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REDEFINING THE ROLE OF STATE IN PUBLIC SECTOR UNITS IN INDIA

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Abstract

In India, a public sector company is that company in which the Union Government or State The first industrial (development and regulation) act came in India in 1951, with the aim of building foundation of heavy and basic industries. Dr. Krishnamurthy carried forward the vision of mixed economy that prime minister Jawahar lal Nehru saw for the nation.

PSU are the companies that are owned by state or central government. The basic condition to be named as PSU is that the paid up share capital held by either central or state government shuld be 51% or more.

***Keywords**: Public sector, Future development, Employment generation*

OBJECTIVE OF THE STUDY

1. To analyse the public sector enterprises as poverty eliminating instrument
2. To analyze the role of PSUs in employment generation
3. To study the role of state in development of PSUS

Research Question

- Does Public Sector companies will have a capacity to reduce Poverty?
- Will PSUs have potential to reap up the problem of Unemployment?

  State

Methodology

This research study is aimed at to analysis the Role of PSUs in India in Eliminating the poverty and the role of the state in development of PSUs. It is Exploratory study which will be based on secondary data. The researcher has tried to analysed the Indian PSUs.

INTRODUCATION

ROLE OF PUBLIC SECTOR IN ECONOMIC GROWTH

Soon after independence, role of government was recognized as main force to develop a sound industrial base. This was due to the reason that private sector was not prepared to invest in industry.

The second plan documents clearly say: "The use of modern technology requires large scale production and a unified control and allocation of resources in certain major lines of activity. These include exploitation of minerals and basic and capital goods industries which are major determinants of the rate of growth of the economy. The responsibility for new developments in these fields must be undertaken in the main by the State, and the existing units have to fall in line with the emerging pattern. In a growing economy which gets increasingly diversified there is scope for both the public and the private sectors to expand simultaneously, but it is inevitable, if development is to proceed at the pace envisaged and to contribute effectively to the attainment of the larger social ends in view, that the public sector must grow not only absolutely but also relatively to the private sector."

Role of Public Sector Reforms in poverty reduction

The various major reforms in public sectors contributed significantly in reducing the poverty rate. Some of the major reforms including:

- Administrative reforms
- Decentralization or local autonomy
- Citizen participation

Along with the good governance including

- Accountability
- Transparency
- Continuity
- Local participation

Has shown drop in rate of poverty

Short Comings of the Public Sector

Over staff and drop of work ethics once became the important characteristic of many PSUs. Unnecessary jobs were created just to cater the needs of political leaders who want to secure employment for their kith and kins. The effect came in form of time and cost overruns. This resulted in ‘Low capacity Utilization’ and over capitalization.

Political and bureaucratic interventions had been creating never ending problems in systematic management and decision-making process.

Burden of sick units that were acquired by the PSU put more pressure on already deteriorating conditions of PSUs.

Irrational policy of pricing and excessive expenditure on social cause and welfare resulted in financial crisis beyond repair.

It is reality that most of requirements of new PSU were fulfilled by importing the capital goods and machines in private sector. Domestic available supplies were ignored and by-passed and this ultimately defeats the basic concept of PSU. Sudip Chaudhry had explained many such cases as examples in his studies related to short cummings in PSU Management. He is justified when he wrote:"There are reasons to believe that some top level decision-makers in the government have also used the PEs to further their own interests. Imports provide one such opportunity Foreign manufacturers are naturally interested in push ing their products into India. Reportedly it is quite common for them to bribe influential persons to secure the order. Once this is realised it may not be difficult to understand why the capabilities of PEs were often not recognised or further developed, why indigenous efforts were often opposed and imports were preferred."

Shipping vessels were imported instead of buying them from Cochin shipyard corporation. Similarly power plant equipment were purchased via imports and BHEL LIMITED was bypassed. Ecomomics of business were ignored and unjustified reasons in support of imports were thrown.

REDUCING THE ROLE OF THE PUBLIC SECTOR

1991 industrial policy introduced delicensing on limited scale, and eighteen industries were affected. It was assumed that the poor scenario of PSUs could be upgraded by allowing market forces to play their role.it was right time for government to withdraw step wise step from the market. License and permits were great hinderance for private players to come in active world of business and commerce. FDI were also given entry up to 51% in high technology areas.

Limits were defined for state investment in sectors of economy. For example, state can introduce PSUs in :

- Essential manufactured goods
- Exploration and exploitation of oil and mineral resource
- Technology development and building of manufacturing capabilities in areas which are crucial in the long term development of the economy and where private enterprise is inadequate.
- Strategic and Defenseequipments.

List of CPSEs

- Bharat Electronics
- Bharat Petroleum Corporation Ltd
- CCI
- Engineers India Ltd

- HAL
- HPCL
- Mahanagar Telephone Nigam Ltd
- NBCC
- Oil India Ltd
- PFC Ltd
- Power Grid Corporation of India Ltd
- Rastriya Ispat Nigam Ltd
- REL Ltd
- SCI Ltd

MARKET FALIURE AND NEED OF STATE INTERFERENCE

Imperfect competition results in collapse of market and hence state intervention is required to reinstate competitive market condition.

Monopoly should by dealt with strong intervention by state. Monopoly cause market failure and ensure profits for limited players.

In case of Public goods sector like rationing of limited consumable goods, education, health, etc., it is basic duty of government to ensure delivery of required services to common man. Similarly sectors like development of infrastructure do not attract private players easily. Government has major role in developing infrastructure network of roads, canals, irrigation channels, school, hospitals etc.

<u>The Role of statebecomes to set appropriate price so that correct signals for allocation of resources will be made. Ineffectiveness of the State, however, do not account the use of market in everysituation.</u>There is a need to promote good governance with policies reforms to correct state failures.

REDEFINING THE ROLE OF THE STATE

Hanumanth Rao has highlighted that: "It is often said that markets bypass the poor and the underprivileged and that they cannot participate in the market-driven development. This is not an accurate statement. The poor and the underprivileged are very much driven into the market. The child labor and bonded Laboure are all participating in the market but at very unequal or unfavorable terms. Therefore, it has rightly been said that the market can be good servant when it is intelligently utilized but a bad master when it is allowed to have a free play." Obviously, markets cannot be trusted to ameliorate the condition of the poor. The government has to defend a positive role in providing education and health to the poor as well as to have special programmes of employment generation, more especially in the rural areas so that employment opportunities are enlarged for the poor and the underprivileged.

Another important factor responsible for poverty is the low resource base of the poor. For this purpose, even in capitalist societies land reforms were carried out in several countries. In India, the process of land reforms did help to arrest further concentration of land holdings by imposing ceiling on land, but it failed in its objective of providing land to the landless. Indian society would not be able to push land reform in the sense of transfer of ownership now, but can certainly provide secure tenancy rights so that the landless can benefit from the gains of increase in agricultural productivity. In view of the large size of our population, it would not be possible to provide land to all the landless labourers. Besides providing secure tenancy rights, the State has, therefore, to take up massive programmes of rural infrastructure development as also provide credit at highly subsidised rate so that the poor can create assets and earn income.

The role of the State in providing "hard infrastructure" in the form of power, transportation, irrigation is accepted by all, though private effort can also supplement state effort. Yet the state can also help in providing "soft infrastructure". This can take the form of organizing market-outlets for the products of small scale sector and cottage industries. Since the small scale sector accounts for about 38 per cent of exports, the state can organise export promotion of small industry products.

The other part of the infrastructure is health and, education. Investment in education helps human beings to acquire human capital formation. The provision of basic education to all has been accepted as the goal in all societies. For this purpose, the private sector will not be forthcoming to make investment in schools. At higher levels and specialized education in Medicine, Engineering, Technology, Electronics, the price cannot bearby lower middle and poor classes. Private schools, which go by the name of public schools-a misnomer-charge very heavy fees which the poor cannot afford. Yet to have vertical mobility in life, education is necessary State has to play the role.

Similarly, provision of health facilities also re quires considerable investment which the public sector must undertake so as to improve the health status of the weaker sections of the society because it is not possible for the poor to pay for expensive health care by the private sector.

Both education and health have been considered as important for human capital formation, thereby raising levels of productivity. Macro-economic was one of the major areawhich require state intervention for management of the economy. In this, the Government can intervene in a variety of ways, more especially for such sections of the population which are not covered by the market mechanism, In India, even in the year 1999-2000, as per the findings of the 55th Round of the National Sample Survey, nearly 26 per cent of the population is living below the poverty line. In other words, 260 million persons are not touched by the markets. The state has to intervene in a variety of ways to promote industries where these persons can seek employment and earn a better living. State may take steps to promote certain industries which are labour absorbing. The World Bank Study "The East Asian Miracle" (1993) about eight highly performing economies of Asia states: "In most of these economies, in one form or another government intervened - systematically and through multiple channels — to foster development, and in some cases the development of specific industries. Policy interventions took many forms: targeting and subsidizing credit to selected industries, keeping deposit rates low and maintaining ceilings on borrowing rates to increase profits and retained earnings, protecting domestic import substitutes, subsidizing declining industries, establish ing and financially supporting government banks, making public investments in applied research, establishing firm and industry-specific export targets, developing export marketing institutions, and sharing information widely between public and private sectors. Some industries were promoted while others were not."

In the Indian context, a number of other interventions such as providing financial assistance to small scale industries and to individuals to create employment in the informal sector have also helped the process of growth and employment generation. The priority sector loans, supported by better information about emerging areas, can be a positive intervention which can become people friendly.

Another area which needs actives state intervention is the reform of the public sector. Many public sector *enterprises have c*omplained about absence of autonomy and quick decision-making as the principal factor responsible for their poor performance. Although Govern*ment has signed Memo*randums of Understanding with several public sector enterprises, but still the chief executives complain that there is practically no change and they have still to obtain ministerial approval for every decision. The bureaucrats in the Government and the Ministers are not willing to part with their power and are treating the PEs as their colonies. Public sector reform can be certainly beneficial in improving their performance. The Government has intervened by signing MOUs, but has not intervened honestly and effectively. State intervention is needed in an honest manner.

There is a lot of wisdom in transferring some of the unimportant commercial enterprises to the private sec tor, but privatization in the nature of selling five, ten or twenty per cent of the shares to cover the deficit of the Central Government shall be of no avail to the economy. It would be better to shed the load of these enterprises to the private sector on the condition that labour employed in them will not be retrenched (or rationalized, to use a more sophisticated term). But the trade unions may resist this transfer and the Government of a democratic state like India may not be able to push the reform process which results in a backlash of labour. The reform of the public sector, therefore, assumes greater relevance in this context. It may be pointed out that research has brought out the fact that ownership has nothing to do with the efficiency of an organization. There are public sector units which are running as efficiently as private sector units and even better in some cases. There are also public sector units which are incurring losses year after year. The same is true of private sector. It is thus the organization culture and the quality of management which determine efficiency of public sector units. The whole issue revolves round evolving a system of incentives and disincentives to improve work ethics of an organization. Such a system was evolved by Kautilya by building accountability in State enterprises and enforcing the rules laid down for the purpose. <u>The State has to act decisively in this regard and innovate measures to link wages productivity.</u>

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