

Public Enterprises

The term public sector (sapat, 2002) has been used in different contexts by people of different backgrounds. It has come to mean different things in different countries. In its widest connotation, the public sector encompasses all economic activities of a government. It has been used to mean public enterprise (PE), government-controlled enterprise (GCE), state-owned enterprise (SOE), public undertaking (PU) or public sector undertaking (PSU) or simply state enterprise or undertaking (SE or SU). Public sector in the Indian context includes, for purposes of planning, all activities funded out of the government budget. In this sense of the term, the size of public sector is, indeed, very large. It includes not only the government companies but also government departments, whether in the central or state sector, irrigation and power projects, railways, posts and telegraphs, ordnance factories, and other departmental undertakings, banking, insurance, financial and other services, especially social services (like education, health and medicare ,social insurance and social security).

Accordingly, public sector is a very comprehensive term encompassing a vast array of activities undertaken through public funding from resources raised mainly through fiscal efforts. In that sense, it does not have a “personality” of its own. On the other hand, public enterprises which are set up by allocation of state’s resources with a corporate face or in any other distinctive organisational form, have their own distinct identity. These, strictly speaking, constitute the public sector. In many countries, economists, administrators and analysts use the terms ‘public sector’ and ‘public enterprise’ interchangeably. Useful guidance is provided by the International Centre of Public Enterprise. It identifies public sector by “any commercial, financial, agricultural or promotional undertaking owned by public authority, either wholly or through majority shareholding engaged in sale of goods and services”. Public enterprise, obviously, has two facets – public and enterprise. The ownership and control of government follow public funding and the entrepreneurial effort. The government investment is through allocated resources in the nature of

- (i) equity, that is, shareholding or just capital investment; and
- (ii) debt, that is, long term loans secured for the entrepreneurial activity. Ownership is exercised through majority holding of equity shares (or investment) by the government. The debt is also often provided by the government.

The public sector takes a number of organisational forms: departmental enterprises, statutory public corporations, limited liability joint stock companies, autonomous organisations and non-profit organisations. To start with, a clear distinction needs to be recognised between a public sector enterprise which is owned by government, on the one hand, and a public company registered under the Companies Act, but privately owned (which also has both equity and debt components), on the other. A public company - privately owned - also has a corporate form, with both cost and profit centres, set up under the provisions of corporate law, which is applicable both to public sector enterprises and public companies in the private sector. A primary distinction is that a private company owes its origin to the efforts of individual promoters with the ownership of a sizable chunk of shares to exercise both ownership and management control. Shareholding may, however, be widely dispersed in a private sector company through public offerings.

Objectives of Public sector enterprises in India:

We find that different countries of the world have developed public enterprises in order to achieve the desired national objectives keeping in view the stage of the economic, industrial and the political philosophy. In the world of today, almost every country has developed public enterprises for its economic development, though its form differs from country to country. So the primary objective of the state enterprises is to serve the people and help in creating an environment of industrial development. In India too, the promotion and development of public enterprises is guided by certain economic and social objectives.

The various objectives of public enterprises in under-developed country like India may be summarised

Under two main heads:

A. General objectives.

B. Specific objectives.

(A) General Objectives: These objectives are common to all the countries irrespective of their political philosophy and level of development. Following are the objectives under this head:

1. To Accelerate Economic Growth: Rapid economic development of the country is perhaps the most important justification of public enterprises. India lacked basic industries, infrastructures and other social-economic overheads necessary for rapid growth at the time of independence. Private

enterprise were not coming forward to operate in these areas for reasons like due to low returns and longer gestation periods in heavy and basic industries as well as they were reluctant because of shattered faith due to long suppression and exploitation by the British. Hence, the government was left with no option but to start establishing public enterprises in various sectors to bring about rapid economic development in the country.

2. Social Objectives: Public enterprises also serve to fulfill various social purposes. Some of these social objectives are:

(i) For Avoiding Concentration of Economic Power: If private sector is given a free hand, industrialisation will lead to exploitation of consumers. Private entrepreneurs will try to maximise their profits. It will ultimately lead to concentration of economic power in fewer hands. The existence of public sector will be a check on the private sector as it does not operate with profit motive.

(ii) Reduction in Disparity of Income: The aim of a welfare state is to establish a socialistic pattern of society. In other words, it means to reduce disparity of income and wealth. By treating labour generously and by putting a low ceiling on the salaries as well as other benefits at top level, P.E has helped in reduction of disparities of income.

(iii) Help to the Underprivileged: Public enterprises have been used to fulfill some social obligations by promoting development of certain backward sections of the society. P.Es in India tries to attain this goal by making reservations in appointment for deaf, dumb, blind, handicapped, war-widows, schedule castes and tribes and economically weaker sections of the society. P.Es have achieved this objective very sincerely. Public sector banks provide loans to underprivileged class or groups like unemployed youths for starting new business units for self-employment.

(iv) Development of Industrially Backward Regions for Balanced Economic Growth:

Various regions of the country should be equally developed. Private entrepreneurs will aim more at profitability and not on balanced economic and regional development. The development of different backward areas is hence, considered by the government while setting up of new public sector units. Public sector takes up all those industries where private investors do not invest and also give preference to backward regions to bring about balanced economic growth of the country.

(B) Some Specific Objectives:

Specific objectives are not common to all countries and public enterprises but they are specific to different countries and P.Es. Some specific objectives are:

1. To Help in Growth of Private Enterprise: PEs not only helps private enterprise to grow as a part of its policy of overall economic development but also saves them from sinking completely to avert unemployment and to maintain production in the common national interest.
2. Provide Fair Treatment to Labour: Exploitation of workers in private enterprises is a common phenomenon. Low rates of wages, unhygienic working conditions, long hours of work, employment of child labour are some general modes of exploitation of workers. Hence one of the major objectives in setting up PEs is to provide fair treatment to workers and to act as model employer.
3. Control the Commanding Heights of the Economy: 'Commanding heights' means basic and strategic sectors of the economy, through which Government can control and command the whole economy. In India PEs have been expanded and promoted after independence, keeping this objective in mind. Life insurance, General insurance, air services, banking etc. were nationalized with this view.
4. Helping all-round Industrialisation: Government wants to develop all types of industries whether they are profitable or not. Private entrepreneurs invest only in those industries where profit earning chances are more. They will not invest in an undertaking where profits are low irrespective of its utility for the people. Public enterprises are necessary for those lines where private sector is hesitant to invest. It helps in all-round industrialisation of the country.
5. Establishing Enterprises Requiring Heavy Investment: Some undertakings need heavy investment and their gestation period may also be longer. Private industrialists cannot afford to make huge investments. Government has large finances and it enters those fields where private entrepreneurs cannot afford to invest. In case of railways, ship-building, energy producing concerns, very huge investments are required and it is beyond the means of private investor to enter these fields. These sectors are very important from the country's point of view. So, government enters these fields and establishes its own undertakings.

6. To Provide Essential Goods and Necessities: Government undertakes to provide various essential goods and necessities like electricity, coal, gas, transport and water facilities to the people. The aim is not only to provide these basic amenities but they should also be provided at cheap rates. Private sector cannot be relied upon to provide these services. The chances of public exploitation are more in these services. So, public utilities are provided by government undertakings.

7. For Establishment of Socialistic Pattern of Society: Under socialistic pattern of society, the gap between the rich and the poor is reduced and the means of production are controlled by the state. In a capitalistic society the poor becomes poorer and the rich becomes richer. The establishment of a strong public sector is a must for the equal distribution of wealth and control of resources in national interest.

8. To Run Monopoly Sectors: Some industries are to be developed only in public sector. The industries like defence, nuclear energy etc., cannot be left for the private sector. Government has monopoly in these sectors. Public enterprises are required to run such industries.

9. Exploitation of Natural Resources: Public enterprises are necessary for exploiting natural resources. Private sector will not like to risk capital in exploiting natural resources. Oil and Natural Gas Commission in India spends huge amounts for finding out new sources of oil and gas. A private industrialist will not be able to spend such amounts on exploratory stages.

10. Help in Implementation of Government Plans: Various government policies and plans are implemented through state enterprises. They help the government in achieving various targets for output, employment and distribution.

11. To Conserve Foreign Exchange: Some existing PEs have been nationalised and some new units were promoted to reduce the stress caused by outflow of scarce and valuable foreign exchange. The nationalization of oil companies and National Newsprint and Paper mills at Nepanagar were done to save foreign exchange by reducing imports of oils and newsprint.

12. To Increase in Government Resources: Some of the state enterprises are run on commercial lines. These concerns can provide resources to the government through their surplus income. In India, various public sector enterprises are running in profits. Such enterprises can provide resources to the government for initiating various developmental programmes.

13. To provide Healthy Competition to the Private Sector: State enterprises are a check on the private sector. Private sector will have to provide goods and services on a competitive basis. If there is no state enterprise then public will be at the mercy of the private sector. Public sector aims at providing goods and services at reasonable rates; so private sector will also sell goods on the same rates. Hence, public enterprises provide healthy competition to the private sector.

PEs attained their objectives in India:

Since independence there has been sizeable expansion of PEs in India. The PEs have played an important and strategic role in the industrial and economic development of the country. Perhaps industrial development of India which we see today could not have been possible in the absence of PEs. In order to evaluate whether PEs have attained their objectives, we need to evaluate their contribution in the economy of India as done below:

Firstly, the contribution of PEs in the national income of the country has increased manifold. Secondly, employment opportunities have increased along with expansion of PEs. Thirdly, PEs have helped in the development of basic and strategic industries like power units, cement, iron and steel, heavy engineering etc. Fourthly, PEs have played a great role in the development of backward areas in the country. Fifthly, PEs have helped in exploiting natural resources. Lastly, Public sector units have saved valuable foreign exchange by producing goods which were earlier imported in the country.

However, PEs have been found lacking in the following fields:

1. It could not establish itself as a model employer.
2. It also failed in providing better quality goods at cheaper rates.
3. Their contribution to national exchequer is much below expectations. Leaving behind a few, most of the PEs running in losses.
4. Their operational efficiency is far below the average at only 52% according to an estimate.
5. PEs are victims of mismanagement, red-tapism and corruption.

Lastly, we can conclude that much is expected from PEs in the national interest. Though, they have contributed a lot yet a proper control better professional management is necessary to make them more viable and also competitive with private enterprises.