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PUBLIC, PRIVATE AND JOINT SECTOR : ROLE AND PROBLEMS (A Discussion)

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ABSTRACT

Almost every country's economic structure includes a public sector. India too has public sector. In short public sector consists of those enterprises that are controlled and regulated by the government. In capitalist as well as the socialist societies public sector enterprises are established. The role of public sector in economic development is significant in India context also. On the other hand there is development of consumer goods industries. It consists of agricultural and other connected activities as plantations, mining etc. In order to support this industry, the government has enacted liberal industrial policies. The other joint sector denotes a partnership between the government and a private organisation in terms of ownership and control. In the current research study, all three areas are discussed.

Keywords: Enterprises, Industry, Public, Private, Sector

I. INTRODUCTION

At the time of Independence activities of the public sector were facilitated to a limited field like irrigation, power, railway, ports, communications and some departmental undertaking. After Independence, the activities of the public sector expended at a very repaid speed. To assure the private sector that its activities will not unduly curbed, two industrial policy, resolutions were issued in 19482 and i956 respectively. These policy resolutions divided the industries it different categories. Some fields were left entirely for the public sector, some fields were divided between the public the private sector. A cursory glance at the division of fields of industrial activities into the public and private sectors clearly brings out that while heavy and basic industries were kept for the public sector, the entire field of consumer goods industries (having high and early returns) was left to the private sector. Outside the industrial field, while most of the banks, financial corporation railways, air transports, etc., are in the public sector, the entire agriculture sector (which is the ‘largest sector of the economy) has been left for the private sector.

The key question at this point is why were heavy and basic industries like iron and steel, heavy engineering, large electrical plants, and so on, chosen for public development while fast-moving consumer goods sectors were left to the private sector? The answer to this question has been attempted by R.K. Hazari according to whom the industrial programmed of government that emerged after

1955 were built around two hypothesis:

(i) Private investment in relatively small items would be boosted by excluding imports as well as surplus capacity at home, resulting in higher earnings; and

(ii) Public investment would take place in fundamental fields with long gestation periods, little or no returns, a big foreign exchange component, sophisticated technology, and an equally complex coordination challenge, regardless of profit.

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II. RESEARCH METHODOLOGY

The methodology of research for present research study is doctrinal in nature. The information with relation to the topic of paper is collected from secondary sources of data like bare acts, legal research journals, books published, internet website visited, etc. The information collected are compiled together in the shape of research work.

III. OBJECTIVES

The objective of the present study is to provide for information of public, private and joint sector and the related concept connected these with.

IV. DISCUSSION

Role of Public Sector in Relation to Indian Economy

The public sector in India has been chastised by a number of supporters of the private sector who have chosen to ignore the public sector's successes. The following description should suffice to persuade one that the public sector has had a significant beneficial impact on the economy.

- **Formation of Capital**

During the planning era, the role of the public sector in collecting funds and investing them was critical. During the First and Second Plans, the public sector received 54 percent of overall investment, while the private sector received the rest. In the third plan, the public sector's contribution increased to 60%. The Fifth, sixth and Seventh Plans envisaged respectively 57.6 percent, 52.9 percent and actual share public sector in plan investment was 43.3 percent, 47.8 percent and 45.7 percent respectively in these plans. The Eighth plan envisaged 45.2 percent share of public sector in plan investment whereas it actual share was just 34.3 percent (i.e. one-third) of plan investment. The public sector's portion of overall plan investment is expected to drop even more to just 33% in the Ninth Plan. 5 This illustrates the growing prominence that the private sector is being given. The Nationalized Banks, the State Bank of India, the Industrial Development Bank of India, and the Industrial Finance Corporation of India are all examples of nationalized banks. State financial Corporations. Life Insurance Corporation, Unitary Trust of India etc have played an important role in collecting savings and mobilization of resources.

- **Infrastructural Development**

The essential criterion for economic growth in every underdeveloped country is the fast development of infrastructure. Agriculture development is impossible to imagine without significant expansion of irrigation systems, power, and energy. Similarly, the process of industrialisation cannot be sustained without proper development of transportation and communication infrastructure, fuel and energy, and basic and heavy industries. India had inherited and underdevelopment basic infrastructure from the colonial period. After independence, neither the business sector nor the public sector showed any interest in developing it, nor did they have the means to do so. It was both financially and technologically weak, and it was unable to build a heavy industry quickly. These circumstances made the government's involvement in industrialisation necessary, since only the government could impose large-scale capital mobilisation, industrial construction

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coordination, and technical training. The government has not only upgraded but also vastly extended the road, rail, aviation, and marine transportation systems. Thus the public sector has enabled the economy to develop a strong infrastructure for the future economic growth. The private sector has also benefited immensely from these investments undertaken by the public sector.

- **Economics**

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

- **Regional disparities**

e government in India has sought to use its’ power of setting up of industries as a means of removing regional disparities n industrial development. In the pre-Independence’ period most of the industrial progress of the country was limited in and around the port towns of Mumbai, Kolkatta and Chennai. Other parts other country legged far behind. After the initiation of the planning process in the country in 1951, the government has paid particular attention to this problem and has set up industries in a number of areas hitherto neglected by the private sector. Thus a major proportion of public sector investment has been directed towards backward ‘ State For instance, of the cumulative investment of Rs. 1,14,647 crore by public sector enterprises till 1990-91, as much as Rs. 40,721 crore (i.e. 35.3 percent) was accounted for by the four backward States’ i.e. Bihar, . Orissa, Madhya Pradesh and Uttar Pradesh. Their employment share in the public sector was 43%. 6 All four main public steel factories, Bhilai Steel Plant, Rourkela Steel Plant, Durgapur Steel Plant, and Bokaro Steel Plant, are located in backward districts and would provide a propulsion mechanism for economic growth in the hinterland. These considerations also guide the location of machinery and machine tools factories, aircraft, transport equipment, fertilizer plants etc.

- **Promotion of Export**

  The foreign exchange problem often emerges as \serious constraint on the programmes of industrialization in a developing economy. The constraint appeared in a further strong way in India during the Second Plan and the subsequent plans. Because of these consideration, ‘all such industries that help in import substitution are of crucial importance for the economy. Hindustan Antibiotics, Bharat Electronics Ltd., Bharat Electronics Ltd., Bharat Electronics Ltd., Bharat Electronics Ltd., Bharat Electronics Ltd., Bharat Oil Corporation, Oil. and Natural Gas Corporation, and other public-sector companies are particularly important in this regard. Several public-sector companies have also made important contributions to the country's export growth. Hindustan Steel Limited, Hindustan Machine Tools, Bharat Electronics Limited, State Trading Corporation, and Metals and Minerals Trading Corporation are some of the companies that come to mind in this respect.

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- **Working**
  Because profit maximisation is the main goal of private sector entities, it is common to measure their performance using the criterion of net profit or loss. This yardstick miserably in the case c public sector undertakings. Such units are frequently- start-edih those sectors where profitability is low and gestation period ion. For example, investments in infrastructure and fundamental industries are unlikely to generate Significant early returns, and as a result, earnings in the early stages are likely to be very low, if not negative. Nonetheless, these expenditures are crucial because they provide the groundwork for future industrial progress. This area includes public sector investments in the steel industry, fertilisers, power projects, mining, and so on. When the public sector offers inputs to the private sector (for example, iron and steel for machine construction, tools, and the car industry), it is relatively easy for it to make significant profits simply by raising the prices of its product. However, this is likely to have a negative influence on private sector industrial output on the one hand, and raise prices on the other. As a result, prices are maintained low on purpose, despite the fact that this reduces the public sector's revenues significantly. Also as noted by Hazari and Oza7, private sector has invested mostly in consumer and lighter goods which have been granted far andforeign private investment. Another factor worth mentioning is that the public sector is not just capital-intensive and has longer gestation periods; in steel, which accounts for the majority of investment, it is also material-intensive, and hence its value added component° is lower than, instance, chemicals.

Problem of Public Sector Enterprises

The most important criticism levied against the public sector has been that, in relation to Capital employed, the level of profits has be too low. Even the government has criticized the public sector enterprises on this count. The Eighth Five-Year Plan, for example, states that the public sector has been unable to create appropriate resources for supporting the growth process of the numerous causes responsible for poor profitability in the public sector, including the following:

Price Policy

Enterprises in the private sector are. As a consequence, prices are set at a level that covers all costs (including taxes) while still generating a profit. The motives for forming and operating public sector enterprises, on the other hand, differ, and price policy is impacted by the projected outcomes. Even in monopolistic situations, the goal of a specific public sector enterprise's pricing strategy may not be profit maximisation. Examples include Indian Railways and State Electricity Boards. In Seller's market, public firms such as the Steel Authority of India and the Fertilizer Corporation of India operate. It is relatively simple for these businesses to make big profits by just raising their pricing. But since their project was not profit maximization but fulfillment for some social objective, they opted for losses in some cases while in some instance they just tried to equate total costs

As an illustration of this statement one may consider the pricing policy for fertilizers and pesticides being parted by the public sector in India. In this scenario, the major goal was to offer fertilisers and insecticides at low rates so that even small farmers could afford them.

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Fertilizers and pesticides have an important role in enhancing agricultural production and productivity, hence this was deemed necessary. Fertilizer Corporation of India and Hindustan Insecticides purposefully maintained their selling prices low for this reason. Even when it came to steel pricing, the government's aim was to avoid making large profits until May 1967. Steel prices were maintained so low that they either resulted in losses or extremely little gains.

- **Planning and Construction of Projects**
- In terms of project planning and construction, the following issues had to be addressed: I site selection was not based on detailed soil investigation; (ii) several project elements had serious omissions and understatements; (iii) the actual costs of projects far exceeded the original estimates; (iv) the projects took much longer to complete than originally anticipated; and (v) the projects frequently embodied inappropriate technology. For example, Bhagwati and Desai contend that the Heavy Electrical Limited site was chosen without any clear cost analysis of alternative locations, and then changed when it was shown to be inadequate. Similarly, each state made the decision to site a fertiliser factory. This led to corresponding decisions to initiate construction at places which were unsuitable from the viewpoint of either demand or raw material.
- **In addition, as noted by Bhagwati and Desai:**
- These reports did not follow any uniform format, varying in coverage and inquiry, indicating that no systematic thought was given to project appraisal questions and that sloppy, sketchy, and haphazardly incomplete records were frequently considered adequate for embarking on quite expensive investments.
- **Labour personal and Management**

  Public sector enterprises often plagued with undue political interference in their day-today working and this has demoralizing effect on the management and other personnel of these enterprises. Many top-level appointments are made on the basis of professional capability. or appropriateness, but are influenced by a variety of political factors.• The conventional administrative services of I.A.S. are often unqualified to provide the required managerial expertise in complicated, capital-intensive industrial projects in the public sector. Furthermore, as Bagwati and Desai point out, these officials' civil service backgrounds compelled them to operate with bureaucratic caution and unimaginativeness rather than in creative and original ways. Traditional audit processes and analysis of whether the expenses made were within the parameters of the authorisation also hammered the real management. "Because this scrutiny is intense, and failure to meet its rigorous criteria might result in shame and disgrace, the opportunity for creative and rapid action in the sake of improved economic performance is unavoidably jeopardized." A public enterprise's work ethic is quite similar to that of a government office, with file work rules centred activities and according to the framework of set rules and standards. The expenditures of this lengthy approach or the time it takes to make a decision are frequently little. Results are given less weight than precedent and rule interpretation. It has not been well understood that a public sector enterprise's work ethic must differ from that of government offices, and that the techniques and procedures that make the latter efficient may not be appropriate for the former.

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Ro1e of the Private Sector

- **Development**

  In western countries private. entrepreneurs have played an important role in economic development so much so that Schum Peter has characterized them as the 'initiator and moving force behind the industrial of process. The profit incentive drives the private entrepreneur. He is in charge of introducing new commodities, new manufacturing processes, gathering the appropriate plant and equipment, labour force, and management, and arranging them into a viable business. The private entrepreneur is an inventor who transforms the whole manufacturing process. Such activities help the process of industrialization and economic development. Because of this, the government's Industrial Policy Resolutions of 1948 and 1956 provided enormous opportunity for the private sector to develop its operations. The private sector has been allocated the primary role in industrial growth in the new liberalised scenario that has evolved since the introduction of the new industrial strategy in 1991.

- **National Income Generation and Employment**

  It is enough to concentrate on just two elements to highlight the importance of the private sector in India economy. Firstly, its contribution to national income. According to latest estimates, the private sector contributes around 73 percent of gross domestic product. This fact alone points out the importance of the private sector in the Indian Economy and also the vast area in which operated. Secondly, from the point of view of providing employment, the role of private sector is still more important. The total number of people engaged in Central Government and State Government's undertakings and in administration is not much. A vast majority of the people in this country depend on the private sector for their livelihood. In fact, from the point of view of generating national income and providing employment opportunities, the private sector is four to five times greater than the public sector.

Problems of the Private Sector

- **Economic Development : Less Role**

  Despite the role and importance of private sector contributing substantial portion of output and employment, it has to be admitted that its role in the economic life of the motive of maximizing profits. It is because of this reason that the Industrial Policy Resolution of 1956 left the production of consumer goods primarily for the private sector. The private sector was satisfied with this arrangement since investment in consumer goods are low while profits are substantial and are obtained relatively earlier. As against this, investments in basic and capital goods industries are very large, gestation period is unduly long market is limited and returns are not much. The private sector was not interested in such investments since it was not willing to take the risk and block its capital for such a, long period. The implication is that private sector was not willing to shoulder the responsibility of a prime mover of economic development processes.

- **Less Important Industries and Wastage of Resources**

  The private sector takes advantage of the favourable conditions created by three public sector for expansion of industrial activities and invests a major proportion of its resources

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in consumer goods industries and industries having low priority. During the eighties, the liberalized industrial policy of the government had encouraged many private sector units to invest heavily in the Consumer durable goods sector (particularly Consumer electronics and automobile sector). As a result, the distribution of wealth is biassed toward the comparatively wealthy. This orientation of protection pattern toward 'elite consumption' reflects clearly the desire of private sector industrialists to male early and fast profits ignoring the long-term requirements of the economy. The economic surplus of the country is wasted on unnecessary industrial activities and to that extent the economic development of the nation is hampered.

- **Monopoly and Concentration**
  The overall trend of capitalism growth is that as the economy develops, monopolistic organisations emerge, and wealth and economic power concentrate in a few hands. Thiss has happened in India also. The controlling agency structure in pre-independence India fostered this. After independence, with the initiation of economic planning in the country it was expected that this tendency work be effectively controlled. This, however, was not to be. The Mahalanob is Committee pointed out in 1964 that the system's operation had actually resulted in a rise in wealth and economic power concentration. The Monopolies Enquiry Commission revealed in 1965 that there was substantial concentration . both industry-wise and country wise. Trends of liberalization witnessed in the decades of eighties and nineties have enable to large business houses to amass considerable wealth with the result that concentration of economic power has further increased.

- **Manufacturing Costs**
  A large part of sales of the private corporate sector is used up to meet the manufacturing expenses which are increasing at a fast rate. For instance, during the first half of 1997-98, 83-6 1 percent of total sales and during the first half of 1998-99, 86.55 percent of total sale of 100 selected private companies went to meet the manufacturing expenses. This has resulted in low growth rate of the profit margins of the private sector. The companies could have improved their performance by pushing up the net sales considerably. However, here also they could not succeed as the depressed demand conditions in the economy ruled out any such hopes.
- **Contribution to Trade Deficit**
  In the post-liberalization period, a large number of private sector enterprises have relied on substantial imports to improve their technology in order to keep up with global competitiveness. As a result, their import expenditures have increased at a much faster rate than their expert earnings. This has pushed to the country's trade deficit. For example, a study of select 100 large private sector companies by CMIE shows that these companies spent R,. 3,4873 crore more foreign exchange than what they earned during 1996-97. This 'excess expenditure' increased further Rs. 3,539 crore in 199798.1i A Study of 60 select

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MINCs (Multinational Corporations) shows that their foreign exchange expenditure exceeded their: foreign exchange learning by Rs. 939 Crore in 1997-98 and Rs. 1,081 .crore in 1998-99.

- **Industrial Dispute**

  As compared to public sector enterprises, the private sector enterprises suffer from more industrial disputes. Differences and conflicts between the owners and employees regarding wages, bonus, retrenchment and other issues frequently emerge. Despite the fact that there are provisions for Works Committees, Arbitration Boards, and other mechanisms for resolving labour issues, employers have a stronger bargaining position. Taking advantage of this they often refuse to accede even the genuine demands of workers and the conflicts assume the shape of' long drawn out struggle. Industrial disputes often resulting strikes, lock-outs, gherao, etc. A significant number of man-days are lost, and productive activity suffers as a result.

- **Industria1 Sickness**

  This is a severe challenge that the private sector's small, medium, and big businesses are facing. A significant proportion of loanable cash from financial institutions is locked up in ill industrial units, causing not just resource waste but also negatively harming the industrial economy's healthy growth. As at the end of March 1999, the total number of sick/weak units in the portfolio of scheduled commercial banks st9od at 3.10 lakhs involving a bank credit of Rs 19,463 crore. As per reserve Baflk date, every seventh small-scale unit in the country was sick at the end of December 1988 Cause of industrial Sickness are many and are generally divided into two categories: (i) external and (ii) Internal. The former includes circumstances that originate outside the unit and are thus outside its control, such as power outages, demand (or market) recession, unpredictable input availability, government regulations, and so on. The latter includes aspects such as production, management, and finance that originate within the unit and hence may be considered to be within its control.

- **Problems Relating to Finance: and Credit**

  Because the rate of capital development in the economy is low and the capital market is weak, private sector businesses face significant challenges in obtaining financing. People are hooked to acquiring land, gold, and jewellery due to significant inflationary tendencies in the economy, and are unwilling to invest in industries. Inflationary conditions have also spawned illicit markets and a sizable parallel economy, diverting cash away from constructive endeavours. To some degree, industrial finance organisations have filled this void, but the problem remains immense.

- **Threat from Foreign Competition**

The process of liberalization unleashed in 1991 has opened up the gates of foreign investors and the government has progressively introduced measures to ‘open up’ the economy to foreign competition. . This process of globalization and integration of the Indian Economy with the world economy has led to an unequal competition- as competition between giant MNCS (Multinational Corporations) and ‘dwarf Indian Enter Prises. In the early euphoria of liberalization, the private sector welcomed the measures of the government but it soon came

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to realize that opening up the Indian economy to foreign competition meant not only more and cheaper imports and more foreign investment but also opportunities to the. MNCS to raid and takeoVerthei enterprises. Even the large India enterprises are just pygmies compared to the multinational corporations and some of them have already been gobbled. up by the latter, other are awaiting their turn with bated breath. As one West Bengal MP put it, "globalisation of the Indian economy is like combining two worlds." a. mouse into a hand of elephants'.

- **Joint sector**

  Joint Sector' can be defined as a form of partnership between the government and -the private sector. After the passing of the Industrial Policy Resolution in 1956, the government started a number of companies in collaboration with the private sector by sharing their management, control and ownership. There included Cochin Refineries started in 1963 and Madras Refineries and Gujarat State Fertilizer Company start i.e., in 1965'.

  The terth 'joint Sector' however, galned currency when the Industrial Licensing Enquiry Committee also known as the Dutt Committee sub titled its Report in 199. The committee observed in its Report that growth of the public sector in India had not occurred to the extent envisaged in the Industrial Policy Resolution of 1956 primarily on account of lack of funds. On the other hand the growth of the private sector, especially the large business houses has been predominantly financed by the public sector financial provided a large share of finances to the private sector enterprises, they had practically no say in their management. It was to remedy this state of affairs that the Committee advocates the adoption of the joint sector.

- **Meaning**

  There are broadly three categories of enterprises in the Indian Economy the pure public enterprise the pure private enterprise and a middle zone of mixed enterprises. The 'mixed enterprises' in turn can be of the following two types (a) the mixed public enterprises and (b) the mixed private enterprise. The distinction between the two depends on the character of; 'effective control' of the, enterprise. Where effective control vests in the hands of the government, it is a mixed public enterprise on the other hand, if the effective control vests in the hands of the private sector, it is mixed private enterprises Sector càh be regarded as a mixed private enterprise and has according to Aurobindo Ghose, the following characteristics.

Ro1e of Joint Sector:

- **Social Control over Industries**

  Dutt Committee recommended the setting up of joint sector industries as it felt that this was an effective way to control monopoly and concentration of economic power and curb business main practices. Besides, the government could use such enterprises to fulfill a number of other social objectives like reduction in regional inequalities, increasing employment opportunities, developing the export sector promoting technological capabilities, etc.

- **Sound Industrial Growth**

  As state earlier, the public enterprises failed to generate much resources for industrial growth as a number of them incurred losses year after year. The private sector did not do

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much mobilize resources and promote the development of capital goods industry, and heavy and basic goods industry. It was said that by joining hands together in setting up joint enterprises, both these sectors court, combine' their strong points. This would lead to better industrial growth.

- **Platform for Industrial Entrepreneurship**

  It s argued that the participation of the government in a particular industry can still confident in small and medium entrepreneurs and they might come forward to set up new industrial units. By providing public support financial assistance, machinery and equipment etc, to the small and medium entrepreneurs, the government will be able to 'broad base' the industrial entrepreneurship in country. This in turn would increase industrial growth rate and help industrial develOPm1t of backward regions.

V. CONCLUSION

The pattern of ownership divides the Indian industries into three broader categories. First is public sector, second is private sector third one is joint sector. The driving force for the industrial development was the Industrial policy. The public sector was paid stronger role for public sector. In order to avoid the concentration of wealth in the private sector liberal view is followed and no right restrictions are followed and directed certain losses are incurred by the public sector industries due to rapid industrialization and as a result joint sector came into existence for the betterment as it includes the better strong points of both public and private sector enterprises. All the three sectors go side by side and led to prove good ground for a stronger economy. The government should solve the problems as discussed in the present study by making the industrial enterprise's policies liberal and problem resolving.

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