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Role of Public Sector in the Indian Economy

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Abstract: ***Public sector in India has been criticized vehemently by a number of supporters of the private sector who have chosen to shut their eyes towards the achievements of the public sector. Following description should be sufficient to convince one that public sector has played a definite positive role in the economy.***

Key Words: Pandemic, certainty, resolve, countries, economies, especially, organizations.

Public sector and capital formation- The role of public sector in collecting savings and investing them during the planning era has been very important. During the first and second plans of the total investment, 54 percent was in the public sector and the remaining in the private sector. The share of public sector and the remaining in the private sector. The share of public sector rose to 60 percent in the third plan but fell thereafter. However, even then it was as high as 45.7 per cent in the seventh plan. With increasing trends of liberalization in 1990s, the share of public sector in total investment fell drastically to 34.3 per cent in the eighth plan (i.e., onlyone-third) and further to 29.5 per cent in the Ninth Plan. This reflects the increasing importance that is now being accorded to the private sector. The nationalized banks, State Bank of India, Industrial Development Bank of India, Industrial Finance Corporation of India, State Financial Corporations, LIC, UTI etc., have played an important role in collecting savings and mobilisation of resources.However, savings in the public sector itself are not much. In fact, there has been a precipitous fall in the share of public sector in gross domestic savings. During the period of Sixth Plan as a whole, public saving was 23.7 per cent of total domestic saving and this fell to 14.8 per cent during the period of the Seventh Plan and just 9.2 per cent in the Eighth Plan (at 1999-2000 prices). During the first year of the Ninth Plan, 1997-98, share of public sector in total savings was just 7.5 per cent. Savings in the public sector were negative in all other years of the Ninth Plan. The first year of the Tenth Plan, i.e., 2002-03 also recorded negative savings in the public sector. However, things have distinctly improved since. In 2003-04, savings in the public sector were Rs. 29,521 crore which rose significantly to Rs. 1,37,926 crore in 2006-07 and Rs. 2,12,543 crore in 2007-08. The share of public sector in total savings was 3.6 per cent in 2003-04 which rose significantly to 9.3 per cent in 2006-07 and further to 11.9 per cent in 2007-08. The share of public sector in gross domestic capital formation (GDCF) which was 44.6 per cent during Sixth Plan fell to 31.7 per cent during Eighth Plan. It is estimated to have declined further to 27.3 per cent in the Ninth Plan and 22.2 per cent during the Tenth Plan.

Development of infrastructure: The primary condition of economic development in any underdeveloped country is that the infrastructure should 92develop at a rapid pace. Without a sufficient expansion of irrigation facilities and power and energy, one cannot even conceive of agricultural development. In the same way without an adequate development of transportation and communication facilities, fuel and energy, and basic and heavy industries, the process of industrialization cannot be sustained. India had inherited an undeveloped basic infrastructure from the colonial period. After Independence, the private sector neither showed any inclination to develop it nor did it have any resources to make this possible. It was comparatively weak both financially and technically,

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and was incapable of establishing a heavy industry immediately. These factors made the State's participation in industrialization essential since only the 'government could enforce' alarge-scale mobilization of capital, the co-ordination of industrial construction, and training of technicians.The government has not only improved the road, rail, air and sea transport system, it has also expanded them manifold. Thus the public sector has enabled the economy to develop a strong infrastructure for the future economic growth.The private sector also has benefited immensely from these investments undertaken by the public sector. Strong industrial base: The share of the industrial sector (comprising manufacturing, construction, electricity, gas and water supply) in Gross Domestic Product at factorcost has increased slowly but steadily during the period of planning. The share of the industrial sector in GDP at factor cost rose from 15.1 per cent in 1950-51 to 24.0 per cent in 1980-81 and further to 25.8 per cent in 2008-09 (at 1999-2000 prices). This shows the increasing importance of the industrial sector in the Indian economy. Not only this, the industrial base of the Indian economy is now much stronger than what it was in 1950-51. There has been significant growth in the defenseindustries and industries of strategic importance. The government has strengthened the industrial base considerably by placing due emphasis on the setting up of industries in the following fields -iron and steel, heavy engineering, coal, heavy electrical machinery, petroleum and natural gas, chemicals and drugs, fertilizers, etc.Because of their low profitability potential in the short run, these industries do not find favour with the private sector. However, unless these 93industries are set up, the consumer goods industries cannot progress at a sufficiently rapid pace. Therefore, the production of consumer goods industries in the private sector is also likely to suffer if the State does not invest in heavy and basic industries. As noted by A.H. Hanson, "Even the view that ; it is the function of the State to provide only basic 'services'leaves room for a great deal of public enterprise in manufacturing industry, as well as in power, transport, communications, etc. For consumer-goods industries, which; are usually capable of attracting; some private capital, depend on the 'services' of the producer-goods industries in which private capital is -at least initially -less interested. Henceone can argue, without any 'socialistic' overtones, that as -for instance -textile orfood-processing industries; need the support of native metallurgical and engineering industries (the necessary equipment not being available; from abroad owing to foreign exchange difficulties, delivery; delays, etc.) and as no private entrepreneurs show any;: inclination to pioneer the latter, the State must step in arid;; do the pioneering itself.

Economies of scale: In the case of those industries where for technological reasons, the plants have to be large! requiring huge investments, setting up of these industries in the public sector can prevent the concentration of economic; and industrial power in private hands. It is a known fact that; in the presence of significant economies of scale, the free market does not produce the best results. Accordingly, considerations of economic efficiency require some formof government regulation or public ownership. Even in the U.S.A. firms in electric power, natural gas, telephone and some other industries are being regulated by Federal and State regulatory commissions. Countries like France and le United Kingdom have explicitly preferred public ownership in these fields.

Removal of regional disparities- The government inIndia has sought to use its power of setting up of industries as a means of removing regional disparities in industrial development; In thepre-Independence period, lost of the industrial progress of the country was limited in and around the port towns of Mumbai, Kolkata and Chennai. Other parts of the country lagged far 94behind. After the, initiation of the planning process in the country in 1951, the government paid particular attention

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tothe problem and set up industries in a number of areas neglected by the private sector. Thus, a major proportion of public sector investment was directed towards backward States. All the four major steel plants in the public sector-Bhilai Steel plant,Rourkela Steel Plant, Durgapur Steel Plant and Bokaro steel Plant were set up in the backward States. It was believed that the setting up of large-scale public sector projects. in the backward areas would unleash a propulsive mechanism in them and cause economic development of tie hinterland. These considerations also guided the location if machinery and machine tools factories, aircraft, transport equipment, fertiliser plants etc.

6.Import substitution and export promotion.the foreign exchange problem often emerges as aserious constraint on the programmes of industrializationin adeveloping economy. This constraint appeared in a rather strong way in India during the Second Plan and the subsequent plans. Because of these considerations, all such industries hat help in import substitution are of crucial importance for the economy. Bharat Heavy Electricals Limited, Bharat electronics Ltd:, Hindustan Antibiotics Ltd., Indian Oil Corporation, Oil and Natural Gas Commission, etc., in the public sector are of special importance from this point of view.Several public sector enterprises have also played an important role in expanding the exports of the country. Specific reference of Hindustan Steel Limited, Hindustan Machine Tools Limited, Bharat Electronics Ltd., State Trading Corporation and Metals and Minerals Trading Corporation can be made in this context.

Check over concentration of economic power: In a capitalist economy where the public sector is practically non-existent or is of a very small size, economic power gets increasingly concentrated in a few hands and inequalities of income and wealth increase. During the four and a half decades of planning in this country, it has been said time and again that the 95expansion of public sector will help in putting a brake on the tendency towards concentration of wealth and economic power in the private sector.Public sector can help in reducing inequalities in the economy in a number of ways. For instance (i) profits of the public sector can be used directly by the government on the welfare programmes of the poorer sections of community; (ii) public sector can adopt a discriminatory policy by supplying materials to small industrialists at low prices and big industrialists at high prices; (ii) public sector can give better wages to the lower staff as compared to the private sector and can also implement programmes of labour welfare, construction of colonies andtownships for labourers, slum clearance, etc:; and (iv) public sector can orient production machinery towards the production of mass consumption goods.

Performance of the Public Sector- It is usual to judge the performance of private sector units by the yardstick of net profit or loss since in their case, maximization of profit is the sole aim. This yardstick fails miserably in the case of public sector undertakings. Such units are frequently started in those sectors where profitability is low and gestation period long. For instance, investment in infrastructure and basic industries is not likely to yield early returns and, accordingly, profits in the beginning are likely to bevery4ow and in some instances, may even be negative. Yet these investments serve important ends since they createthe basis for expansion of industrial activities in the future. Investments made by the public sector in the steel industry, fertilizers, power projects, mining, etc., come under this category. Then, in some cases, public sector provides inputs to the private sector (for example, iron and steel to machine building, tools, automobile industry, etc.) It is very easy for it to earn huge profits by merely hiking the prices of its output. However, this is likely to have an adverse impact on the industrial activity in the private sector on the one hand, and push up prices on the other. Accordingly, prices are intentionally kept low even though this cuts into the profits of the public sector seriously. Also, as

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noted by Hazari and Oza, private sector has invested mostly in consumer and lighter goods which have been granted far greater. 96protection against external competition as compared to capital goods which were mostly produced by the public sector and which faced stiff competition from imports financed by aid and foreign private investment. Another point that needs specific mention is that the public sector is not merely capital-intensive and characterised by longer gestation periods; in steel, which accounts for the bulk of investment, it is also material intensive, and to that extent its value added component is smaller than in items like, say, chemicals.Because of considerations such as these, it is often maintained that the performance of the public sector units should not be judged by what they earn in the form of profits but by the total additions they make to the flow of goods and services in the economy. Thus, instead of profits, the yardstick should be the total value of the sales of an enterprise.For instance, if an iron and steel plant produces steel worth Rs. 5,000 crore in a certain specified period but makes no profit because its aim is to provide steel at low prices to the industries using steel as an input, it would be wrong to say that its performance is disappointing on this count alone. What is important from the point of view of the industrial development of the country is the fact that this plant has added steel worth Rs. 5,000 crore to the social pool of goods and services obtaining in the country.

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 with investment amounting to Rs. 29 crore. As on March 31, 2009, there were 246 public sector enterprises with an investment of Rs. 5,28,951 crore. The turnover was Rs. 3,89,199 crore in 1999-2000 which rose to Rs. 10,81,925 crore in 2007-08. According to Economic Survey, 2009-10, the turnover rose further to Rs. 12,63,405 crore in 2008-09. Of the total Rs. 5,28,951 crore investment in the public sector as on March 31, 2009, as much as 46.1 per cent belonged to the. service sector, 26.2 per cent to electricity, 18.1 per cent to manufacturing and 8.8. per cent to mining. 97As 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 dividend, interest, corporate taxes, exise duties, etc. During 2008-09, contribution to the Central Exchequer by the Central PSEs amounted to Rs. 1,51,728 crore.

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