CHAPTER-7
CONCLUSION

From the analyses accomplished in the previous chapters, it follows that the public sector enterprises should be viewed from multiple angles rather than the sole criterion of profitability. The very fact that profitability was not the objective before the PSEs reinforces the argument. True, profit aspect can not be ignored altogether as persistent losses become unsustainable and drain the resources but at the same time we ought not to judge a PSU without the proper context.

Indian economy plunged into crisis in 1991 which prompted multifaceted economic reforms. In this context, the point should not be missed that crises were not the result of the bad performance of the PSEs, or that the continued budgetary support to the PSEs was the cause for crisis. Such budgetary support might have created some fiscal imbalance but the crises were not the result of fiscal imbalances rather they were triggered by the balance of payment difficulties. But since fiscal imbalances too were becoming unsustainable, any such factor that might have contributed slightly to such imbalance could not have escaped the blame. Thus, this aspect too needed to be examined carefully. But the fact can not be ignored that there was not a one-on-one relationship between economic crisis and the underperformance of the PSEs. The core points to be analyzed, therefore, are: 1- whether profit-making enterprise are earning the profit to their potentials i.e. taking into account the paid up capital and the kind of market they are enjoying; and 2- whether it is worthwhile to continue the operations of loss-making units considering the other significant roles they play, which include the linkages they might have established, their contribution to the infrastructure and/or the social aspect of their existence.

Economic reforms which began in 1991 in essence were directed at virtually every thing that was supposed to be the strain on the resources of the economy. That is why the PSEs were to be addressed. At that time, there were 236 operating PSEs. Out of those, 123 were the profitable one and 111 were making losses, 02 were neither making profit nor incurring losses. Since then, loss-making units declined in number and in the year 2005 there were only 58
such units. However, the loss of these loss-making units was Rs.5952 crores for 58 units as compared to the loss of Rs.3122 crores coming from 111 units. Inspite of various efforts of the government together with the budgetary support, the loss of loss-making units increased more than four times in the ten years period. Till the year 2000, when the number of loss-making units was 110, only one less than what it was in 1990. After 2000, the number of loss-making units declined steadily and so was the loss which declined to Rs.5952 crores in 2005 from the level of Rs.12841 crores in 1990.

As far as profit-making PSEs are concerned their number increased from 123 in 1990 to 132 in 1995 but then it started declining each year and reached 119 in 2002. Thereafter, their number increased and in 2005, 157 PSEs were making profit. Total profit coming from such units was Rs.76240 crores in 2005 in comparison to Rs.5394 crores in 1990.

These figures do not necessarily means the turning of some of the loss-making units into the profitable one. Their decline in number was the result of either disinvestment or their closing down. Another disturbing fact regarding the PSEs has been the slow growth in the profit of the profit-making units especially when they were enjoying near monopoly or having very dominant share in the market. Production in public sector as percentage of national production in coal, lignite, crude oil and natural gas was 93.80 per cent, 71 per cent, 87.3 per cent and 78.6 per cent respectively. In each of these products, relative shares of public sector have been declining since 1999-00. Crude oil and natural gas are other items where public sector has the dominant share in the market which helped a great deal in keeping the prices of these items under check. Even those areas where the role of the public sector is not dominant, its presence is sufficient enough to give the private sector a stiff competition.

On account of the changing outlook towards the PSEs, budgetary support to them has been on decline. Between 1990-91 and 2005-06 this support has been fluctuating and in 2005-06 it was at the level only marginally higher than what it was in 1990-91. Nevertheless, the focus must be on the contribution the PSEs make to revenue receipts of the government, both in the form of dividend as well as various taxes that the PSEs pay to the government.
A significant fact which seems to be ignored in any policy debate is that some of the loss-making units were taken over by the government from private sector in order to safeguard the interest of large number of employees. Therefore, fulfillment of social responsibilities was one of the roles that PSEs were made to play and, hence, loss-making units can not be held guilty for not earning profit.

As far as the share in total employment is concerned, in 2005 it accounted for 68 per cent of the employment in the organized sector (public and private sector taken together). Although the percentage declined from 71.28 per cent level where it was in 1991 but the situation is favorable as yet. Therefore, in an era of various bailouts offered to various business entities to keep the economy afloat, the continence of some of the loss-making PSUs may still be justified.

Advocacy for profit seems to ignore yet another fact. Even if some of the PSUs are not contributing dividend to the government but their indirect contribution to revenue receipts of the budget can not be ignored. The PSEs' contribution to corporate tax and excise duties in 2005-06 was nearly 35 per cent and 64 per cent respectively.

As far as the loss-making PSEs are concerned, it is observed that some of them should not have been developed in public sector as public sector's presence in some areas could not be termed essential from the viewpoint of economic development. Investment in such areas would have surely come from private sector too. The concerns like India Tourism Development Corporation, Modern Food Industries Ltd., and Hindustan Latex Ltd. are few to name.

It also appears that the causes and the magnitude of industrial sickness in the PSEs could not be analyzed so far. In view of the total units registered with the BIFR till 30th June, 2007, merely 5 units could recover latter. It is the proof that the sickness of PSEs is almost beyond cure. Out of 28 PSEs that were sick, only 2 could be approved for closure, 15 were recommended for revival measure, and 3 for either revival or disinvestment. The data could not be accessed for the rest.
In spite of that serious sickness, the very employment angle seems to have been overlooked in all the disinvestment decisions and industrial restructuring programs as the accumulated losses were only marginally higher in 2006-07 in comparison to the same in 2002-03 but in terms of employment the loss was more than 500 percent. The number of loss-making units though declined from 97 to 59 during the period under reference but still the fate of more than a lakh employee was at stake. Argument of losses does not hold much ground if considered with the fact that significant numbers of them are the one that have been taken over from the private sector in order to safeguard the interest of the workers. Argument gets diluted further in consideration of the profit of the profitable PSEs which is also taken into consideration. Losses overall appear to be another problem that arises from the absences of clarity over the use of the disinvestment proceeds. The options that seem to find favour are to invest in human capital (health and education expenditure) and to use it to reduce fiscal deficit. Since price earning ratio of the equity offered to sale was considerably high, it can be said that in the opinion of investors these companies have greater earning potentialities than are presently realized. In such situation an effort could have been made to make the companies realize their potentials rather than the disinvestment which would deprive the government of future revenue receipts.

Considerable amount of uncertainties are also found to be there on account of non-realization of targets in terms of disinvestment receipts. It was only occasionally that targets were either realized or over realized. Generally, there has been a shortfall. Since the beginning of reforms in 1991-92 till 2004-05, the aggregate shortfall has been more than 50 per cent. And this is despite the fact that the price the equity fetched was many times higher than the face value of the equity.

Fiscal dimension of the disinvestment may appear to be strong on the face value as the latter provides the non-debt receipt but if the magnitude of both is taken into consideration, it is found that the disinvestment proceeds do not cover the significant part of it. Moreover, uncertainties dilute the matter. The magnitude of such uncertainties can be gauged from the fact that during the
period between 1991-92 and 2004-05 the same has been only 3.3 percent of the fiscal deficit.

One area where the performance of the PSEs has been found to be significantly week is there record of mobilizing the funds from abroad. But such could be attributed to the policies for which the PSEs have not been as independent as their private sector counterparts.

In view of the above, it can be summarized that judging the PSEs purely from the yardstick of profit would not do justice to them as the same has never been the core objective for which they were created. Disinvestment without giving them a fair trial would reinforce the same.

Suggestions for Future Studies and Policy Imperatives:

As the findings of present study suggest that the PSEs have to be evaluated on the basis of composite criteria, it is realized that the studies be undertaken to evaluate the aspects that have been indicated here but could not be deeply looked into because to do so was beyond the resources and scope of present study.

If disinvestment is to be carried out, it may be done in the following manner;

(i) If closing down is the only option, such should be resorted to in the case of loss-making enterprises specially those that produce non-strategic private goods. Further, it should be done in a phased manner choosing the certain number of enterprises to be disinvested/ closed each year so that their socially harmful effects could be minimized.

(ii) Using the proceeds from disinvestment to cover the deficits in the budget (whether fiscal or revenue) may not be a sound policy option as budget can not be made to be dependent on uncertain receipts with the potential to deplete the future revenue receipts.

(iii) Private partnership could be brought into profit-making public enterprises in a purely professional manner in order to improve upon the managerial efficiency. Strategic PSEs like railways, atomic energy and other defense related industries may be exempted from such option.