

INDIAN ECONOMIC ENVIRONMENT,401 MBA, IV semester,  
TOPIC- Role of Public sector in the Economic Development of India.

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In India's mixed economy, public sector occupies a pivotal position. Public enterprises are expected to make significant contribution or role in the following.

1. contribution in National income.
2. Creation of employment opportunities
3. Reduction in income disparities among regions and groups
4. Earning of foreign exchange and generation of surpluses for financing development efforts.
5. Promoting economic development at a rapid pace by filling gaps in the industrial structure;
6. Promoting adequate infrastructural facilities for the growth of the economy;
7. Undertaking economic activity in those strategically significant development areas, where private sector may distort the spirit of national objective;
8. Checking monopolies and concentration of power in the hands of few;
9. Promoting balanced regional development and diversifying natural resources and other infrastructural facilities in those less developed areas of the country;
10. Reducing the disparities in the distribution of income and wealth by bridging the gap between the rich and the poor;
11. Attaining self-reliance in different technologies as per requirement;
12. Eliminating dependence on foreign aid and foreign technology;
13. Exercising social control and regulation through various public finance institutions;

14. Controlling the sensitive sectors such as distribution system, allocating the scarce imported goods rationally etc.; and

15 reducing the pressure of balance of payments by promoting export and reducing imports.

Over a period of time, in the post- Independence period, the size of the public sector has grown rapidly, and the number of public enterprises as well as the areas of their operation have recorded significant progress. Public sector was expected to achieve “commanding heights” in the economy and it did so over a period of forty years. However, the quantitative growth of the public sector was not matched by qualitative performance. Many public sector enterprises were incurring losses. The performance of public sector in general was so discouraging that as part of New Economic Policy announced by the Indian government in 1991 the scope and role of the public sector was sought to be reduced drastically. An understanding and analysis of economic environment of business in India is not complete without an understanding and objective assessment of our public enterprises. This unit attempts to explain the objectives of India’s public sector. It analyses the various aspects of structure and growth of public sector, and evaluates the performance of public sector. Finally, it discusses the shortcomings of public sector enterprises.

The objectives of the public sector, can be briefly described as:

1. to accelerate the economic growth and industrialisation of the country by creating the necessary infrastructure for development;
2. to promote fair distribution of income and wealth, interpersonal as well as inter-regional;
3. to promote balanced regional development;

4. to promote the growth of strategic defence-oriented industries;
5. to assist the development of small and ancillary industries;
6. to create employment opportunities;
7. to achieve socialist pattern of society;
8. to avoid and circumvent the limitations and abuses of the private sector; and
9. to generate forces of economic and technological self-reliance.

#### Public Sector in the Present Scenario

Public sector which was expected to achieve “Commanding heights” of the economy did grow very rapidly during the planning era. But inefficiencies of various kinds have become the hallmark of the public sector. Debt financing of public investment became quite common during 1980s decade. In 1976-77 public saving financed 49 per cent of gross public investment. In 1981-82 the ratio came down to four-fifths of public investment thus was financed by borrowing from domestic private and external sectors. Public enterprises have shown very low rate of return on the huge capital invested. This has reduced their ability to regenerate themselves in terms of new investment and technology development. The result is that many of the public enterprises have become a burden rather than being an asset to the Government. In the national economic scenario resulting from the Economic reforms of 1991 the scope of public sector is reduced and is confined only to infrastructure and strategic industries. The priority areas for growth of public enterprises in future will be the following

- 1) Essential infrastructure goods and services.
- 2) Exploration and exploitation of oil and mineral resources.
- 3) Technology development and building of manufacturing capability in areas

which are crucial in the long-term development of the economy where private sector investment is inadequate.

4) Manufacture of products where strategic considerations predominate such as defence equipment.

The public sector in India has grown very rapidly. There are important reasons for promoting public sector. Public sector growth has helped in achieving infrastructural development on the one hand and a strong and well-diversified industrial base on the other. Criteria of operational efficiency show that there is need for improving substantially the performance of public sector enterprises.

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