Public Sector in India: An Indicator of Development

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Abstract**—**At the time of Independence and the advent of planning there has been a progressive expansion in the scope of public sector and the socialistic pattern of society led to deliberate enlargement of the role of public sector, activities of public sector, which were restricted to a limited field like irrigation, power, railways, ports and communications but over the period of time the percentage share of PSUs to the total productive activities has been increasing in Indian economy. PSUs are those run by the Central government, state government and local bodies. The public sector units in India has shown considerable progress till 2010.They are 179 lakh in India and 62.4 lakh people are busy in employment in this sector, its percentage share in GDP is 21,2whereas capital formation is 8.1percent. Thus,CMIE estimated moderate growth rate of growth of PSUs in India..

Keywords**—**CMIE-Centre for Monitoring Indian Economy.

GDP-Gross Domestic Product
PSUs- Public Sector Undertakings

I. Introduction

AT the time of Independence and the advent of planning there has been a progressive expansion in the scope of public sector. the socialistic pattern of society led to deliberate enlargement of the role of public sector, activities of public sector were restricted to a limited field like irrigation, power, railways, ports and communications but over the period of time the percentage share of PSUs to the total productive activities has been increasing in Indian economy.PSUs are those run by the Central government, state government and local bodies. The public sector units in India has shown considerable progress till 2010.They are 179 lakh in India and 62.4 lakh people are busy in employment in this sector, its percentage share in GDP is 21,2whereas capital formation is 8.1percent.

Expansion of the Public Sector and its Share in National Production

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 (CPSEs) with investment amounting to Rs. 29 crore. As on March 31, 2011, there were 248 CPSEs out of which 220 were in operation. As per table, capital employed in CPSEs rose from Rs. 3,02,947 crore in 1999-2000 to Rs. 9,50,449 crore in 2010-11. Over the same period, turnover of CPSEs increased form Rs. 3,89,199 core to Rs. 14,73,319 crore.

As far as the share in national production is concerned, Central PSEs play a pivotal role in the production of coal and lignite, petroleum and in non – ferrous metals such as primary lead and zinc . The PSEs have also been making substantial contribution to augment the resources of the Central government through payment of divided, interest, corporate taxes, excise duties, etc. During 2010 – 11, contribution to the Central Exchequer by the Central PSEs amounted to Rs. 1,56,124 crore.

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II. Performance of PSUs in India

(Rs. Crore)

ITEM	1990-2000	2006-07	2008-09	2009-10	2010-11
Capita-l employed	3,02,947	6,61,338	7,93,096	9,09,285	9,50,449
Turn over	3,89,199	9,64,890	12,63,405	12,44805	14,73,319
Divide-d payment	5,455	26,819	25,493	33,223	35,681
Interest	20,333	27,481	40,330	36,060	38,998
Provision for tax	7,706	34,352	33,700	38,133	43,369
Net Profit (PAT)*	14,331	81,055	84,228	92,203	92,077
Contribution to exchequer	56,157	1,48,789	1,51,728	1,39,918	1,56,124

Source: (i) Government of India, Economic Survey, 2011 – 12

Employment and Lobour Welfare

The number of persons employed in the Central public sector enterprises as on March 31, 2011 was about 14.44 lakh (excluding casual workers and contract labour). The industrial sectors which have a sizeable number of employees in the public sector include coal, steel, textiles, heavy engineering, and medium and light engineering.

Public Sector and Foreign Exchange Earnings

(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 exports are canalized.

Removal of regional disparities

Rourkela, Durgapur, Neveli, from Chennai is name a few.

Limitation and Abuses of the Private sector

LIC, top 20 commercial banks were nationalized for the good purpose.

III. Problems Of Public Sector Enterprises

Price Policy of Public Enterprises

But since their object was not profit maximization but fulfillment of some social objective, the opted for losses in some cases while in instances they just tried to equate total revenues to total costs.

Underutilization of Capacity

Underutilization of installed capacity is another reason for the low level of profitability in public sector enterprises. A large number of these enterprises have operated at less than 50 per cent of their capacity for a number of years.

Problems Related to Planning and Construction of Projects

As far as the phase of planning and construction of projects is concerned, following problems had to be faced: (i) selection of site was not based on detailed soil investigation; (ii) there were serious omissions and understatements of several elements of the projects; (iii) the actual costs of projects far exceeded the original estimates; (iv) the projects took much longer time to complete than originally envisaged; and (v) the projects often embodied inappropriate technology or product mix.

Problems of Labour, Personnel and Management

Public sector enterprises are often plagued with undue political interference in their day-to-day working and this has demoralizing effect on the management and other personnel of these enterprises

'Autonomy' refers to the freedom granted to the management of a public enterprises to run it without interference of outside agencies. Autonomy is especially important in the context of day-to -day operations of a public enterprise where many on – the – spot decisions have to be taken on a variety of issues that crop up before the management . Interference in such daily work is neither feasible nor necessary. In fact, it can only create impediments on the one hand and demoralize the management on the other.

IV. Policy Towards Public Sector Since 1991

1. Dereservations
2. Memorandum of Understanding
3. Navratnas, Maharatnas and Minirathnas
4. Disinvestment of Shares
5. Setting up of BRPSE

V. Evaluation Of Policy For Privatisation Of PSUs In India

For purposes of privatization, the government has adopted the route of disinvestment which involves the sale of the public sector equity to the private sector and the public at large.

1) The Government appointed a Committee on Disinvestment in public Sector Enterprises under the Chairmanship of C. Rangarajan in 1993 to suggest the correct method of divestture. The Committee recommended that the percentage of equity divested could be up to 49 per cent for industries reserved for the public sector 100 per cent of the equity could be divested. Only the following 6 industries were reserved for the public sector : (coal), (ii) minerals and oils, (iii) armaments, (iv) atomic energy, (v) radioactive minerals, and (vi) railways , The Government of India did not act on these recommendations.

2) Divestment Commission Recommendations:-February 1997 – October 1999. The Government constituted a five member Public Sector Disinvestment Commission under the Chairmanship of G.V. Ramakrishna in August 1996 for drawing a long – term disinvestment Commission under the Chairmanship of G.V. Ramakrishna in August 1996 for drawing a long – tern disinvestment programme for the PSUs referred to the Commission. The Commission recommended divestment of 58 different PSUs. Moreover, in a break form a past policy of share public offerings, the Commission recommended strategic sales with transfer of management. By 1996-97, sales were open to NRIs and foreigners, and through global depository receipts (GDRs) in the international markets.

3). Strategic and Non-Strategic Classification, 1999. Strategic industries are (i) arms, ammunitions, and related defence industries; (ii) atomic energy; (iii) mining of minerals for the atomic industry; and (iv) railway transport. All other industries were classified as non-straategic industries, government stakes could be dropped to as low as 26 per cent on a case-by basis. Since three-fourths majority in needed to pass certain important board resolutions, for control reasons government set a lower of 26 per cent of the equity.

4) National Common Minimum Programme, 2004.The National Common Minimum Programme (NCMP) of the UPA coalition government was released on May 28, 2004. It included (i) all privatizations will be considered on a transparent and consultative case – by – case basis; (ii) generally profit – making companies will not be privatized; (iii) the government will retain existing 'navratna' companies in the public sector while these companies can raise resources from the capital market (iv) while every effort will be made to modernize and restructure sick public sector companies and revive sick industry ,chronically loss – making companies will either be sold – off, or closed, after all workers have got their legitimate dues and compensation; and (v) the government believes that privatization should increase competition, not decrease it. Therefore, it will not support the emergence of any

monopoly that only restricts competition. However, in recent times, interest in disinvestment has again been revived. During 2009-10, the shares in many PSEs like Oil India Ltd., NHPC, NTPC and REC (Rural Electrification Corporation), NMDC etc., were sold. In the Budget for 2010-11 the Finance Minister kept a target of Rs. 40,000 crore for disinvestment.

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