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UNIT 16 GOVERNMENT IN BUSINESS

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16.0 OBJECTIVES

After studying this unit, you should be able to:

- state the reasons why government controls the business activities of private enterprises
- explain various forms of government control
- define a public enterprises
- explain rationale for government participation in business through public enterprises
- state the objectives and features of public enterprises
- describe the performance, problems and limitations of public enterprises in India.

16.1 INTRODUCTION

Traditionally, business activities were left to individuals and private organisations. It was assumed that in a competitive market, the profit motive of businessmen and the forces of demand and supply should ensure efficient production and distribution of goods and services in the general interest of all. But it led to unchecked growth of monopolies and concentration of wealth in the hands of a few business houses. Private entrepreneurs, as they work mainly with profit motive, do not show interest in such industries where the profit margin is less, gestation period is long, investment is huge, etc. Industries are also concentrated in a few places where there are certain natural advantages such as availability of raw-materials, technical skills, infrastructural facilities, nearness to market, etc. Lack of such natural advantages in some regions has led to regional imbalances. This necessitated the government to take some measure to check the growth of monopolies and concentration of wealth, and to ensure balanced regional development. Hence, government started regulating the business activities of the private enterprises alongwith direct participation in business.

In this unit we shall discuss the reasons underlying government control over private business, the various forms of such control, rationale behind the government participation in business, the objectives and features of public enterprises as well as the contributions and limitations of these enterprises.

16.2 REASONS UNDERLYING GOVERNMENT CONTROL OVER PRIVATE BUSINESS

Let us discuss in detail about the causes which have led to the government regulation and control of private business activities. The main reasons are as follows:

- 1) Evils of free enterprise and private ownership: The following evils are associated with free enterprise and private ownership:
 - i) Freedom of enterprise often gave rise to monopoly of large business firms. Monopoly power was generally used to restrict production and increase prices so as to earn higher profits.
 - ii) Private ownership of business has led to concentration of wealth in the hands of a few business houses. This caused wide disparities of income and wealth among the people.
 - iii) The growth of large companies prevented the entry of new firms in the market.
 - iv) For the sake of profits, private enterprises started indulging in wasteful advertisement and unfair competition.
 - v) Business conditions were subject to booms and depressions at periodic intervals. Depression brought about widespread unemployment and human misery. On the other hand, speculative activities during booms led to business failures and economic crisis.
- 2) Establishment of welfare state: There was increasing public pressure on Government to ensure social welfare and protect the interest of the general public by controlling monopolies, establishing fair trade practices and ensuring equitable distribution of income and wealth.
- 3) Planned economic development: Government intervention is necessary for rapid development of certain key industries which require large investments or which yield low returns. Besides, to take the economy in planned direction, it is also necessary to give priorities to the growth of certain industries. But, for a private entrepreneur profitability is the main consideration rather than priorities of development. Moreover, private enterprises are likely to be concentrated in certain areas where facilities are easily available. Thus backward regions in the country would be deprived of the benefit of industrial development. Therefore, for rapid economic development of the nation, government is required to regulate private business and channelise private investment in the planned direction. It is also necessary for government to directly participate in industrial and commercial activities to hasten the process of development.
- 4) Other reasons: There are several other reasons which necessitate the government to regulate the private business as follows:
 - i) To prevent the misuse of scarce natural resources like minerals, forests, etc., by private business firms for profit.
 - ii) Ensuring the proper use of scarce resources keeping in view the future needs.
 - iii) Encouraging and protecting small-scale industries.
 - iv) Protection of the economy from the dominance of foreign investors.

16.3 INSTRUMENTS OF GOVERNMENT CONTROL

You have studied the reasons underlying government regulation of private business. Now we will discuss about the actual measures adopted by the government to regulate private enterprises.

Government regulation of private business does not necessarily mean only restriction of private activities. As a matter of fact government measures of control may have inductive as well as restraining effects on business. Measures may have inductive effects if the objective is to stimulate, encourage, facilitate or induce a particular type of trade or industrial activity through technical and financial assistance, tax concessions, subsidy,

bank credit, supply of foreign exchange for imports of raw materials or machinery, protection against foreign competition, etc. On the other hand, certain measures may have restraining effects if they are aimed at limiting or restricting private trade and industry by means of legal enactment and administrative orders. These may include licensing requirements for starting or expanding industries, control over capital issues, fixation of maximum price, etc. However, some of the measures may have both the effects. For example, industries which require imported raw materials may be adversely affected if imports of such raw materials are restricted or stopped. At the same time, due to such restriction on imports, the producers of competing goods may have a positive effect and earn more profit. There is another way of distinguishing between the instruments of control. Thus, controls may be classified into two categories depending on whether the measures are directly applicable or indirectly applicable. Accordingly, the two broad types of control measures may be: 1) direct controls and 2) indirect controls. Let us now discuss briefly about these two categories.

Direct Controls: Direct controls are the measures which are applied at the discretion of government authorities. Such a control may be used to promote, restrict or limit the activities of private organisations or categories thereof. Examples of these controls are:

- 1) Licensing of new enterprises or expansion of existing large enterprises.
- 2) Control over issue of shares, debentures, etc., by companies for raising capital (control of capital issues).
- 3) Import and export control through direct prohibition or quota restriction.
- 4) Fixing maximum or minimum prices for particular commodities.
- 5) Control over distribution of commodities through rationing.
- 6) Grant of subsidies for industrial growth.
- 7) Incentives for export promotion like grant of subsidy, credit facilities, etc.

These controls are also known as **discretionary controls** because they involve discretions to be made by concerned government officials.

Indirect Controls: These indirect controls affect private business firms in an indirect manner. The following are some common examples of indirect controls:

- 1) **Changes of tax rates:** Tax rates may be lowered to encourage the business or raised to discourage the business.
- 2) **Changes in import and export duties:** Import duties may be raised so as to increase the prices of certain goods. This may be aimed at discouraging imports of those goods or to protect domestic industries from foreign competition. Import duties may be lowered to allow large imports of certain products. Similarly, export duties may be raised or lowered so as to influence the domestic demand and supply. For instance, if the export duty is raised, exports may be discouraged and domestic supply may increase to meet higher domestic demand. If it is lowered, exports may rise.
- 3) **Changes in interest rates on bank loans:** Government can change its monetary policy to control the prices. For instance, interest rates on bank loans and credit may be raised so as to prevent excessive borrowing and expenditure by business enterprises and to reduce new investment by business firms. On the other hand, interest rates on bank loans may be reduced to induce business firms to borrow and expand their business activities.

Indirect controls are also known as **non-discretionary controls**. Government authorities do not have any discretionary power to apply the measures to particular firms and not to others in the same category.

Economic Planning

Many developing countries today have recognised the importance of planning for economic development and adopted broad economic policies for industrial growth. In India this is done through Five Year Plans. The First Five Year Plan was launched in 1951. Since then, six successive plans have been completed and the Seventh Five Year Plan is running its last year. The main objectives laid down in the plans have been:

- i) To achieve a target growth of national income so as to improve the standard of living of people.
- ii) To bring about industrial growth according to certain priorities and with particular emphasis on basic and heavy industries like steel, fuel and power, chemicals,

fertilisers, engineering goods, etc., and provision of transport and **communication** facilities.

- iii) To generate more employment opportunities to absorb the increasing labour force.
- iv) To increase agricultural production and achieve self sufficiency in **foodgrains**.
- v) To reduce regional inequalities and achieve balanced regional development.
- vi) For the utilisation of limited resources to the best possible advantage.

Economic planning gives a general indication of the priorities of development of various industries and accordingly guides the development process. Besides, it indicates the extent to which private organisations will be allotted scarce resources like fuel, power, finance and other facilities for growth. The economic and social activities which the government will undertake on its own are also laid down in the five year plans.

Industrial Policy

The industrial development of our country is guided, regulated, controlled and promoted according to the industrial policy. After Independence, a number of policy statements have been issued by the Government of India which define the respective roles of government, private, cooperative and joint sector organisations in industrial development. Policies also indicate the relative importance of large, medium and small-scale industrial units. In April 1948, the government adopted the first Industrial Policy Resolution, which emphasised a progressively active role of the state in industrial development. At the same time, the policy also laid down that private organisations should play a complementary role within the framework of the policy.

In 1956 the government adopted a new industrial policy resolution with the following objectives.

- i) To increase the rate of economic growth.
- ii) To speed up industrial development.
- iii) To enhance the scope of government participation in industrial growth.
- iv) To prevent private monopoly and concentration of economic power.
- v) To define the role of small, village and cottage industries.
- vi) To bring about a balanced regional development.

Under the resolution, industries were divided into three categories.

- 1) Industries listed in Schedule A of the Resolution which would be developed as state monopolies. The development of these industries would be the exclusive **responsibility** of the state. These include atomic energy, arms and ammunition, heavy machinery, railways, air transport, etc.
- 2) Industries listed in Schedule B which would be progressively state-owned and the state would generally take the initiative in establishing new units. At the same time, private enterprises would also have the opportunity to develop in the field either on its own or with state participation. The industries in this category include aluminium, drugs, machine tools, fertilisers, road and sea-transport, etc.
- 3) Remaining industries are those in which private organisations would take the initiative in establishing new units and expanding the existing industries.

In course of time the government modified some aspects of the **policy** adopted in 1956. But the basic policies remained more or less the same.

Industrial Licensing

As an instrument of government control and regulation, the system of industrial licensing was introduced to implement the Industrial Policy Resolution. Provision was made for that purpose in the Industries (Development and Regulation) Act, 1951. The Act has provided that no **new** industrial unit could be established or substantial expansion of **existing** plants made without a licence from the Central Government. Further, while granting licence for any new undertaking, government may lay down conditions regarding location, minimum size, **etc.**

The industrial **licensing** system was expected to achieve the following objectives:

- 1) Regulation of industrial development and guiding investment in industries according to the planned priorities and targets of growth.
- 2) To control **monopoly and** concentration of wealth.

- 3) Protection of small-scale industries against undue competition from large units.
- 4) Prevention of concentration of industries in few locations and secure regional decentralisation of industries.
- 5) Best possible use of scarce foreign exchange resources.

Check Your Progress A

- 1) Which of the following statements are True and which are False?
 - i) The main reason for government intervention in business operations was to bring all economic activities under government ownership and management.
 - ii) Planning for economic development has been the only factor which required regulation and control of industries.
 - iii) Raising or lowering the rates of import duty tariff is a measure of direct control.
 - iv) Indirect control includes changing the interest rates for bank lending.
 - v) Small-scale industries are protected through industrial licensing.
- 2) Fill in the blanks
 - i) Direct controls may have or effect.
 - ii) Restricting imports by quota system is a type of control.
 - iii) Grant of cash subsidy for exports is a type of control.
 - iv) Economic planning the process of industrial development.
 - v) The Industrial Policy Resolution of 1956 classified industries into categories.
 - vi) The system of industrial licensing was introduced to implement

16.4 WHY DOES THE GOVERNMENT PARTICIPATE IN BUSINESS?

We have learnt that the government control the private enterprises on the one hand and directly participate in the business on the other. We have already discussed about the need and forms of government control of private business. Let us now study the rationale of government participation in business.

Government today is engaged in various types of business undertakings. There are several types of services which are provided by government organisations such as electricity, water, postal, telecommunications, transport services, etc. Besides these organisations, there are many manufacturing industries owned and managed by government. They produce steel, locomotives, machine tools, watches, railway coaches, telephone equipment, and so on. Government undertakings are also involved in the supply of consumer goods like milk (through government milk schemes), bread (Modern Bakeries), cloth (National Textile Corporation), etc. Now you may ask: why does the government participate directly in business? The reasons for the direct participation of government in business and industry may be divided into three categories: 1) basic reasons, 2) ideological reasons, and 3) specific reasons. Let us discuss about these reasons in detail.

16.4.1 Basic Reasons

The government of India was rightly convinced that political independence without economic independence would not have much meaning. It was, therefore, decided to industrialise the country in a big way as early as possible. The government felt that if the private sector was to take the initiative, it would take an unduly long time to achieve this objective of rapid industrialisation. It was so because the private enterprises lacked adequate entrepreneurship and resources to start large scale ventures. The government, therefore, made a two-pronged attack on the problem. The government encouraged private enterprises to set up new industries, but also, went into industry in a big way.

It was decided to establish steel plants, fertiliser factories and other units necessary for industrial and agricultural growth. The following is a list of some major enterprises and power projects set up by the government within a decade of Independence.

- 1) Steel Plants at Rourkela, Bhilai and Durgapur
- 2) Chittaranjan Locomotive Works
- 3) Hindustan Machine Tools
- 4) Sindri Fertiliser Factory

- 5) Hindustan Shipyard
- 6) Hindustan Antibiotics
- 7) Hindustan Cables
- 8) Integral Coach Factory
- 9) Indian Telephone Industries
- 10) Power and Irrigation Projects — Tungabhadra, Bhakra Nangal, Hirakud, Damodar Valley, Chambal, etc.
- 11) Industrial Finance Corporation of India for providing finance to private enterprises.
- 12) National Industrial Development Corporation to support industrialisation in the private sector.

The intention of the government was to have economic self-reliance in as many areas and as early as possible. We have achieved this objective in a good measure.

Most of the projects set up by the government involved heavy investment, i) long period of construction (for example, a steel plant may require five to six years), and ii) low returns on investment. In many cases, however, there was a heavy element of risk which private enterprises, by and large, were not willing to take. The government, therefore, has played an important entrepreneurial role in industrialising the country. A large number of industries set up by the government would never have been established if we had waited for the private sector to come forward and make the necessary investment and take the risk.

16.4.2 Ideological Reasons

There is another side of the picture as usual. Apart from the economic and social consideration, the government had strong ideological commitment to the philosophy of public ownership of the means of production. This is the Congress Party's approach which ruled this country so far except during the brief period of 1977-79 when there was the Janata Party Government. It is important to note that even before Independence the Congress party committed itself to socialism through ownership of the means of production. It may be noted that the Industrial Policy Resolution of 1956 which is valid till now, has greatly and clearly emphasised the need for the government in business and this explains the importance of the government owned enterprises in Indian Economy.

16.4.3 Some Specific Reasons

There are many other reasons for the government to participate in business. These are specific to a particular decision. Some of these are listed below.

Air Transport Business: Till 1953, there were many private air companies in the country. Most of these were financially unsound and had no money to invest in modern and costly aeroplanes. The air transport is of strategic importance to the country. The government, therefore, nationalised nine air companies and created Indian Airlines Corporation and Air India International Corporation in 1953.

Insurance Business: Today, the whole of insurance business is with the government. The life insurance business is operated through the Life Insurance Corporation of India and other types of insurance business through the General Insurance Corporation of India and its four subsidiary companies.

The government went into the life insurance business in 1956 nationalising scores of private companies which were not fulfilling the main objective of the life insurance business, namely, i) effective mobilisation of the people's savings, ii) spreading the message of insurance as far and as wide as possible, and iii) using the insurance funds for economic development.

Before nationalisation of life insurance business in 1955, there were only 47.8 lakh policies with a total sum assured of Rs. 1,220 crores. By the end of March 1987 there were 298.8 lakh policies with a total sum assured of Rs. 60,795 crores. Moreover, funds with the Life Insurance Corporation (LIC) are invested for national development. For Example, out of the total investment of Rs. 14,000 crores by the end of March 1987, Rs. 1,300 crores was given as loan to the State Electricity Boards and Rs. 561 crores for water supply and sewage schemes in the country. Over 50% of the investments are in government securities. Thus, savings of the nation are now being channelised for nationally important objectives, which was not so before nationalisation. The high figures of number of policies and the sum assured also show that the message of insurance is spreading far and wide.

Similarly, the general insurance business which is now wholly run by the government companies after its nationalisation in 1971, has been given the necessary social orientation. This would not have been possible had the over 100 private companies continued to run the general insurance business.

Commercial Banks: The government today is in the banking business in a big way. Over 90% of commercial banking is in the hands of the government. What was the objective of the government in going into banking business? The government rightly wanted the banking system to serve the developmental needs of the economy in conformity with national policy and objectives. It also wanted the banks to have new criteria for advancing loans in order to benefit the weaker sections of the society. The private sector banks were not prepared to help the government to achieve these objectives and hence 14 major banks were nationalised in 1969 and six more banks in 1980. Earlier in 1955 the government had nationalised the Imperial Bank of India and had converted it into State Bank of India. This was done because the government's desire to open adequate number of branches in rural areas was not fulfilled by the Imperial Bank of India.

By the end of September 1987, we have 30,463 rural branches (56%) out of 54,163 branches of commercial banks as compared to 22% rural branches in 1969. Further at the end of June 1986, we find that the total advances of the nationalised banks for various agricultural activities were Rs. 9,231 crores for as many as 166 lakh accounts opened for this purpose. Similarly, loans to small scale industries were Rs. 7,836 crores in 18 lakh bank accounts.

Coal Industry: The coking coal mines were nationalised in 1971. It was done because coking coal which is essential for production of iron and steel has very limited reserves in the country. The private sector was mining this fast depleting and scarce natural resources in a very wasteful manner. Other coal mines were also nationalised in 1973. The reasons for this were: i) the private sector owners did not have the necessary funds required for increasing the coal production, ii) the coal which is a scarce natural resource was being mined in a very unscientific way, and iii) the private coal miners were greatly exploiting the labour employed in the mines.

Oil Industry: In the 1970's the foreign oil companies **Burmah Shell, Caltex and Esso** were nationalised. Here the objective was that the government should have control over a critical and strategically important resource like oil. Today, the government has full control over the production and distribution of oil. And this has paid us rich dividends in terms of self-reliance and generation of resources.

Various Other Types of Business: There is yet another important reason for the government going into business of various types. Over one hundred cotton textile mills and dozens of engineering and other enterprises have been taken over by the government since Independence. This is done because the government cannot afford to lose production capacity which exists in the units which become sick and which the private sector wants to close down. Further, if a sick unit is closed, hundreds and thousands of employees may be out of job, which is undesirable both socially and politically.

We have listed above various nationalisation measures which show the failure of private enterprises to meet the challenge of the situation. This forced the government to step into the picture. By and large, the conclusion so far is that the government in India went into business due to economic and social compulsions.

From the above discussion we can conclude the reasons for government participation in business as follows:

- 1) The government's role in business in India is greatly justified by economic and social reasons.
- 2) Had the government not initiated a large number of industrial activities, the Indian economy would never have got the sound base and self-reliance which it has today.
- 3) A large number of enterprises have been forced on the government when they became sick and they could not be allowed to be closed down due to social and economic reasons.
- 4) There is an element of ideology in the role which the government has in business today. Had the ideology not been there, the government would have disengaged itself from at least some of its business activities after completing its role as path finder or initiator.

- 5) The government continues to be in business in a big way because of ideological as well as economic and social considerations.

16.5 WHAT IS A PUBLIC ENTERPRISE?

We have already mentioned that the government owned enterprises are also called Public Enterprises (PEs). Strictly speaking the term public enterprise, as a business entity, refers to any industrial or commercial undertaking which is owned and managed by the central, state or local government and of which the output is marketed i.e. not supplied free. Thus public enterprises include manufacturing, trading as well as service organisations which are essentially business undertakings.

Public enterprises consist of nationalised private organisations as well as new enterprises promoted under government ownership and control. Life Insurance Corporation, Indian Airlines Corporation, Coal India Ltd., etc., are examples of public enterprises established by nationalising private organisations. Hindustan Machine Tools, Hindustan Antibiotics Ltd., Chittaranjan Locomotive Works, etc., are examples of public enterprises promoted by government.

Difference Between a Public Enterprise and a Private Enterprise

Private enterprises, on the other hand, refer to industrial and commercial organisations which are set up under individual or group ownership within the general framework of regulatory laws and rules of the government. These include manufacturing and commercial companies, medium and small firms organised as proprietary and partnership concerns.

Private enterprises are primarily motivated by private profit. Public enterprises are governed by public policies framed by government and aimed at maximising social welfare and upholding public interest. The objectives of public enterprises in India are laid down in conformity with the objectives of the development plans. They are accountable to the government and the parliament or state legislatures regarding the fulfilment of their objectives. Private enterprises are free to set their objectives and to undertake any business activity except those which are illegal. However, private enterprises are also regulated by government controls of different kinds.

16.6 FEATURES AND OBJECTIVES OF PUBLIC ENTERPRISES'

Features

The main features of public enterprises as distinguished from private enterprises are as follows:

- 1) Public enterprises are owned and managed by the government or agencies set up by the government.
- 2) The whole or major part of the capital required for the public enterprises is provided by government.
- 3) A public enterprise can be organised as a departmental undertaking or as a statutory corporation or as a government company.
- 4) These are governed by public policies laid down by the government in the public interest and are not entirely guided by profit motive.
- 5) Their objectives are laid down in conformity with the development plans. They are accountable to the Parliament or state legislature for their performance and fulfilment of objectives.

Objectives

It should be clear from the reasons which prompted the growth of public enterprises, that the principal objectives of these undertakings are many. The objectives are outlined below:

- 1) To achieve rapid economic development through industrial growth in accordance with the development plans.
- 2) To channelise resources in the best possible manner for economic growth.
- 3) To secure public welfare and to reduce inequalities in the distribution of income and wealth.

- 4) To ensure balanced regional development of industry and trade.
- 5) To prevent the growth of monopoly and concentration of economic power in a few private hands.
- 6) To control the prices of essential consumer goods in the market to prevent public hardship.
- 7) To mobilise public savings through financial institutions to meet the demands of public and private enterprises in accordance with planned priorities.
- 8) To provide satisfactory employment conditions to the personnel as model employers.

Check Your Progress B

- 1) What is a public enterprise?

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- 2) State whether each of the following statements is True or False?

- i) Public enterprises operate mainly with profit objective.
- ii) Life Insurance business in India was nationalised in 1956.
- iii) Indian Airlines Corporation is an example of government in business.
- iv) All public enterprises must be wholly owned by the Central government.
- v) One of the objectives of public enterprises is to achieve rapid economic development.

- 3) Fill in the blanks.

- i) Public enterprises are essentially undertakings.
- ii) Government role in business in India is justified by and reasons.
- iii) Objectives of public enterprises are laid down in conformity with plans.
- iv) The general insurance business is operated by government through

16.7 PERFORMANCE OF PUBLIC ENTERPRISES

You have studied the meaning, features and objectives of public enterprises. Now the question is, how is the performance of public enterprises?

It is not easy to answer this question because there is no unanimity about the fact as to what constitutes government's business activity. For instance, some consider port trusts, railways and post office as business activities. But others do not agree with this. Further, a number of important business activities of the government operate in 25 states and eight union territories, for which information is not easily available. Many commercial activities are also undertaken by municipal corporations for which data is almost impossible to get.

The most commonly quoted figures of the extent of the government's business activity (referred to as public enterprise) relate to autonomous units of the Central government. It is so because a report entitled 'Public Enterprise Survey' covering these enterprises is presented to Parliament every year just before the budget. Look at Table 16.1 carefully. It presents the number of public enterprises, their investment, and persons employed by them for the period 1980-1987.

Table 16.1
Total Number of Public Enterprises, their Investment and Employment

As on March 31	No. of Units	Total Investment (Rs. Crores)	Number of Persons Employed (in lakhs)
1983	209	30,038	20.2
1984	214	35,394	20.7
1985	221	42,791	21.1
1986	225	50,362	21.5
1987	226	61,603	22.1

Source: Public Enterprise Survey

Look at Table 16.2 for the contribution of public enterprises in the manufacturing sector (both of the Central and State governments).

Table 16.2
Share of Public Enterprises in the Registered Factories during 1982-83

Type of Ownership	All Registered Factories		Fixed Capital		Total Employees	
	Number	% to Total	Rs. in Crores	% to Total	No. in Lakhs	% to Total
Central, State and Local Governments	5,116	5.5	26,735	65.2	21.9	27.3
Joint Sector	1,821	2.0	2,996			6.1
Private Sector	86,229	92.5	11,275	27.5	53.3	66.6
Total	93,166	100.0	41,006	100.0	80.1	100.0

Note: Fixed capital is depreciated value of all assets which have a normal economic life of one year or more.
Source: Annual Survey of Industries

Table 16.2 indicates that though out of 93,116 factories in the country, 92.5% (86,229) were in the private sector. Their fixed capital was only 27.5% of the total capital employed in all factories in the country. The total employees of the private sector factories constituted 66.6% of the total persons (80.1 lakh) employed in all the factories in the country by the end of March 1983. As against this, public enterprises were only 5.5% in number but had 65.2% of fixed capital with them and had 27.3% employees. This means that public enterprises, though much less in number, are large in size as they contribute a major share in the fixed capital. Further, public enterprises are capital intensive, i.e., they employ more capital as compared to manpower.

Yet another way of showing the importance of public enterprises is their share in paid-up capital. By the end of 1987 there were 1,066 government companies with a paid-up capital of Rs. 33,793 crores. The total number of joint stock companies were about 1,50,620 with an aggregate paid-up capital of Rs. 43,614 crores. This means that the paid-up capital of the public enterprises is over 77% of all the joint stock companies in the country, though their number is less than 10%.

Apart from the huge investments and a large number of persons employed in public enterprises the areas of their operations are very diverse. They are involved in the production of heavy, medium and light engineering goods, transport equipment, communication equipment, basic raw materials (minerals and metals, steel, coal, petroleum, fertilisers and chemicals), consumer goods (textiles, paper, salt, footwear, etc.), and services. As a matter of fact almost the entire production and distribution of energy (coal, oil, electricity and atomic energy) is through public enterprises. The whole of the air and rail transport, manufacture of aircraft, ships, railway engines and coaches are in the public sector. Public enterprises contribute 80% of production of steel, 100% of copper and primary lead, and 87% of zinc. All the life and general insurance companies and institutions which provide long-term finance are public enterprises. Government also owns 90% of commercial banking.

With a huge amount of capital invested in public enterprises, the question is often asked whether they have been successful from the financial point of view. This is a difficult question to answer because there is no single and clear measurement of success. Different persons measure success in different ways. The most common measurement of success for business enterprises is profit on a continuous basis. Here again, opinions can differ about the quantum of profit and how one arrives at the figure of profit.

Judged in terms of financial performance, the profitability of public enterprises is inadequate. The total net profit (before payment of tax) and the total capital employed for all the 214 Central government enterprises is presented in the Table 16.3

Total Profit Earned and Capital Employed by the Central Government Public Enterprises during 1984-87

Particulars	Years		
	1984-85	1985-86	1986-87
Capital Employed	36,382	42,965	51,931
Profit Before Tax	2,099	2,173	3,095
Profit as a Percentage on Capital	5.8	5.1	6.0

Further, we have to note the fact that bulk of the profit is earned in the petroleum, power and telecommunication sectors which have large elements of monopoly. Look at the Table 16.4 carefully. It presents sector-wise details of after tax profit/loss made by 214 Central government public enterprises.

Table 16.4
Group-wise Performance of Public Enterprises during 1986-87

S.No.	Group	No. of Enterprises in the Group	Net Profit or Loss (Rs. in Crores)
1)	Steel	6	(-) 26.4
2)	Minerals & Metals	14	2.0
3)	Coal	7	(-) 331.0
4)	Power	3	233.8
5)	Petroleum	12	2,142.1
6)	Chemicals & Fertilizers	28	(-) 146.3
7)	Heavy Engineering	16	8.9
8)	Medium & Light Engineering	20	54.8
9)	Transport Equipment	13	(-) 50.6
10)	Consumer Goods	16	(-) 141.1
11)	Agro-based Products	5	(-) 4.0
12)	Textile	14	(-) 189.6
13)	Trading & Marketing	19	40.4
14)	Transportation Services	9	(-) 55.6
15)	Contracts & Construction	7	(-) 27.5
16)	Industrial Development & Technical Consultancy	11	2.9
17)	Development of Small Industry	1	(-) 0.3
18)	Tourist Services	2	(-) 0.8
19)	Financial Services	5	38.3
20)	Telecom. Services	2	201.8
21)	Non-Commercial Public Enterprises Under Section 25 of the Companies Act	4	17.2
	Total	214	1,769.1

(-) indicates loss.

16.8 CONTRIBUTION OF PUBLIC ENTERPRISES

Many people argue that if we judge the contribution of public enterprises only in financial terms, we are less than fair to them. There are many other important aspects of their contribution which cannot be ignored. Non-financial gains of public enterprises are diverse and substantial. Some of these gains are as follows:

- 1) Public enterprises have a great deal for the country to emerge as an industrial nation. Today, India is considered to be among the industrialised nations of the world. We are also self-reliant in many major areas of industrial production and most items of consumer goods and services.
- 2) They have helped the industrialisation and development of backward areas.,
- 3) They have also assisted the development of backward communities, particularly scheduled castes and bcheduled tribes, by providing employment opportunities.
- 4) Expansion of public enterprises have led to the reduction of income disparities. As compared to private enterprises, the salary differential between the lowest and the highest paid employees is much less in public enterprises.

- 5) The **constitutional** objective of avoidance of concentration of economic power in few hands, has been greatly achieved by the public enterprises. In the absence of these enterprises, economic power would have gone into the hands of a few large and established business houses. It may be noted that the large business houses, which are often in the news and wield political influence, do not at present possess even one tenth of the assets owned by the public enterprises. If the industry in the hands of the government today had been with the private sector, it would have dominated the government rather than the government directing it.
- 6) The dealings of public enterprises with their suppliers, dealers, customers, employees and public at large have a higher level of morality than in the counter part private enterprises.

Thus, we find that public enterprises are an important instrument in implementing the nation's social and economic policies, and their success cannot and should not be measured only in terms of profit.'

16.9 PROBLEMS OF PUBLIC ENTERPRISES

We have learnt that the government in India is in business in a big way covering varied fields of activity. We also studied about the performance and contributions of public enterprises. Now let us study the limitations of these enterprises.

- 1) Even though public enterprises are often registered as joint stock companies like any other private sector companies, their way of working is not fully commercial. It is so because these enterprises being close to the government system, often adopt the procedures, practices and attitudes prevalent in government departments.
- 2) The Board of Directors of public enterprises are not fully professional. Often there is no continuity in the job of the top men.
- 3) There is too much job security at all managerial levels below the board and this affects the level of performance in public enterprises.
- 4) The system of reward and punishment in public enterprises more often resembles that in the government than in similar private enterprises.
- 5) Many important and large public enterprises are in areas where technology is difficult and new. And also the location is not always decided from the economic point of view.
- 6) The workers unions are strong and well-organised. So, they are able to extract from these enterprises more than their rightful share.
- 7) Most public enterprises show poor performance due to surplus manpower and low productivity of the personnel, almost at all levels, particularly so at lower levels.
- 8) Public enterprises are very large in size as compared to private enterprises. Of the first 20 largest industrial enterprises in the country (in terms of assets), not less than 16 are public enterprises. The complexity of managerial problems increase in geometric progression with increase in size. The public enterprises, by and large, have not been able to adequately cope with their complex managerial and administrative problems.
- 9) Many constraints are also caused due to the public enterprises being subject to the government type audit by the Comptroller and Auditor General of India, and Parliament's scrutiny of their affairs.

So far right answers to many of these problems have not been found. Many expedients and remedies have been tried from time to time, but without much success.

Check Your Progress C

- 1) Which of the following statements are True and which are False?
 - i) Most public enterprises have appointed an excessive number of professional directors.
 - ii) Only a few public enterprises earn profits.
 - iii) Public enterprises have not made any contribution to the public welfare.
 - iv) The security of managerial jobs is the same in the public and private enterprises.
 - v) The system of reward and punishment to employees is quite effective in public enterprises.

- vi) Public enterprises, though smaller in number, employ larger amounts of capital than private enterprises.
- 2) Fill in the blanks.
- i) The public enterprises have government type audit by the
 - ii) The three more profitable industries under public enterprises in 1986-87 were
 - iii) Public enterprises have helped the development of by providing employment opportunities.
 - iv) As compared to private enterprises the salary differential is in public enterprises.
 - v) Most public enterprises are lacking in management.
 - vi) Over percentage of commercial banking is in the hands of government.

16.10 LET US SUM UP

The evils of free enterprises and private ownership, establishment of welfare state, planned economic development, optimum utilisation of scarce natural resources, encouraging and protecting small-scale industries, protecting the economy from the dominance of foreign investors, etc., have led to the regulation and control of private business activities by government. Governmental controls may be classified into: i) direct controls, and ii) indirect controls. Direct controls include such measures as licensing of new manufacturing enterprises or expansion of the same, subsidies for promoting exports, quota restrictions on imports and exports, price control and rationing of goods, etc. Indirect controls consist of measures like levy of customs duty on imports or exports, changing the rate of interest on bank loans, and so on.

The need for direct government participation in business may be explained by three types of reasons: i) basic reasons, ii) ideological reasons, and iii) specific reasons. The term 'public enterprise' as a business entity refers to any 'business undertaking which is owned and managed by the central or state or local government, and of which the output is marketed i.e., not supplied free of charge. These enterprises are governed by public policies framed by government and aimed at maximising social welfare and upholding public interest. They are accountable to the government and the Parliament or state legislatures regarding the fulfilment of their objectives. The justification of public enterprises may lie in the following:

- 1) The inability or unwillingness of private entrepreneurs to invest in industries which are crucial for rapid industrial growth.
- 2) Need for balanced regional development.
- 3) Bringing about greater equality of income and wealth.
- 4) Prevention of concentration of economic power and monopoly in the private sector.
- 5) Fulfilment of the priorities and targets laid down in development plans.
- 6) Larger resources at the disposal of government to promote basic and heavy industries.

The main features of public enterprises are : government ownership and control, contribution of capital by the government, governance by public policies, objectives in conformity with development plans, accountability to legislature, etc. The objective of public enterprises are: rapid industrialisation, channelising resources for development, reduction of inequalities in the distribution of income and wealth, balanced regional development, control of monopoly power and concentration of wealth, check of rise in prices, mobilisation of public savings, provision of satisfactory employment conditions, etc.

Judged in terms of financial performance, the profitability of public enterprises is quite inadequate. A large number of public enterprises are running in losses. Enterprises in the petroleum, power and telecommunication industries which have large elements of monopoly are earning profits. However, contribution of public enterprises in certain respects cannot be ignored. There are many problems and limitations associated with the working of public enterprises.

16.11 KEY WORDS

Capital Employed: Total fixed assets less accumulated depreciation plus working capital. The working capital means all current assets less current liabilities and provisions.

Industrial Policy Resolution: It is a formal decision of the government in the form of a resolution regarding its industrial policy, including the place which the public and private enterprises would have in the economy.

Public Enterprise: Is an industrial, commercial or business activity of the government, where a return on investment is expected.

Socialist Pattern of Society : Broadly it means a system in which the benefits of economic development accrue more and more to the relatively less privileged classes of the society and there is an effort to avoid concentration of wealth and to reduce disparities of income.

16.12 SOME USEFUL BOOKS

Bhushan Y.K., *Fundamentals of Business Organisation and Management*, Sultan Chand & Sons: New Delhi, (Part Nine, Chapters 4 & 5).

Ghosh, P.K., 1982, *Public Enterprise in India*, Book World: Calcutta, (Chapters I & 2).

Khera S.S., 1963, *Government in Business*, Asia Publishing House: New Delhi, (Chapter I).

Kolesov, V., 1980, *The Public Sector*, Sterling Publishers: New Delhi, (Chapter 2).

Laxmi Narain, 1988, *Principles and Practice of Public Enterprise Management*, S. Chand & Co.: New Delhi, (Chapters 1 & 2).

Ramesh, M.S., 1985, *Principles and Practice of Modern Business Organisation, Administration & Management*, Kalyani Publishers: New Delhi, (Volume 1, Chapter 8).

Singh, B.P., and Chhabra, T.N., 1988, *Business Organisation and Management*, Kitab Mahal: Allahabad, (Part One, Chapters 43 & 44).

16.13 ANSWERS TO CHECK YOUR PROGRESS

- A 1) i) False ii) False iii) False iv) True v) False
 2) i) Positive, negative ii) direct iii) indirect iv) guides v) three vi) the industrial policy resolution
- B 2) i) False ii) True iii) True iv) False v) True
 3) i) business ii) social, economic iii) developmental iv) General Insurance Corporation
- C 1) i) False ii) True iii) False iv) True v) False vi) True
 2) i) Comptroller and Auditor General of India ii) petroleum, power, telecommunications iii) backward communities iv) much less v) efficient vi) 90

16.14 TERMINAL QUESTIONS

- 1 What is a public enterprise? What are its characteristics? How is it different from a private enterprise?
- 2 Explain fully the reasons underlying Government control over private business activities.
- 3 Distinguish between the following with examples:
 - i) Inducive and restraining controls.
 - ii) Direct and indirect controls.

- 4 Why is it necessary for government to directly participate in business and industry?
- 5 Write short notes on:
 - i) Extent of government participation in business.
 - ii) Rationale of public enterprises.
- 6 Outline the nature of problems and limitations associated with the operation of public enterprises.
- 7 Comment on the financial performance of public enterprises in India. In what respects the public enterprises have made a positive contribution to the well being of the nation?

Note: These questions will help you to understand the unit better. Try to write answers for them. But do not send your answers to the university. These are for your practice only.