

Public Enterprises In India

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Till the 19th century, State all over the world, adopted the laissez faire policy, a policy of no interference on economic matters. It was widely held that a government which governed the least was the best. The functions of the State were supervisory in as much as maintenance of law and order internally and protection of its interests externally, commonly known as defending the borders of the country from foreign aggression, were concerned. Industrial Revolution, however, brought in its fold economic problems like massproduction, unbridled competition, growth of monopolies and exploitation of labour etc. Subsequently, welfare ideas and economic pressures caused by depressions and wars etc. were too much for the State to leave its economy ungoverned. Over and above its traditional political role State was obliged to adopt an economic role i.e. either to initiate economic development or process plan economic reconstruction. This function was so inevitable that a new theory of economic system, the concept of socialism emerged which advocated complete takeover of all factors of production by the State. The best method to do this was to become one of the factors of production, the enterprise, which will combine other factors such as capital labour, and organisation. It was a concept of governmental economic activity to the maximum possible extent. The king or the government now is not seen as a thinker, an insurer of law and order, an agency to defend the borders but more as an enterpreneur. It is one of the basic responsibilities of 20th century governments to socialise the means of production in strategic areas, to provide a countervailing power to the growth of large business houses and finally to stabilise the base for consumers' goods. Nations cannot and do not run on profit maximation alone. President Roosevelt of U.S.A. foresaw that his country had to strike a compromise between state endeavour and private effort. Even a government like that of U.S.A. the most capitalised country in the world, has certain fields in public sector. Prof. A. N. Hanson feels that 'only the public authorities have or can acquire the resources power adequate for this task. Hence the whole process of development might be described as public enterprise.'

Public Enterprise, now, is a universal phenomenon. Every country irrespective of belonging either to the capitalistic block represented by U.S.A. or the Socialist block headed by U.S.S.R. has certain degree of government owned, managed and controlled enterprises providing goods or services to its people. This similarity between two basically opposite groups, the free economies on the one hand and the closed economies on the other, itself speaks for the inevitable role public sector plays in the economies now a days. For developing economies public sector is a question of necessity and not of choice.

These Governmental enterprises maybe purely an enterprenurial function of the Government or may occur because of nationalisation or be a result of a simple takeover of management. In India these are known as public sector enterprises whereas in England these are termed as nationalised industries. It is just a question of weightage and the particular environment as the philosophy is the same all over. These enterprises may have a vary wide range of activities-say right from bread manufacturing to assembling of a satelite. These are generally purely manufacturing units or service providing units or consultancy units or distributional units.

The establishment and continuacnce of Public Enterprise is a political decision. Its operations are controlled at stratgic points by a system where the politicians have the final say. Public enterprise can also prove to be a pawn in the game of politics. A well run public enterprise is often a good advertisement for the party in power.

The essence of public enterprise is social profitability as against 'pure' commercial profitability of private enterprises. It is the concept of social objectives and not the logic of profit which signifies a public enterprise.

Meaning --

Encyclopadia Britanica defines Public Enterprise as an undertaking that is owned by a national, state or local government, supplies services or goods at a price and is operated on a more or less self supporting basis. Dr. Laxmi Narain defines these as 'as an activity of the government whether Central, State or Local, involving manufacturing or production of goods including agriculture or making available a service for a price; such activity being managed either directly, that is departmentally or through an autonomous body with the government having a majority ownership, that is more than 50% of equity. Public Enterprise excludes social services and administrative appartus of a government.

University & Hospitals, even when charging fees, are not public enterprises. Units temporarily undertaken by the government under the Industries (Development and Regulation) Act 1951 or any other relevant Act is not a Public Enterprise unless nationalised.

Public Sector; Public Enterprise, Public Undertaking, Public utility, are terms differently used to mean the same enterprises, as in the Indian Five Year Plans sometimes it is supposed to embrace the entire public sector including public services. It is also referred to as meaning a Central government industrial and commercial enterprises organised as autonomous corporation. We have the Parliament committee on Public undertakings (CPU) but the wing in the Central government which deals with Public Enterprises (BPE) and not undertakings. Further BPE does not include many public sector units where as CPU excludes, departmental undertakings, Banks and financial institutions. Public Enterprises is commonly used a synonym to private sector. Public Sector Enterprises are expected to achieve freedom from poverty, obtain economic self-reliance, bring equitable distribution of wealth and income, removal of regional imbalances, adequate and increasing employment opportunities, speedy agricultural and industrial development without concentration of economic power, and finally self-sufficiency in technological and managerial levels.

The Industrial Policy Resolution, 1956, stated the following chief objectives:-

1. accelerated economic growth and speedy industrialisation;
2. public sector expansion,
3. increasing direct state interest in setting up new industrial undertakings, for developing transport facilities and State trading activities in foreign trade. It was not different from what Pandit Nehru the best Prime Minister had thought of public sector. namely--
 1. to acquire increasing control of the commanding heights of the economy.
 2. to promote social gain or strategic value rather than merely aiming at economic performance or profitability;
 3. to secure commercial surpluses with which further capital formation can take place.

Accordingly the general objectives laid down for a net work of public enterprises were to achieve an accelerated economic growth and other social objectives. Development priorities like building up of a sound infrastructural base, increased levels of investment in basic and strategic industries or public utility services could not be achieved if left to private enterprise. It is only through Public Sector that this objective has been partly achieved by providing finance technical assistance and support to industry and agriculture; The main social objectives sought to be achieved through Public Enterprises were avoidance of concentration of wealth and means of production, reduction of disparities in incomes, direct help to the underprivileged and development of backward areas Public Enterprise specifically, have really resuscitated the private enterprise by helping them when in a

sinking stage or in averting unemployment and maintaining production in crucial areas of domestic net production. More than 100 sick textile mills got nationalised besides other giants like Jayanti Shipping Co. Richardson and Cruddas and the Indian Standard Wagon Company. Air Services were nationalised to modernise this sphere only when private airlines did not improve inspite of huge assistance by the government. Public Enterprise has also been regarded as the only means to achieve socialistic pattern of society by regulating the resource allocation in the desired direction. Public Enterprise have also aimed at conserving foreign exchange by easing the trade bottlenecks through diversification of exports and inducement of import substitution. Public Enterprise have been used as an instrument to enhance production of essential goods by observing technological advancement and by innovating techniques appropriate to the factors proportion of the economy besides internalising the techniques and to decentralise economic power over space and across class.

In India, the earliest symptoms of Public Enterprises were in the 1820's when Post & Telegraph and later Railways and Broadcasting services were started by the British. However, the real origin can be traced to the after independence adoption of a mixed economy system which is expected at least theoretically to ensure all the virtues of both capitalism and socialism minus their vices.

In India, Railways, Post & Telegraph, Defence Industries, Radio and Television and Security & Currency Presses Mints Publication division are Central Public Enterprises run on departmental basis. At the state's level the departmental public enterprise include electricity government printing presses, Milk Dairies, Forests, Fisheries, Irrigation works, Road and power and transport services. Non-Departmental public enterprise may be financial or non financial may either it be statutory corporation or established as government companies. On the Central Government list. Reserve Bank of India (RBI), Industrial Financial Corporation of India (IFCI), Industrial Development Bank of India (IDBI), Life Insurance Corporation (LIC), Unit Trust of India (UTI), State Bank of India (SBI), Agricultural and Refinance & Development and 20 Nationalised banks are non-departmental financial enterprises whereas the prominent non-financial enterprises are Damodar Valley Corporation (DVC), Air India (AI), Food Corporation of India (FCI), Oil and Natural Gas Commission (ONGC) and Central Warehousing Corporation (CWC).

However most of the Public Enterprise's are established as government companies and can be broadly categorised as production and service industries. The Production units consist of industries in the 4 sub-categories namely :—

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| (a) Basic raw materials, | (b) Capital goods |
| (c) Consumer goods and | (d) Agro-goods. |

Public Enterprises ' have a virtual monopoly of production of basic raw materials such as steel (SAIL) coal, minerals and metals (Coal India, NMDC) (HINDUSTAN Copper and Bharat Aluminium) Petroleum (ONGC, IOC and other Companies). Fertilisers, Chemicals and Pharmaceuticals (FACT, IPC, HOC, IDPL and CCI). Among the capital goods the heavy engineering sector is served by HEC, BHEL, MAMC Bharat Heavy plates and vessels.

The Medium and light Engineering Sector has HMT, the ITI, Richardson & Crudass and National Instruments. Hindustan Aeronautics Hindustan Shipyard, Garden Reach Engineers and Mazagon Docks serve the transport equipment requirements.

This big net work of basic enterprises, as stated earlier, has been the result of a political decision as back as independence. The Industrial policy Resolution 1948 emphasised industrial production without overstressing either of the sector. The Constitution of India directs the State, as per Article 39 (b) and (c) to secure that the ownership and control of the material resources of the community are so distributed as best to subserve the common good and that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment. The 1st Plan stipulated a progressive widening of the Public sector and a reorientation of the private sector to the needs of Planned economy. It wanted private sector to have a public purpose. The Public Sector got its true shape in 1954 when it was resolved that the objective of India's economic policy would be to establish a socialistic pattern of society. The government was very quick to bring the Industrial Policy Resolution, 1956 which declared that all industries of basic and strategic importance, or in the nature of public utility services, should be in the public sector. The 2nd plan which followed it stated that they have to function in unison and were to be viewed as parts of a single mechanism. The third plan finally drew the line between the two and it intended to use the public sector to determine the character and functioning of the economy as a whole. 4th plan (1969) envisaged its emergence as the dominant and effective area of the economy so that it may take charge of more and more of the commanding heights in the production and distribution of basic and consumer goods.

The 5th Plan (78-83) envisaged Public Enterprise to steer the distribution of essential commodities and infrastructure facilities for low income people. The 1977 industrial resolution regarded public Enterprise as a means of socialising the means of production in strategic areas and for providing a countervailing force, to the growth of large houses and large scale enterprises in the private sector. All through, the Public Enterprise has been regarded as a catalyst for growth. Public Enterprises have to operate within severe constraints of bureaucratic rules and procedures. This is anti-thesis of business. The Janata government withdrew the purchase preference (a preference upto 10% in all government and Inter Public Enterprise Purchases and later the price preference also. The Janata Government made it clear that the would treat both the sectors at par.

It has been assumed to be a panacea to all our economic travails. Its role is that of a 'wonder child', because fate of 700 million Indians hinges on the success of these. The success or failure of the Indian economic plans depends to a considerable extent on the success or failure of her public enterprises because 'public enterprise' without a plan can achieve something, a plan without public enterprise is likely to remain on paper. As is claimed by our economic administrators 'with the commanding heights of the economy under its control the public sector is to exercise substantial influence in determining the pace and the texture of the economy.'

The objective of the Indian economic policy is to bring in a socialistic pattern of society. To achieve this, public sector has been used as a crucial part and parcel of our development strategy. The well being of the be teeming millions of India is linked with the success of public sector. It is visualised that economic development in India depends on planning, the success of which itself depends on the public sector. The Indian economy, thus, will swim or sink depending on the success or failure of the public sector.

With a virtually non-existent base at the time of independence having few departmental undertakings like railways, posts and telegraph, broadcasting and printing presses, the 800 enterprises belonging to Centre and State Governments have a record not only of its sizeable growth but of its utility as an institution of immense economic potentialities. Public sector in India has just crossed its infancy. With the attainment of its youth most of the 'teething troubles' are over and public sector can boast of its being the wonder child' of India's economic planning.

The 200 Central public enterprises and 600 State Public Enterprises though just form 2% of the total corporate strength of 50000 Joint Stock Companies are important in more than one way. For one thing they constitute 80% of the paid up capital of the corporate sector in the country, of the first 101 corporate giants, 51 public enterprises account for 80% of the total assets and 70% of the total net sales. The 168 public enterprises in 80-81 had employed capital totalling Rs. 18231 crores and sold goods worth Rs. 28645 crores. The Gross Profit before interest and the amounted to Rs. 1422 crores. The interest paid on loan amounted to Rs. 1383 thus giving a net profit before tax to the tune of Rs. 39 crores only. This net profit turns into net loss of Rs. 182/— After the tax is paid. These Public enterprises generated internal resources of Rs. 1214 crores and the ratio of gross profit to capital employed comes to 7.8%. The total employment in the public sector amounted to 18.38 lakhs as against a working force of over 20 crores. It is a concern to all as 80% of central government funds are invested in public enterprises. Between April 1951 and March 1980 the total investment in public sector was Rs. 17196 crores including service organisation whereas in the sixth plan period (80-85) only it is to be Rs. 25000/— crores. Of the aggregate investment of 17.63% (79-80) of N.N.P. at current market prices the public enterprise accounted for about 10 percent points or 60% of the aggregate investment. The Union Govt. gross fixed assets

formation i.e. investment in buildings, public works, equipment and other fixed assets rose to 1823 crores i.e. 2.3% equally divided between building and other construction and machinery equipment.

But everything does not glitter in the public sector. In spite of all these achievements there is a widespread negative feeling and poor impression of the Indian Public Sector. A lot has been done but the undone task is perhaps more crucial than the task already done. No wonder the last of the jobs in the new 20 point economic programme relates to the working of public enterprises. It emphasises increased efficiency greater use of installed capacity, generation of internal resources and streamlining the working of these public enterprises, as the main aspects of emphasis and attention. The price if any which we pay for the 'poor performance' of the public sector must be weighed against the cost of not having the nation-building enterprises. The alternative could have been a real long unbearable wait and that too with no guarantee that private enterprise would not have committed many of the mistakes committed by public enterprise.

In practical sense the private sector is not that private and the public sector is not that much public. These are interlinked in as much as what happens in one impliedly affects the other too. It is an open fact that public enterprise has substantially helped the private sector by providing finance, infrastructure and technical help to accelerate industrial development in all possible ways.

Losses :-

Most of the public enterprises have continuously incurred losses since inception. Deficits have been sustained and accumulated over years. It needs no explanation that huge losses are either met by the consumer or by the society. Things could be improved only when realities are seen both as the government and as the public enterprises itself. How far is it justified to charge the consumer for the inefficiency of the public enterprises and the failure of the State to regulate that monopoly. If state monopoly, is just to substitute the private monopoly there cannot be anything more worse. To assess the performance of public enterprises on the right lines it is suggested that the causes external to public enterprises must be allowed for and their cost burden excluded from price fixation. As a matter of fact an appraisal by way of financial objections will mean a set goal for managers of public enterprises a norm for the reviewer a charter against exploitation by the consumer and modus operandi for the planner to achieve desired national goals. This seems to be the philosophy that will work. Large deficits might be due to charging depreciation, higher than necessary. It is ironical that public enterprises are under utilised and over-depreciated at the same time. Further, book deficits are accounting expressions and do not exhibit real deficits passed on to other segments. One real important omission is the cost of equity capital. Various methods have been suggested. For example, it has been recommended that deficits due to township expenses should be identified and public enterprises relieved of the burden of meeting these

with future revenues. Another formula is to reconstruct capital if an enterprise had the prospects of continued losses in the future. The government may also give cash grant to public enterprise. One of the novel method is to treat all capital as a loan, after gestation period and return should be expected on the entire capital employed.

Public Enterprise and Accumulated Deficits.

A good number of Public Enterprises have incurred heavy losses with a consequence that they have consumed a good percentage of capital invested when those public enterprises were established. The percentage of lost capital varies from 10% to 20%. This is a good eyeopener. These huge deficits have been due to a mutiplicity of causes, a few of which can be seen thus :-

Formal or informal regulation of prices by the government in the interest of the economy in general and of price stablisation. Public Enterprises enjoy perfect monopoly or nearmonopoly in most of its activities. The government, however, does not like to change monopoly prices as that will amount to exploitation of the consumer. It wants to run public enterprises on public monopoly for a public interest and for the sake of It. It also does not like to fix high prices which may open an avenue to private enterprise to follow suit. The public policy had obliged many public enterprises to work at far too low prices resulting in deficits.

Under utilisation of the installed capacity caused by long gestation periods, huge in built capacities, ambitious planning based on inadequate economic data, inadequate motivation coupled with back seat driving by politicians and obsolescence of the product-mix have accumulated deficits.

Public Enterprises have accumulated huge deficits because of a keen emphasis on social costs such as outlays as township and allied provisions of amenities to the employees. Outlays on township, for example, have taken 15-20% of the financial resources of the public enterprises. It is also alleged that among the organised sectors public enterprises have given a more than due does of amenities to their employees taking cover under autonomy. External Controls over public enterprise are so elaborate that most managers tended to loose initiative and autonomy of action.

Operational and managerial inadequacies have a role of their own in accumulating deficits. Public enterprises to work under a strict code of administration and procedure This is antithesis of business. Many a times deficites have accumulated because of external factors such as union rivalries labour troubles and political medalling. The fact that most of the public enterprises are overstaffed. So that the employees have nothing to do thereby unnecessary increasing the overheads. The surplus man-power is a problem with a cumulative

effect and reduces production. Many public enterprises have also accumulated deficits because of excessive provision of depreciation, and too much of interest payment on loans.

Assessment :

Breaking the continuous chain of losses in the previous 4 years the Public Sector as a group achieved an estimated record net profit of more than Rs. 400 crores in 1981-82. The profitability ratio which represents ratio of gross profit as a percentage of capital employed shows a sharp increase from 7.8% in 1980-81 to more than 11.6% in 1981-82. As compared to the performance of private sector the 101 top private sector companies showed a profitability ratio of 11.4% in 1980-81. This is commendable as it proves that given the direction, political will and improved infrastructural support, public sector can deliver the goods. The profitability ratio of 11.6% is the highest achieved so far. Out of 169 enterprises 70 units incurred net loss to the tune of Rs. 760 and 99 made net profit of Rs. 1173.

Production - During 1981-82 75% of the public enterprises have recorded increased output of about 10% as compared to last year. 30 to 40% of the units offer scope for increasing capacity utilisation by 15 to 20%. Railways moved more revenue earning traffic. The electricity generation increased by 101%, coal production by 9.5% saleable steel production showed an increase of 15% and crude petroleum recorded a spectacular increase of 54.5%.

Public Enterprises have a hundred percent monopoly in the production of copper, lead, coal petroleum, Hydro and steam turbines, Telephone, Telephonic cables, Teleprinters, electrical typewriters, ship building, Locomotives, Railway Coaches, Photo Films, Its degree of monopoly in selected items can be seen thus-crawler Tractors-95%, wrist watches 91%, Professional Electronics 82%, Zinc 79%, Mining Machinery 67%, Bread 65%, Machine Tools 56%, Antibiotics 51% to 77%, wagons 46%, Nitrogenous Fertiliser 45%, Phosphatic fertiliser 29%, Tractors 30%.

The big Ten among public enterprises contribute 70% of total profit. These ten include the SAIL, HMT, STC, MMTC, BHEL, Central Coal Fields and 4 from the petroleum group.

It is not true that the government has snatched, the units under public enterprise from the private sector. It is a fact that there are a good number of cases where private sector was neither willing nor capable of establishing the industries with a high degree of capital intensity, having long gestation period and low profitability. A break up of the origin of all public enterprises today reveal that 65% of these are purely entrepreneurial substitution by the State, 30% representing nationalised industries which really meant entrepreneurial support and 5% by managerial substitution where state gradually took over the sick units. Naturally investment becomes the local point. Of the total investment in public enterprises steel consumer 1/3 (33%), Minerals and metals 1/7 (14%), chemicals and pharmaceuticals 1/8

(13%) Heavy Engineering 1/9 (11%) Transport 1/25 (4%) Services 1/11 (9%) and others 1/6 (16%). To many, massive investment in public sector projects tantamounts to pouring money down the drain. Optimistic gestation results in overruns on costs and pessimistic gestation leads to unnecessary costs. The management of gestation involving planning, co-ordination motivation and control of efforts must be of a high order. Cost structure, it shall be noted is determined by the care with which projects are conceived, evaluated constructed and operated.

Of the total industrial investment, public sector now has 59%, Joint Sector 6%, and Pvt. 35%, though of the investment in corporate sector the share of the public sector comes to 35% only.

Hindustan Steel, Bharat Electricals, and Hindustan Machine Tools, State Trading Corporation and Minerals and Metal Trading Corporation have done credible job in earning foreign exchange. From a mere Rs. 35 crores in 55-66, it rose to 2246 crores in 76-77 and Rs. 2600 crores in 80-81. The share of Public enterprises in export earnings amount to 30%.

There has been a sharp deterioration in the savings of public sector as a result of the negative saving of the central government administration. The Public Sector contributed just 14.3% of the total national savings where as private corporate sector including cooperatives accounted for 5.4%. The rest 80.3% was contributed by the household sector. The level of internally generated resources were Rs. 287 crores in the third plan, Rs. 1260 crores in IV plan and Rs. 906 crores in 78-79.

It is the need of the hour to remove absence of Organisation Development (OD) i.e. the process whereby organisational weaknesses are diagnosed and changes are initiated with a view to improving its performance and capacity of to adopt and develop. It is the common and naked experience that every public enterprises has an elusive balance between fear of change and the hunger for change.

Maintenance is a proof of good management. Public Enterprises do not maintain well and it is unfair to charge the consumer for poor maintenance by those who are at the helm of affairs. Practically every public enterprises is overstocked. The degree of inventories to production may differ from 20 to 40%. This is a real danger. There ought to be substantial savings in interest charges in accomodation and in staff.

Public Sector as a model sector is expected to provide certain amenities to its labour. These amenities may or may not be charged to the customer. A free amenity may be a historical expediency but certainly not a business necessity. Matters will be still worst if that

free amenity itself is provided at a cost unjustified. It leads to double loss as the free amenity may not justify the cost incurred in providing that amenity. Anything over and above the legally required facilities needs a probing, particularly in those units which run under a loss. The cost being in the nature of social welfare expenses should legitimately be borne or at least permanently shared by government agencies in some way or the other.

Similar rethinking should be as regards the loopholes in managerial practices and policies. It is openly admitted and experienced by many that the personnel in Public Enterprise are not expected to work efficiently because of a defective principle and policy of hire and fire. It is true, a naked truth, that the man who has a stake does not hire the best and cannot fire unless in expetion. Some meaningful accountability and not truckloads of code of conduct in paper is the need of the hour.