Benefits and Detriments of Public Sector Units

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Abstract

The economy of India is a developing economy and first largest economy in the world. From 1947 to 1991, Indian governments adopted mixed economy proposed by first prime minister in 1950s, which result slow growth rate of Indian economy. This protectionist economic policies to protect indigenous manufacturing companies resulted in slow progress, which is called Hindu economic growth rate era. Many public sector units or corporations established after independence by Indian government with the help of European countries, Russia and USA. In 1991, then Indian government adopted new economic policies to liberalise Indian economy to external companies in collaboration with Indian companies. Due to welcoming of foreign investment, GDP increased rapidly and privatisation process geared up due to globalisation. Public sector companies collaborated with foreign companies to modernised themselves to cope with global competition. Growth of private companies raised substantially to fight with monopoly of indigenous units. By the time, Indian Public sector units fighting with foreign big companies by large investments along with modern technology and skilled manpower. Indian government established disinvestment ministry to disinvest of PSU into private stakeholders. Because public sector is facing many problems such as political interferences, low quality products, corruptions, financial burden, misuse of power etc. This leads to economic crisis which is not cope with international competitions with foreign companies. Government is giving financial packages, disinvestment, collaborations to overcome this problem.

Key words : *Indian economy, Public sector units, Private sector, Disinvestments, liberalisation, Privatisation, Economic growth rate.*

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Introduction

Indian economy is basically agrarian economy. Around 60 percent population depend on agriculture. Historically, India was leading in 14th to 17th century in economies. Then India's growth was more than Europe and China. From Mughal period, India's economy little decreased. In 18th century when British came then small scale industry was at the peak in India, But Britishers destroyed small scale units to protect their own industries at England. British India government developed road and rail network to distribute raw and finished products and to distribute all over country. Many cities were flourished due to manufacturing hub with the slight development in secondary and tertiary activities. In second world war, British India government promoted Indian manufacturer to develop their manufacturing units with technological help. Tata, Kirloskar and other people established their units with the help of USA and British industrialists.

After independence, then Indian government adopted five year plans, influenced by Soviet Russian Federation. First prime minister, Pt Nehru was influenced by communist Russia, and implemented socialist economy, which protects indigenous industries and levied heavy taxes and import duties to restrict foreign goods. Initially, the Indian growth was called Hindu Growth Rate, which was around 3.5% for many years. It was very slow growth rate. The socialist economy had great impact on Indian economy, which has big loss of Indian economy. China adopted capitalism in manufacturing in 80s. India adopted free economy in 1991, under the Narsinharao government, which boost Indian economy and welcomed foreign direct investment at large extent with foreign collaborations. Before that Public Sector Units (PSUs) were totally controlled by Indian government from 40 years. The privatisation process began in 1991-92. The new economic policy has given rise to significant focus for the privatization of public sectors from 1992. Disinvestment is a method of privatization for public enterprises. It is a major step towards privatisation and later liberalisation of Indian economy. Public sector was the backbone of Indian economy till 1991. The government with the technical assistance of International Financial Institutions such as World Bank and Asian Development Bank developed policies and various laws to facilitate private sector. There are many lacunae of Public sector due to incompetency, low per capita output, ignorance of consumer interest, difficult to manage and political interference. The cumulative losses increasing of PSUs and Private sectors give better result in compare with public sector enterprises.

Objective

The following objectives are to be fixed for the topic;

1) To study overall growth and development due to public sector enterprises
2) To analyse the impact of the PSUs on national income and growth.
3) To reveal the effect of new economic policy.

Methodology

The methodology is used for this topic is of secondary data, published in government as well as public sector enterprises bulletin time to time. Also considered the economic survey done by National survey sample at national level. The analysis done for the data provided before and after new economic policies. Simple statistical techniques used to reveal the effect of public sector enterprises.

Development of Public Sectors in India

The public sector means government share owns 51% or more. Before the independence, there were few public sector companies, which includes, Indian Railways, All India Radio, the Port Trusts, the Posts and Telegraphs, and Ordinance Factory are some of the major examples of the country’s public sector enterprises. After independence, some policies for the development of the socio-economic status of the country were planned out for self-reliant growth of the nation's economy. India's economy is characterised as a developing economy.

Economy of India was largely influenced by Socialist Soviet Russia, which tends to socialism, and it was need of an hour of India. But later on investment in industries by the government initialised. With the foreign collaborations, then Indian government settled up BSNL, BALCO, NALCO, BSNL, MTNL, Hindustan Antibiotics, steel plants at Bhilai, Bokaro, Rourkela, Durgapur, LIC, Maruti Udyog Ltd, Bharat Electronics etc. These all are public sectors enterprises having major or whole government stock. These PSUs helped to develop India's economy at large scale. But later on, it seems that there is no big progress as such what government considered. Agriculture sectors was ignored by the government. Few multipurpose projects built across some rivers to provide irrigation to the agriculture. Till today only 35% land is irrigated. Agricultural development was sluggish which results economic development in terms of GDP. India's economic development GDP was just 3 to 4 percent from 1952 to 1991. It was half that of the world, and very slow if compare to Europe, Japan and USA. Somehow public sectors increased employment at certain level. But this is not sufficient for huge population. In later 80s, green revolution boomed economic progress at large extent. But this was not cope with huge population growth. Afterall, in 1991, Narsinhrao government opened doors for foreign investment with minimum bureaucratic barriers and promoting foreign direct investment in Indian companies with 24 to 49 percent investment.

Rationale of the Public Sector Units

Public sector is a major part of the Indian economy that comprises public services and enterprises. The public sector are of three types – 1) Departmental Undertaking - which manages directly by concerned ministry or department. (e.g. Railways, Posts etc); 2) Non-Departmental Undertaking – PSU (e.g. HPCL, IOCL etc); 3) Financial Institution (e.g. SBI, UTI, LIC etc). According to profit, these enterprises are divided into mini Ratna, Navratna and Maharatna. So that, government can take review and provide financial needs. The rationale behind the establishment of PSU's was Industrialisation and establishment of Capital Goods Industries and Basic Industries. The organizations that are not a part of the public sector are termed as private sector that works to raise profit for the organization.

Government fixed the objectives of setting up Public sector Unit in the country are- to create an industrial base at large scale, to generate good quality of employment, to provide resources to the government, to develop basic infrastructure, to promote exports and reduces import, and the reduce inequalities and accelerate the economic development of a nation.

Advantages of Public Sector Enterprises

There are many merits or advantages of the public sector units,

1. Economics of scale : They operate on a large scale, so that PSUs can reap more benefits of economics of scale with cheaper and stable prices, better quality of services.
2. Public Sectors have an autonomous set up: means considerable independence and flexibility in its operations.
3. Protection of public interest: This can decide and implement policies which promote public welfare. All policies formulate by at ministerial level and through parliamentary scrutiny.
4. Quicker decisions because of reduced bureaucracy and red-tapism. Delays in decision making is avoided and opportunities can be tapped in a better manner.
5. Bureaucracy minimised due to departmental undertaking.
6. Fund raising is easier because of government owned statutory bodies, they can raise funds through bonds, shares etc.
7. Comparative prices are possible because they are not profit making units. Profit is not prime objectives of public sector enterprises. Practically it charges at lower prices, so that common people are able to consume the services.
8. Private monopoly which would cause high prices is avoided.
9. Foreign denominations of the economy are avoided.

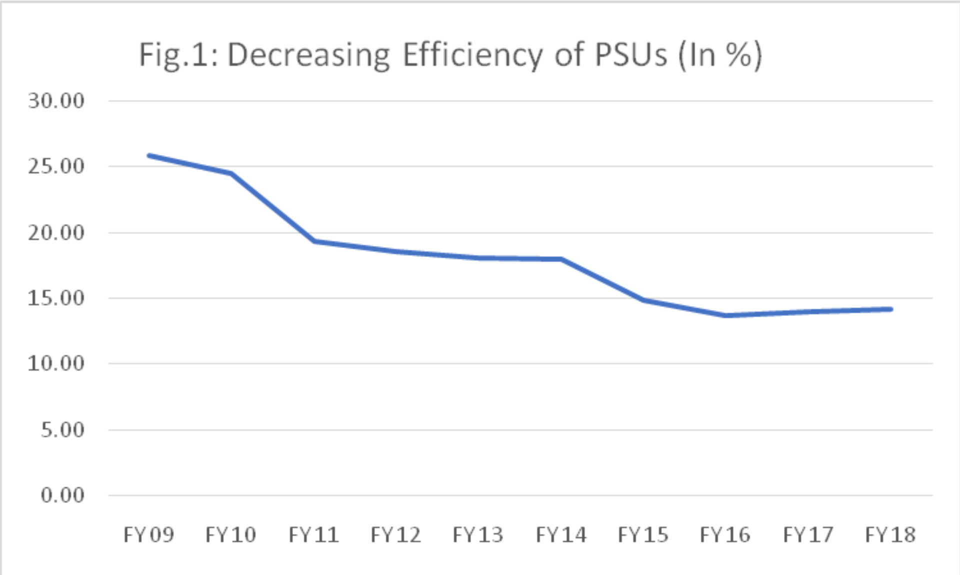
Disadvantages of Public Sector Enterprises

1. Overstaffing is main issue. Per head production is very less than private corporations, means managerial control is difficult.
2. Financial over burden on government due to less productivity or in debt. The government provides subsidies or financial packages to cover such loss, which casues strain on government resources.
3. Lack of autonomy is observed in public sector which leads to less accountability. Lack of autonomy results in delay in appropriate decisions. Lack of accountabilities delivers less outcome.
4. Inappropriate investment decisions results in wrong investment which turns into losses.
5. Low quality and overpriced products are main issue in such businesses. There is no such competition on price point and quality of the product.
6. Trade Unionism is a big headache for PSUs. Every corporations have their labour unions for more and more demand which curbs the development of the corporation. Money could not save for further investment.
7. Government applied many reforms time to time to overcome debt and resources issue, but they have less capacity to adopt it sustainably.
8. Public sector enterprises cant cope with foreign giant companies in quality, decisions, marketing, advertising, capital and technology.
9. Political interference is more in these sectors which leads misuse of power, therefore customer interest is ignored.
10. Anti-social activities are being conducted in some PSUs leads corruption, bribes, wrong decisions, favour to any company etc.

Public sector companies are in debt largely, they are only beneficial for very big state businesses and not for small businesses. Government has given many packages and reforms to overcome the financial burden and resources of that corporations. The major PSU reforms are New industrial Policy 1991, Voluntary Retirement Scheme, 1988, Administered Price Mechanism, Policy of Navratnas, Policy of Mini Ratnas, Policy of Maharatnas.

Decreasing Efficiency of PSUs

The efficiency of government public sector enterprises is decreasing from year to year. If compare with 2009, the efficiency gets half in financial year 2018, means return on capital employed shows14% output only. The economic survey18 shows that the rate of return of capital deployment has decreased from 25.43 percent to 14.21 percent over nine years.This shows the decreasing monopoly status in this competitive edge.



Source: Public Enterprises Survey 2017-18

Rate of Capital Employed (ROCE) is a ratio that measures a company's profitability and the efficiency with which its capital is employed. The higher the ratio, the more efficient is the use of capital employed.Above graph (Fig 1) shows the decreasing efficiency of public sector units.

Profit and Loss-making PSUs

Public Enterprises Survey 2017-18 whose that there are 257 operating Central Public Sector Units (CPSU). Out of which there are 184 CPSUs are profit making and 71 are loss making. Two companies made negligible profit, they were working across 22 sctors and dominate in public utilities, trasportation, coal, oil and gas. The money invested Rs. 5.28 lakh crore in 2009 and it increased upto Rs. 13.73 lakh crores in 2018, rasied 10.24 percent. The following date (Table no. 1) shows the loss and profit incurred by public sector units from 2018-9 to 2017-18. It shows in 2008-09, there were only 55 companies in loss, not increased

ISSN: 2278-4632
Vol-10 Issue-5 No. 18 May 2020

to 71 in 2017-18. Simultaneouly profit making companies increased from 158 to 184 from 2008-09 to 2017-18.

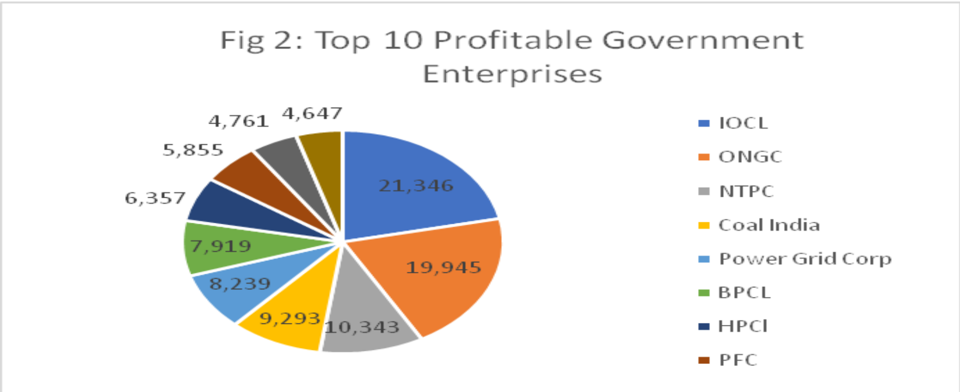
Table-1:**PSU Ranking in Loss and Profit**

Year	Companies in Losses	Companies in Profit
2008-09	55	158
2009-10	60	157
2010-11	62	158
2011-12	64	161
2012-13	78	151
2013-14	70	164
2014-15	76	159
2015-16	79	164
2016-17	81	175
2017-18	71	184

Source : Department of Public Enterprises

The percentage share decreased of profitable companies from 74 percent in 2009 to 72 percent in 2018. About 10 companies whose two-thirds of the total profits, mostly from oil, gas and power corporations. The top three companies are from energy sector, namely, IOCL, ONGC and NTPC, which are profit making in 2018. Indian Oil contributing largest share of 13.37 percent profit followed by ONGC (12.49 percent), NTPC (6.48 percent), Coal India (5.82 percent) and Power Grid (5.16 percent) etc.

The number of loss making companies increased up to 71 in 2018. The top ten loss-makers accounted for 85 percent of the total loss making companies. BSNL, Air India, MTNL incurred a loss equal to 52.16 percent of total loss in financial year 2018. Some companies are in loss from years together and expects financial package for the government which is not feasible for long time. The top 10 profitable government enterprises shows in the following figure (Fig 2).



Source : Public Enterprise Survey, Vol 4, 2017-18.

The loss making units suffer from less order bookings, shortage of capital, large manpower and old machinery and delay of decisions. These units are also suffers from competition, increase in the input cost and huge overheads. Table 2 shows that the top ten loss making public sector units. The BSNL, Air India, MTNL and Hindustan Photo Films contributed 61.48 percent of loss out of total loss among top 10 companies. This result the input quality of the companies.

Table 2: Top 10 Loss-making Government Enterprises

Sr.	Company	Net Loss (Rs Cr)	% Share
1	BSNL	-7,993	25.57
2	Air India	-5,338	17.07
3	MTNL	-2,973	9.51
4	Hindustan Photo Films	-2,917	9.33
5	Western Coal Field	-1,757	5.62
6	Bharat Cocking Coal	-1,391	4.45
7	RashtriyaIspat Nigam	-1,369	4.38
8	India Infrastructure Finance	-1,155	3.69
9	Eastern Coalfield	-931	2.98
10	STCL	-657	2.1

Source- Public Enterprises Survey, 2017-18

Conclusion and Suggestions

Nearabout 28 percent companies are in loss out of 255 public sector units. There are many reasons for this loss. Surplus staff, financial burden, corruption, government and bureaucratic interference, delayed decision, no new vision are among the top reasons to sustain in the globalisation. Indian government is planning to cut the stake in these sector from 51 percent to 24 percent. Disinvestment ministry is looking the financial corrections every year. State owned companies are also planning to sale to private firms to raise funds for the infrastructural development. The total cumulative loss of Rs 132,000 crores of these companies. Government always give packages and subsidies to boost these sectors. Its better to sale to private sector so that huge government funds can be utilised to health, education and infrastructure sector, which would boost our economy. India currently 5^{th} largest economy by nominal GDP and third largest by purchasing power parity in the world. We have to reach 5 trillion economy very soon which is possible if we sale partially or fully these PSUs to private sectors without disturbing socialist approach for poor and needy society.

