

Concept of public sector enterprise: Indian approach

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Abstract

State intervention in industrial development in the modern world in form of public enterprises is not a new thing and Indian is not an exception to this. In case of India industrial development which basically started with the second five year plan was led by the public sector enterprise due to inability of the private entrepreneurs in the economy for investment in basic industries. However, the economy also nationalized some sectors of the economy basically to fulfill some socioeconomic goals.

Keywords: public sector, enterprise, industrial development

Introduction

State intervention in the economic or business activities is regarded these days an inescapable part of the obligations of present day governments of redress economic imbalance, to safeguard the interests and welfare of the community as a whole, to plan an overall prosperity and to undertake and execute schemes and projects vital to the needs of the nation.

Today, the State is discharging these heavy responsibilities through the public enterprises, which cover a vast and varied range of industrial and commercial activities, such as mining and metallurgy, manufacture of electrical goods, machine tools, chemical and fertilizers, building of ships, aircraft and locomotives, provision of air, seas and road transport industrial financing, banking business and undertaking the business of life insurance and general insurance etc. Consequently public enterprises are considered to be a catalytic agent for attaining the cherished goal of a welfare state.

A variety of terms have been used for public enterprises, which leads to confusion. For instance, they are stated as "Public Sector Undertakings", 'State Enterprises', 'Government Concerns', etc. According to their political and administrative structure, they are known as Public Corporation in Great Britain, Crown Corporation in Canada, Statutory Corporation in Australia, Government Sponsored Corporation in Pakistan, and Government Corporation in U.S.A. In Italy the term is used to refer Public Corporations, municipalities and autonomous government department. In France the term is used in a restricted sense as "Industrial and Commercial undertakings of the government." The Indian Administrative Reforms Commission in its report has used the term "Public Sector Undertakings" and the Standing Committee of Parliament calls them simply "Public Undertakings."

Keeping in view the difficulty of terminology a few definitions have been examined below: "Public Enterprises means state ownership and operation of industrial, agricultural, financial and commercial undertakings. (Hanson 1954)^[7]"

"The term usually refers to Government ownership and active operation of agencies engaged in supplying the public goods; the goods and services which alternatively might be

supplied by privately owned profit motivated firms" (Britanica 1965).

"Public Enterprise is an institution operating a service of an economic or social character, on behalf of the government, but as an independent legal entity, largely autonomous in its management though responsible to the public through government and Parliament and subject to some direction by the government equipped on the other hand with independent and separate funds of its own and the legal and commercial attributes of an commercial enterprise". "Public Enterprises are autonomous or semi-autonomous corporations and companies established owned and controlled by the state and engaged in industrial and commercial activities" (Mallya 1971)^[10]. "Public Enterprises means the industrial, commercial and economic activities carried on by the Central Government or by a State Government or jointly by the Central Government and a State Government and in each case either solely or in association with private enterprises, so long as it is managed a self-contained management" (Khera 1964).

An analysis of the above mentioned definitions reveals that the government ownership, government control and management, public accountability, public purpose, profit motive, wide range of activities and autonomous functioning may be summarised as the main features of Public Enterprises.

In precise manner the concept of Public Enterprises can be understood as follows: a) Government ownership with Government management. b) Government ownership with private management. c) Mixed ownership and mixed management of Government and Private bodies. d) Private ownership with Government management.

From this explanation it can be concluded that any enterprise which is predominantly controlled and managed by the state or any other public authority is called Public Enterprise.

In Public Sector enterprises either the whole or a major part of the capital is invested by the government. It may be, by central government or state government or local government or jointly by these governments.

The first public corporation to be created was Port of Autonomy in London in 1908. This was gradually followed by other corporations, Now the concept of Public Sector has gained importance in almost all the countries of the world.

In developing countries, they are undoubtedly conceived as an instrument used for accelerating the role of economic development and bring about a social change. They have been developed there out of necessity and not on account of any dogmatic approach, as Hanson rightly pointed out, "what ever the ultimate perspective may be, the country, anxious to develop economically has no alternative, but to use public enterprise on a considerable scale at the very least in order to get things going public enterprise without a plan can achieve something: a plan without public enterprise is likely to remain on paper (Hanson 1957).

Causes of the Evolution of Public Ownership

The Government has three major responsibilities towards its citizens. The first responsibility is to protect the society from the violence and invasion of other independent societies. Second, the protecting of every member of the society from injustice of every other member of it and, third responsibility is to maintain certain public works and certain public institutions, which it can never function for the interest of any industrial or a small number of individuals. Hence, the role of the Government cannot remain passive. But its interference was confined to certain areas. It was in the succeeding years that many of the developing and advanced countries adopted the public ownership on large scale. The factors such as exploitation of labour, monopoly position of the capitalist, misdirection of resources and the lack of public welfare etc., were responsible for placing the public sector on a high position.

1. Economic Rationale of Public Enterprises

The public ownership which covers all government agencies engaged in providing goods and services is an old concept. However its actual development came into being due to the result of Industrial Revolution and the policy of Laissez Faire. The policy of Laissez Faire provided that only the new capitalists owned the whole economy leaving a major portion of the population as the labour class.

The worker which constituted the major portion population, were exploited in the capitalist system and they could not get their due share in the national economy. Almost the entire the entire property was owned and controlled by a small number of private entrepreneur a major portion of the population as the labor class having as of income. The few capitalists were dominating the whole population Prof. Bowley made a study in 1910 about the ownership of or that just 1 percent of the population took 30 percent and 5% took 44 percent of the income of 99 percent of the population and 56 percent of the income to 94% percent of the population." This state of affairs resulted into the great hardships to the working classes, besides causing instability in the economy. It was not surprising therefore that this unsatisfactory state of affairs was the main causes of public ownership of production, distribution and consumption.

After evolution of socialism, it was realized that private ownership would not suit the modern thinking and will be a hurdle in achieving socio-economic objectives, therefore the emergence of public enterprise became a world wide phenomenon.

It was claimed that socialism would guarantee to every worker a subsistence wage while providing in rich leisured class with the means of upholding culture and saturating them with money enough to enable them to save and invest capital without personal privatization" (Shah 1984).

Consequently most of the countries followed the policy of nationalization.

"The main objectives of nationalization are, (i) to have effective control over the strategic and basic sectors of the economy; (ii) to put an end to mismanagement by the private capitalists; (iii) to ensure ben utilization of the productive resources and to serve the genuine needs the priority sectors, weaker section; (iv) to maintain employment and safeguard the interest of the employees; (v) to protect the interest consumers; (vi) to take necessary action for the development concerned industry or business" (Rao and Shukla 1990) ^[11].

Attempts were being made everywhere by redistributive taxation, state regulation; of wages and factory legislation to remedy" limits of capitalist system. But redistributive taxation within the capitalist limits meant granting of dole for idleness instead of wages and did not help the unemployed masses. Hence in a capitalist in there was no way out to provide the society equal opportunities continuance was out of question. Consequently, there was no remedy other than the transformation of capitalist society into socialist one, which meant the expropriation of private property" (Shah 1984).

2. Public Utilities and the Basic Industries Argument

Public utilities and the basic industries essential for the welfare of the community and for the sound foundation of the industrial development also required direct state control. These are the industries on which the property of the community depends and where the private enterprise has no major drive for the following three reasons.

Firstly, it requires large outlay of investment in a single project. Laying down a railway line or develop posts and establishing a heavy steel plant generally requires an amount of capital which is beyond the capacity of the private entrepreneurs.

Secondly, such outlays need a relatively time before it start paying off. Finally, many important projects such as defence and irrigation etc. cannot be left to the private entrepreneurs. Consequently, Keynesian economics assigned the central role to the public sector in the developing countries in levelling out the zigzags of private investment to fill up the gap of the deficiencies. From the above discussion it becomes clear that the need of public sector arises for various reasons. Since the activities of the Government differ from country to country according to the circumstances prevailing there, various countries have adopted this method for different reasons, some countries give an extensive role to the public sector, while other confined it only to the public works.

Actually in advanced countries, with abundant resources the role of the Government is minor as everything gets adjusted itself with little commission. But in developing economy, like India where the resources are scare the role of state is significant, since the economy is very sensitive and a little negligence can disturb the whole process of economic development.

As a result of the experience gained during the World War Lone Government of India decided that the establishment of certain industry was necessary from the point of view of effective defense. Therefore after the commencement of the first world war the government attempted to examine the question of industrial policy which led to the appointment of first Indian Industrial Commission, 1916-18. The

Commission recommended that in future the government must play an active role in the industrial development of the country. Then came the World War II, which affected most of the eastern countries due to the cut of the supplies from Europe. So during the war period, government began to recognize the necessity of industries meeting the defence and civilian requirements. "In 1931: Karachi Session of the Indian National Congress for the first time attempted to define the economic and social contents of the Swaraj and decided that it shall own and control key industries and services, mineral resources, railway water-ways, shipping and other means of public interest. After that Congress set up a National Planning Committee with Jawaharlal Nehru as its chairman and K.T. Shah as the general secretary.

This committee appointed two sub-committees in 1940 to report on principles of national planning and administrative machinery for India's national plan. However, due to the out-break of World War II and Congress involvement in the struggle for freedom the reports of these sub-committees could become available only in 1948.

The National Planning Committee supported state intervention in the country's economy and recommended increasing state control over it, including nationalization of industries.

In 1943 the Bombay plan was prepared by eight leading industrialists of Bombay. Consequently, people started thinking about planning and development. Those ideas later were embodied in the new Indian Constitution in Part IV of Directive Principle of State Policy. Article 39 provides the government to direct its policy towards securing the ownership and control of material resources of the country; are so distributed as best subserve the common good and that the operation of economic system does not result in concentration of wealth and means of production to the common determinant" (Awasthi and Maheshwari 1965).

"In this policy only three government monopolies were established, i.e. manufacturing of arms and ammunitions, the production and control of atomic energy and ownership and management of railway transport" (Awasthi and Maheshwari 1965). "Certain basic industries are to be permanently in the hands of the state and certain other types of economic undertakings are to be thrown open to private enterprise and third group is to be mixed through the establishment of Joint Companies." On 215 April, 1945 the planning and development division had issued a policy statement specifying a crucial role for the industrial development of the country. Certain industries must be taken under central control in the interests of coordinated development. Government should play active part in the industrial development of the country. It was also stated in the policy Statement that basic industries of national importance might be nationalized provided adequate capital was not forthcoming and it was regarded as essential in the national interest to promote such industries (Rao and Shukla 1990) ^[11].

The economic planning which has adopted in many countries for rapid and rational economic growth was difficult without the cooperation of public ownership. The planning can not be successfully implemented without controlling certain key industries by the government. As far as the Indian economy is concerned the charter of public sector was embodied in the Industrial Policy Resolution of April 1948. The role assigned to the state in the resolution was significant for bringing a rapid economic development

by expanding its activities. The rationale of public sector in India can be identified with the rationale of economic planning.

In the fundamental terms the aims of all economic planning is to bring about ordered economic development in the different sectors of the national economy. The state can make a deliberate and conscious effort towards economic development by entering in the field of economic activities and can bring about the required development in critical areas. Also the public industries are used as the source of finance for the planning outlay. Further public institutions are the medium through which the concept of welfare economy is realized practically. They help in providing job opportunities for the unemployed masses of the country. Further there are many other reasons for the emergence of public ownership in India.

Apart from the constitution the Industrial Policy Resolution adopted in April 30, 1956 also favoured in the creation of public enterprises. The management of key industries was placed in the public sector. "In 1970, the industrial licensing policy was adopted brought even the small industries under this sector too. Initialia make the assumption that development is aimed at the goal which appears most prominently in declaration of government police, accumulation of resources for the purpose of continuously improving the standards of living of the masses. But colonial governments tend to no their main emphasis on the expansion of agriculture, extractive C, extractive and processing activities of independent, states while by no means neglecting their aspects of development tend to find their summum bonum in the creation of manufacturing industries such as appear to have brought power and prosperity to more developed lands. The reason for this difference in relative emphasis is well known. A colonial government normally aims at creating an economy which will be complementary in that of the metropolitan country, whereas an independent government thinks in terms of an internally balanced, diversified and comparatively self-sustaining economy" (Hanson 1959).

Types of Public Enterprises as they Developed in India

When India formulated its five year plans for economic development, the need for an ever-growing public sector came into force and with this arose a question of efficient working of the enterprises proposed for the Public Sector under the five year plans. The Planning Commission discussed this problem and expressed that "normally state enterprises will be managed by the state but in special cases the possibility of management through private agency for a limited period may have to be explored. In some cases, state enterprises may be operated through Public Corporations. In order to gain experience of management through public corporations further experiment will be tried" (Chatterjee 1982) ^[3].

The Planning Commission also considered the need to strengthen the machinery of economic administration at the disposal of the government at the centre and in the state. To consider this aspect, the government appointed a Commission headed by A.G. Gorwala, who classified the state enterprises on the basis of nature of their functions and suggested that different forms should be adopted for different undertakings as per the subject of producing and suitability administration needed. He expressed his views as, "the general principle regarding choice of form is that where

the nature of work of an authority is substantially commercial, a Joint Stock company is more suitable otherwise a Public Corporation is desirable. The Public Corporation essential where the undertakings is discharging what is in effect extension of the function of government, e.g. irrigation and hydro-electric in effect and Projects to as in a river valley scheme or the dissemination of information as broadcasting or surface carriage of passenger and freight as in the state transport" (Chatterjee 1982) [3].

Forms of Public Enterprises

Various forms of public enterprises have been set up in India, according to the statutes which include departmental undertakings, Public Corporation and the Public Companies. Public enterprises in India have been divided into three categories, viz., the departmental management, public corporations and the public companies. These different forms of organizations have different features to suit various needs of the country.

Departmental Management

It is a traditional type of public enterprises in developed and in under-developed countries and has been used for railways, communications, post & telegraph, commercial or industrial monopolies of revenue raising character. The principal characteristics of this form of organization are:

1. The enterprise is financed by annual appropriation from the treasury and all or major share of its revenues are paid into the treasury.
2. The enterprise is subject to the budget, accounting and audit controls applicable to other government activities.
3. The permanent staff of the enterprise are civil servants, and methods by which they are recruited and the conditions of service under which they are employed are ordinarily the same as per other civil servants.
4. The enterprise is generally organized as a major subdivision of one of the departments and government is subject to the direct control of the head of the department.
5. They are accountable to parliament though the concerned ministers. The growth policy and functioning of public enterprises are communicated to parliament.
6. Whenever this is applied in the legal system of the country concerned, the enterprise possess the sovereign immunity of the state and cannot be used without the consent of the government.

It suitability of departmental form the government wishes have substantial control over is enterprises, the departmental under taking would be most suitable one."¹⁸ From this point of view the railway posts and telegraphs, ordinance factories, transport and communing etc. have been set up as departmental undertakings. The Estimates Committee was of the opinion that the industries relating to defence and the industries established for financial control could be organized and departmental lines. The great departments of states are not organized for business administration.

The characteristics reveal that these departmentally managed concerns are wholly under control of the state administration where perfect accountability and supervision is possible.

There is also no conflict of opinion between management and the ministry responsible for the undertaking.

Undertakings under the category provide the infra-structure and industrial base.

3. Government Companies

Another form of an autonomous authority for running state enterprise is a government company. The term here is used to denote an enterprise formed under the Companies Act of 1956, in which the government has the controlling interests through its ownership of all or some of the shares.; The operations and management of a government company are regulated by Section 620 of the Companies Act, the Central Government however has a right to accept partially or completely the application of any provision of the Act, accept Section 618, and 619A to government companies. It thus covers enterprises though which the government enters into partnership with private capital. The public company may attract the fund by issuing the interest bearing debentures and bonds. But the under developed countries people respond more to an offer to equities for the concern. The reasons for the adoption of the company form is relevant. The government may have to acquire shares on an existing enterprise in an emergency in response to a financial on employment crisis or in order to maintain production or provide services of basic necessities which have become unprofitable under private enterprises. This happened in many European countries during the wo. war period, where the government transferred the shares to the pure soon after the establishment of the company, the capital of the company owned wholly either by the government or with private capital, domestic or foreign.

In India, the state holds generally major shares, but in countries like France, Pakistan, minor state participation is common. Both government and private participants can take part in management. It exercised either by a special agreement to that effect or by normal practice of electing board members in proportion of their equity holdings. The company is registered under the statutory law enforced in the country. Its legal status is identical to that of the companies in the private sector. "It is also; accountable to Parliament, if secured as provided under sections 619 and 619A of the Companies Act of 1956, which relates to audit and submission of the annual reports, respectively. The members of the governing boards are the elected representatives of various interested groups. These government bodies are not dictated by the minister concerned."²¹

Financially, it is free from treasury and budgetary appropriation. Its capital fund is derived from the sale of stock to government or to private investors. It can use its own revenues. It is free from audit and accounts rules of the government. Its final accounts are prepared and audited as in the case of a private establishment. The auditor general approves the names of auditors.

In the company form all or most of the functions are vested in the share-holders but they are reserved for the government. The Estimates Committee in its report has observed that "Indian companies are more or less extension of departmental organization."²²

Public Corporation

With the rapid expansion of public enterprises, it becomes necessary to evolve a new institution to manage them. And the solution was found by the formation of public corporation.

These corporations were thus made responsible for their own finances, i.e. financed by the users of the services. The importance of such organization is to form the nearest equivalent to organization in private sector. The principle characteristics of public corporation are:

1. It is wholly owned by the state.
2. It is generally created by special act, which defines its powers, duties and immunities and prescribing the form of management and its relationship of established departments and ministers.
3. As a body corporate, it is a separate entity for legal purposes and can sue and be sued, enter into contracts and acquire property in its own names. Corporation conducting business in their own names have been generally given greater freedom for making contracts and acquiring and disposing off the property than ordinary government department.
4. Except for appropriation to provide capital or to cover losses, a public corporation is unusually, independently financed. It obtained its funds from borrowing either from treasury or the public. It is authorized to use and re-use its revenues.
5. It is generally exempted from most regulatory and prohibitory statues applicable to expenditure of public funds.
6. It is ordinarily not subject to budget accounting and audit laws, and procedure applicable to non-corporate agencies.
7. In the majority of the cases, employees of public corporation are not civil servants, and are recruited and remunerated under terms and conditions which the corporation itself determines. It is free from civil service regulations and from the danger of red-tapism of bureaucracy.

The Public Corporation is an autonomous body which is free from Parliamentary enquiry into its management. It has no interest of its own except promoting the interests of the public for which it is created.

The Public Corporation is left to conduct its operation independently as the private business. It has no share-holders in the ordinary sense of the term and is not supposed to meet the interest of the share-holders. It exists for the fulfilment of the tasks enjoined upon by the laws. The Public Corporations are not set up only for profit motive but to meet the public ends.

The Public Corporation is financially self-supporting. its finances are separate from the national budget, though the treasury keeps sufficient control over certain aspects of finance. Its establishment is made through funds provided

by the State. And once it is sanctioned the Corporation has to make its own plans.

The Public Corporation is free from parliamentary enquiry into its management. Its policies are subjected to Parliament and ministerial control, but being a separate legal entity, it is not accountable to Parliament about its day to day workings. The Public Corporation is governed by the special Act, which provides its certain immunities which are not extended to other corporate bodies of the land. The formation of Public Corporation requires the lengthy process of going through the whole legislative procedure. Any subsequent change needs the amendment of the original Act.

Finance of Public Enterprises

The super-structure of enterprises can be built only on the sound financial base. Its continuous expansion and growth depends upon the availability of adequate finance smoothly, regularly and at the reasonable cost. The state collects its finance through different resources for their better operation. In Public Corporations, the original capital is provided out of parliamentary appropriation either as an outright grant or as an interest bearing capital. The financing method of the statutory corporations is generally indicated in the statutes. Except in the case of mixed economy, the whole of the initial capital for the public undertakings comes normally from the government directly or through the three forms.

a. When a government starts a new undertaking, the initial investment is always made out of the budgetary allocation through the grants, equity capital or loans.

Grants capital are sanctioned generally to the public utilities and are made in a lump-sum amount. But the disadvantage of the grants is that it imposes no financial discipline on the enterprise.

Therefore, except in a few cases, where the grants are used exclusively, the enterprises are equipped with equity type capital and loan capital.

Foreign Capital

Foreign capital is the important source of finance of public undertakings. Many of the public undertakings are collaborated with the foreign investment. External capital for public enterprise may be private or public, director indirect.

Investment

The following table indicates the investment in the public sector (including organized industry, mining, power, transport and communication up to the Seventh Five Year Plan.

Table 1: Public Sector Investment During Five Year Plans

S. No.	Period/Plan	Total Public Sector	
		Rs. in Crores	Percentage Share
1.	First Plan (1951-56)	3,360 1,559	46.4
2.	Second Plan (1956-61)	6,831 3,730	54.6
3.	Third Plan (1961-66)	10,400 7,185	60.6
4.	Annual Plans (1966-69)	16,089 13,655	40.8
5.	Fourth Plan (1969-74)	22,635 13,655	60.3
6.	Fifth Plan (1974-79)	63,671 36,703	57.6
7.	Sixth Plan (1980-85)	1,58,710 84,000	52.9
8.	Seventh Plan (1985-90)	3,22,710 1,54,218	47.8

Source: Rao, Sukhla & Prakash, Administration; of Public

Enterprises in India, Himalayan Publishing House, Delhi Second Edition, 1990, p. 64.

The above table shows that during this period the public sector investment has increased from Rs.1,559 crores to Rs.1,54,218 crores. In relative terms, the percentage has increased from 46.40 percent for the first plan to 54.6 percent for the second plan. During the third plan, the investment share was the highest, constituting sixty percent of the total investment.”

“The public sector outlay in Eight Plan (1992-97) of Rs..., crores has been financed to the extent of 89 percent (Rs. 3,85,400 crores) by domestic resources, 7 percent (Rs.28,700 crores) by net inflow or capital from abroad and 4 percent (Rs.20,000 crores) by deficit financing

Of the domestic resources, as much as 17 percent of the total resources (Rs 3,85,400 crores) accounts for borrowing, small savings, provident funds and loans from financial institutions and other miscellaneous capital receipts. Of the states sector outlay of Rs.1,79,985 crores, Rs.78,500 crores or 44% of the total comes from the centre by way of assistance for State Plans.²⁴

Working of Public Enterprises

Public sector plays an important role in the developmental process of many countries atleast in the developing countries. Public enterprise provides infra-structure to the all-round investment in the economy. It makes the industrial base for long run development by establishing the basic strategic industries.

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