

# PUBLIC ENTERPRISE IN INDIA

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**I**ndia is an ancient country in Asia. For two centuries this vast territory has been the object of Western expansion the most powerful of which was United Kingdom. India today has remained on the low economic level, the population of which is more than 905 million, GDP per capita US\$ 303; inflation 11.4% in 1994.

The Mathematical Instruments Office (later the National Instruments Factory) was the first public enterprise in India which was founded in 1830. The Government established a public post in 1837. The construction of the first telegraph line started in 1850. Thus began the story of the oldest government - owned public utility in India and perhaps in the world together with public enterprises in Egypt and China. In the period 1914 - 1946 the Government became all the more active towards the industrial development of the country. The development of iron and steel industry, the sugar industry or the textile industry would not have been possible if the Government had not brought about a reorientation of its fiscal policy after the World War I. Yet public sector in India has existed for more than a century and, prior to the commencement of planned economy, had already been translated into reality in the air, railways, ports, communications, broadcasting, irrigation and electricity, banking, ordnance factories and posts and telegraph department. The biggest public enterprise of India, the Indian Railways, was nationalized during the British regime. The Postal



Services and Broadcasting were similarly under state control and management before the independence in 1947.

Since independence, India's first prime minister, Jawaharlal Nehru, was a committed socialist who saw in public sector undertakings the pillars of a socialistic pattern of society. The public sector has been assigned a commanding role in accelerating growth to meet the ends of nation building. It was initially mooted to

combine the aspects of social responsibility and industrial progress. Since the World War II, the public sector in India had played a leading role as a catalyst in process of social economic progress ensuring that economic development follows the avowed objectives of the State to establish a socialistic pattern of society within the framework of a mixed economy.

The Industrial Policy Resolution of 1948, which contained the first charter of public enterprises, declared the adoption of the socialist pattern of society as the national objective, as well as the need for planned and rapid development, required that all industries of basic and strategic importance, or in the nature of public utility services, should be in the public sector. The Industrial Policy of 1948 identifies two purposes: industrialization of the country; and welfare of the people. This policy - statement divided industries into three categories: (1) those which were to be completely under the monopoly of the State: Railways, Posts and Telegraphs, Defense Industries, production and control of atomic energy; (2) those industries, the future development of which was declared to lie under state control and ownership in which the private sector would have a supplementary role: coal, iron and steel, aircraft manufacture, ship building, manufacture of telephones, telegraphs and wireless apparatus excluding radio-receiving sets and mineral oils; and (3) the remaining industries in which future development would be left to private enterprise.

India is a country outside of the

former socialist system which had a largest public sector. In all, 18.5 million persons were employed in the public sector in 1989, as against 7.4 million in organized industry in the private sector; the Government is an important provider of public goods and services in the field of education, health and social welfare; the Government has virtual monopoly of banking and financial intermediations; and the Government exercises control over private sector economic activity through the issue of licenses, permits and regulation. Thus, the Government became not only a provider of services and an allocator of resources, but also a provider of jobs- in large enterprises as well as small

In the later years of the 1940s, the public sector increased the incidence in Industry & Mining and Transport Communication. In the decades 50s and 60s there were a good many programs which called for extension of public economic activity. The idea of the welfare state was another development which was reflected in all the state activities. Within big industry in India the public sector had to remain dominant and to expand considerably in view of exercising a better control over the economy. Thus, in this period, often the state share has been smaller than the private- 10% government capital against 90% private is a frequent. However, on the central government level, the situation is generally reversed with proportion attaining 90% government and 10% private in some cases. India had oriented to the former Soviet Union and Eastern European countries. The Indian economy was influenced by the collapse of Socialist bloc in late 1980s. Yet India was in crisis when Prime Minister P.V. Narasimha Rao took office in June 1991. India now is four-and-a-half years into a transformation of its economy. Licensing procedures have been simplified, the currency floated, and large areas of the economy opened to foreign investment. The economy has emerged decisively from the crisis of 1991. It is expected that the average annual growth rate will be around 6% from 1995 to 2000.

In spite of privatization India's public sector is still omnipresent. The country has 300 companies controlled by the central government and 700 by the state governments ranging from major steel and heavy industry plants to hotels, airlines and telephone firms.

In term of GDP the public sector share was 27% in FY 1991. The public sector share of formal employment

has been substantial, remaining at around 60% - 70%.

Over the past five decades, public enterprises in India experienced the following organizational forms:

1. Public corporation was established as a separate legal entity. It is the freedom to borrow money, finance itself, retain earnings, make contracts, and to sue and be sued; the freedom to secure the best personnel available and to provide compensation, conditions of employment, and the like, free from outside control. As board of directors was responsible for determining policies, selecting the management, and exercising an effective trusteeship. There is the freedom of the management to enjoy unity of command, the opportunity to ensure flexibility and stimulate enterprise, and to direct the work of the organization without outside restriction; and its operation based on a self-sustaining financial basis, with all costs reflected in net earning after taxes. Public corporations in India, for example, are Damodar Valley Corporation, Industrial Finance, State Finance, Air Transport Corporation, State Bank of India. They were functioned in commercial as well as non-commercial purposes.

2. Mixed enterprise is a domestic combination between public and private sectors involving participation in the capital structure and/ or direction of the company. This is inter-sector combination of two or more components exclusively consisting of domestic elements. Mixed enterprise in India has developed against the background of India's industrial policy which rejects the laissez-faire role of the state as a policeman on the periphery of private economic activity. India's policy is equally firm in its rejection of communist total state ownership of productive facilities. In their place, the Indian scheme conceives of the public and private sectors as twin sources of economic effort.

Mixed enterprises in the Indian states, for example, are the Hindustan Aircraft at Bangalore of the state Mysore. Hyderabad Chemicals and Fertilizers, Hyderabad Chemical and Pharmaceutical Works of the state Hyderabad. Fertilizers and Chemicals, Travencore Ltd; Travencore Electro - Chemical Industries, Ltd.; Travencore Sugars and Chemicals, Ltd of the state Travencore - Cochin (Kerala). Central government mixed corporations, for instance, are Air India International, Industrial Finance Corporation, Refinance Corporation, The Eastern Shipping Corporation, The Western Shipping Corporation,

State Trading Corporation.

3. Composite enterprise or associated enterprise is a combination between public and private where one or more parties are foreign to the country. They take the form of the government of India, and private foreign capital may also involve domestic private participants. They are, for example, Rail Coach Factory, Housing Factory, Composite Steel Plants, Industrial Credit and Investment Corporation of India.

4. Joint enterprise or joint venture is a combination of foreign and domestic private capital and enterprise. This is intra-sector combination within the public sector or the private sector. This combination may involve foreign and domestic interests, but must be in only one sector. Joint enterprises, for example, with the United States are Atul, Ltd; and Oil Refineries; the Standard-Vacuum Oil Company.

The successful industrialization of the former Central Asian Soviet Republics such as Uzbekistan, Tadgikestan, Kazakstan, Kirgizia influenced Indian policy-makers to follow the way of a centrally planned economy which is based on public sector development. In this country public sector has to be introduced in the core sectors of economy to find capital required for massive investment in these sectors.

Long experience of the roles and the operations of public sectors in the Indian economy has established the fact that there is no competition between public enterprises. A large-scale of public enterprises is a burden on national budget. Holdouts of loss-making, inefficient industry, they require enormous subsidies from the State. They tend to lose money, even when equipped with the latest technology. They tend to be overstaffed.

Politicians have a hard time laying off workers. Even when the companies are losing the money, it's difficult to cut employees. Bureaucrats who manage such enterprises and employees who enjoy the security of state jobs all have strong vested interests in perpetuating the state sector. State enterprises are miniature welfare states within welfare states.

However, the country cannot escape dealing with public enterprises because "many will be unable to escape social obligations, or will be unattractive to private buyers, and will remain in public ownership such that enterprises are owned by governments" as nearly as account for 15 or 20 percent of the world's output, for 20 or 30 percent of the world's international trade.