>
</tr>
<tr>
<td>Services</td>
<td>6</td>
</tr>
<tr>
<td>Area Development</td>
<td>11</td>
</tr>
<tr>
<td>Financing</td>
<td>5</td>
</tr>
</tbody>
</table>
Sectorial development ........ 14
Others ........ 11
Total ........ 53

The variations in the years of establishment of the different selected units deprive us of the advantage of marketing out longer period of study. However, for the sake of uniformity and taking into account the availability of data, we have chosen a period of 1978-79 to 82-83. The following table presents the years of establishment of selected public sector units :

**TABLE**

<table>
<thead>
<tr>
<th>Name of the Units</th>
<th>Year of Establishment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>A. Manufacturing:</td>
<td></td>
</tr>
<tr>
<td>2. U.P.S. Cement Corporation</td>
<td>March 1972</td>
</tr>
<tr>
<td>4. I.T.R. Co., Ltd.</td>
<td>- 1947</td>
</tr>
<tr>
<td>5. U.P.S. Textile Corporation Ltd.</td>
<td>Dec. 1973</td>
</tr>
<tr>
<td>6. Auto Tractors Ltd.</td>
<td>July 1976</td>
</tr>
<tr>
<td>B. Financial:</td>
<td></td>
</tr>
<tr>
<td>1. U.P.F.C.</td>
<td>Nov. 1954</td>
</tr>
<tr>
<td>C. Servicing:</td>
<td></td>
</tr>
<tr>
<td>1. U.P.S.E.B.</td>
<td>April 1959</td>
</tr>
<tr>
<td>5. U.P.N.N. Ltd.</td>
<td>May 1976</td>
</tr>
</tbody>
</table>
It is evident that eight of the 15 selected units came into operation in seventies only. Units coming into the group of financial activity are comparatively older.

**********