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Research Paper

GROWTH AND PERFORMANCE OF PRIVATE SECTOR IN INDIAN ECONOMY AFTER LIBERALIZATION

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Abstract

Private sector enterprises are owned and managed by the private sector. These private sector enterprises are mostly characterized by certain common characteristics like private initiative, profit motive and ownership and management in private hands. In 18th and 19th century, most of the countries of the world adopted the policy of laissez faire where the Governments followed a policy of non-interference in economic activity by the State. In a developing country like India, with the continuous expansion of the public sector, the productive areas open for the private sector has gradually squeezed. It is only during the post-1991 period of economic liberalisation, more and more areas are being made open for the private sector and the industrial activities in this sector gained its momentum both through participation of domestic and foreign, private companies. In India, the distinction between the private sector and the public sector gained its importance, particularly after the introduction of Industrial Policy Resolutions 1948 and 1956, paving the way for the adoption of mixed economy in India.

Key Words: distinction, liberalisation, Industrial Policy

Introduction

Private sector includes all different types of individual or corporate enterprises, both domestic and foreign, engaged in different fields of productive activity. Private sector enterprises are owned and managed by the private sector. These private sector enterprises are mostly characterized by certain common characteristics like private initiative, profit motive and ownership and management in private hands. In 18th and 19th century, most of the countries of the world adopted the policy of laissez faire where the Governments followed a policy of non-interference in economic activity by the State. This had led to huge expansion of private sector in almost all the countries of the world. In recent times, the private sector has changed its character and is now quite different from the private enterprises of the past.

Now-a-days, the private sector in the form of corporate industrial units are normally owned by the shareholders and managed by professional managers, where they are not only guided by profit motive but also by expansion, consolidation, arousing social consciousness, social responsibilities, social welfare etc. The scope of private enterprises is very much restricted due to the expansion of public sector in different countries of the world. Even the capitalist countries like USA, Japan, Western European countries etc. have developed public sector in some strategic areas like defence production, aircraft production, atomic energy, multi-purpose projects etc.

In a developing country like India, with the continuous expansion of the public sector, the productive areas open for the private sector has gradually squeezed. It is only during the post-1991 period of economic liberalisation, more and more areas are being made open for the private sector and the industrial activities in this sector gained its momentum both through participation of domestic and foreign, private companies. In India, the distinction between the private sector and the public sector gained its importance, particularly after

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the introduction of Industrial Policy Resolutions 1948 and 1956, paving the way for the adoption of mixed economy in India.

These industrial policy resolutions firstly reserved certain industrial areas for the public sector; secondly allowed certain existing industries in the private sector to continue along with the public sector, whose future development would be restricted to the public sector alone and finally, reserved certain other areas exclusively for the private sector. Broadly, the public sector in India is assigned with the responsibility of developing and managing heavy and basic industries, economic and social economic infrastructure but the private sector has been assigned with the task of developing consumer goods industries. While the railways, civil aviation, power generation and distribution, banks, insurance and other financial institutions are reserved in the public sector, but the private sector has been allotted with the entire agriculture and allied activities, plantation, mining, internal trade both wholesale and retail, foreign trade, road freight traffic etc.

At present, the organized areas of the private sector is mostly controlled by the corporate industrial sector and the unorganized agricultural and cottage industrial sector are controlled by the household sector and private individuals. In the initial stage of economic development, investment in the public sector was quite necessary to accelerate the pace of economic development as well as for the development of basic and heavy industries and the infrastructural areas so as to provide necessary support to private sector. As the private sector investment is very much interested in quick-yielding projects and high profitability areas, thus, the investment in those projects having long-gestation periods and low-profit yielding are mostly reserved for the public sector. The growing sickness of the public sector and the policy of economic liberalisation introduced in India particularly after post-1991 period, i.e., after the introduction of New Industrial Policy, 1991, the policy towards the public and the private sector have been reversed.

The new policy open-up nine different industries for the private sector reserved earlier as per 1956 policy. These industries were iron and steel, electricity, air transport, ship building, heavy machinery industries, telecommunication and telecommunication cables and instruments.

Thus, with the growing economic liberalization of the Indian economy, more and more areas are now being made open for the participation of private sector enterprises. Accordingly, the industrial activities in the private sector gained its momentum through the participation of both domestic and foreign private companies. Thus, in recent times, private sector has been assigned with increasing role and responsibilities in a developing country like India.

GROWTH OF PRIVATE SECTOR IN INDIA

At the dawn of independence, almost the entire productive activities and trade were owned and managed by the private sector. At that time, the role of public sector was insignificant, and its activity was very much confined to irrigation, power, railways, ports, ordinance, posts and telegraphs etc. But the activity of the public sector was gradually expanded in different new fields by both the Centre and the States.

Accordingly, the public sector started to play a significant role in different areas; in terms of investment, turnover, capital formation, import substitution, contribution to export etc. Even after the huge expansion of the public sector, the private sector still continued to play a dominant role in all spheres and thereby accounting nearly 80 per cent of the gross domestic product and about 90 per cent of the total employment. In a narrow sense, private corporate sector provides a picture about the private sector. Thus, it is quite important to study the growth of private corporate sector in comparison to that of public sector.

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Table: 1 Growth of Private Corporate Sector in India			
Heads	March 1957	March 1971	March 2000
No of Companies	29,357	30,461	5,42308
a) Government	74	314	1,257
b) Non-Government	29,283	30,147	5,41,051
Paid-up Capital (Rs Crore) All Companies	1,078 (100.0)	4,423 (100.0)	2,67,898 (100.0)
a) Government Company	73 (6.8%)	2,074 (46.9%)	25,842 (35.8%)
b) Non-Government Company	1,005 (93.2%)	2,349 (53.1%)	1,72,056 (64.2%)
Source: Directorate of Economics and Statistics, Govt. of India			

Table 1 reveals the growth of both the public sector and private corporate sector over the last three and a half decades. In respect of number of companies, the rate of growth of public sector companies was much faster than that of private sector companies. During the period from 1957 to 2000, total number of government companies had increased from 74 to 1,279, i.e., by nearly 16.9 times. Again, the non-government companies has increased their number from 29,283 to 5,41,051 during the same period and thus the same increased by only 7.5 times.

Moreover, the paid up capital of government companies jumped up from only Rs. 73 crore in 1957 to Rs. 95,842 crore in 2000. Again, the paid-up capital of the private sector companies increased from Rs. 1,005 crore in 1957 to Rs. 1,72,056 crore in 2000.

The share of Government companies in total paid-up capital of all companies increased significantly from a mere 6.8 per cent in 1957 to 72.6 per cent in 2000. But the share of non-government companies in total paid up capital of all companies declined from 93.2 per cent in 1957 to 64.2 per cent in 2000.

In the post-1991 period, the investment scenario mostly in the private sector has been buoyant and upward moving since the introduction of economic reforms. The state-wise distribution of private sector companies shows that as on 31st March, 1986, Maharashtra recorded the largest concentration of private sector companies, i.e., 29,633 companies with a paid up capital of Rs. 1,515 crore, followed by West Bengal (20,397 companies with paid up capital of Rs. 1,170 crore), Delhi, Tamil Nadu, Gujarat, Karnataka and Andhra Pradesh.

Among the private sector corporate units, the largest industrial activity in terms of paid up capitals is in processing and manufacture of metals and metal-products and then the same is followed by chemicals, textiles, leather and leather products, foodstuffs and processing, commerce, agriculture and allied industries, construction utilities etc.

The Reserve Bank of India Bulletin, January-February 1995-96 reveals that there has been marked improvement in the financial performance of the private corporate sector during the first half of 1995-96 registering a 30.3 per cent growth over the corresponding period of the previous year. Sales of 1,350 companies in the first half of 1995-96 amounted to Rs. 1,02,510 crore compared to Rs. 78,678 crore in the corresponding period of the previous year.

The other income of the private corporate sector went up by 15.6 per cent during this period. Total expenditure also increased at a slightly lower rate of 28.8 per cent than total income (29.9 per cent) amounting to Rs. 84,380 crore in the first Six months of 1995-96 compared to Rs. 65,507 crore in the corresponding period.The higher growth rate in income than that of expenditure resulted in a high level of gross profits of Rs. 1 7,470 crore showing a rise of 34.8 per cent as compared to that of Rs. 12,957 crore in the corresponding period of the preceding year. The pre-tax profits of this private corporate sector have recorded a growth of 39.6 per cent but the post-tax profits recorded a growth of 39.7 per cent during the same period.

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CHANGING SCENARIO OF INDIAN CORPORATE SECTOR

Indian Corporate Sector has largely experienced a considerable change in its total scenario in recent years, especially after the announcement of Industrial Policy Reforms, 1991. In the post-reform period, pre-entry scrutiny and the clearance of the industrial projects of big business houses by the MRTP Commission is now no longer required. As a result, there is considerable increase in investments undertaken by a good number of enterprises or industrial houses of the private corporate sector. Side by side, the volume of investments made by the public sector undertakings (PSUs) has also increased significantly.

In recent years, a detail study on the performances of the business houses in private corporate sector along with public sector undertakings has been undertaken by "Business Standard, March, 2002". This study covers all total 1,000 companies. Out of these, 594 private sector companies of 50 business houses and 32 public sector undertaking (PSUs) mostly giant in nature, i.e., all total 526 companies out of 1,000 companies are studied in detail.

LARGE SCALE PRIVATE SECTOR INDUSTRIES IN INDIA

In India, there are a good number of large scale private sector enterprises, investing a huge amount of capital in different productive areas. Total capital employed in 150 top private sector large scale companies was aggregated to Rs. 73,799 crore in 1991-92 as compared to that of Rs. 57,825 crore in 1990-91 showing an increase of 27.6 per cent in investment in a single year. Again, the gross sales of this companies was amounted to Rs. 76,188 crore in 1991-92 as compared to that of Rs. 63,279 crore in 1990-91, showing an increase of 20.4 per cent. This shows a huge growth of private sector large scale enterprises in India and a massive concentration of assets and economic power in the hands of giant private sector companies of the country.

In 1991-92, the biggest company in the private sector was Reliance Industries with its assets of Rs. 4,880 crore. Tata Iron and Steel was the second biggest company with its assets of Rs. 4,776 crore and it is followed by Tata Engineering, Larsen Toubro, Grasim Industries and GSFC.

The massive expansion of private sector giant companies in recent years would be quite clear from the fact that the total assets position of top five private sector companies in 1981-82 (Tata Iron and Steel, Tata Engineering, Calcutta Electric Supply; Reliance Textiles and Associated Cements) was only Rs. 2,032 crore. But in 1991-92, the total assets of top five companies (Reliance Industries, Tata Iron and Steel, Tata Engineering, Larsen and Toubro and Grasim Industries) had increased significantly to Rs. 16,134 crore showing a growth rate of 694 per cent.

Survey on huge concentration of assets in the hands of few companies was again made by the Centre for Monitoring Indian Economy (CMIE). As per this study, out of the total 1,664 large private companies analysed (as of 1989), only 184 such companies i.e., about 11 per cent of such companies had net assets worth Rs. 52,011 crore out of the total assets worth Rs. 85,320 crore held by 1,664 companies, which accounted nearly 61 per cent of the total assets of all the 1,664 companies.

POLICY FOR THE PRIVATE SECTOR DEVELOPMENT IN INDIA

In order to provide necessary support and finance to the private sector, the Government of India has set up a huge network of development banking and financial institution since independence. These institutions include Industrial Finance Corporation of India (IFCI), the State Financial Corporation's (SFCs), the Industrial Development Bank of India (IDBI), the Industrial Credit and Investment Corporation of India (ICICI), the EXIM Bank, the National Bank for Agricultural and Rural Development (NABARD) etc.

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These institutions are providing adequate financial support to different large, medium and small scale industries, agricultural sector, traders, export oriented units etc. In addition to these institutions, the Government has set up some other institutions to assist the private sector in the form of infrastructure, technological development, raw material supply, marketing arrangements etc.

With such intention both the Centre and the State Governments have developed industrial estates, growth centres, industrial parks, technological parks for the development of the industrial centres. Moreover, the Government has been providing necessary fiscal incentives in the form of tax holiday or tax concessions etc. to various new industrial and export oriented units.

Thus, on many occasions the Government claim that the expansion and development of the private sector have been mostly due to active support and incentives offered by the Government under necessary situations.

Besides, the Government has set up an extensive control and regulatory structure for the private sector under which it has to work. The Planning Commission has been entrusted with the fixation of level of investment, overall targets etc. for the private sector for each Five-Year Plan.

The Government passed the Industries (Development and Regulation) Act, 1951 in order to control and guide the direction of private investment and also for the promotion, growth and diversification of the private sector enterprises.

The main aims of this act is to channelize the private sector investment as per the direction of the Five Year Plans, making way for balanced regional development, protecting small scale industries from uneven competition from the large scale industries, preventing concentration of economic power to particular industrial houses, regulating and taking over those industrial enterprises which are going against public interest.

Moreover, the Government passed the Indian Companies Act, 1956, Monopoly and Restrictive Trade Practices Act, 1969 and Industrial Licensing Policy, 1970 so as to restrict, regulate and control the working of the private corporate sector. The MRTP Act, 1969 was designed to prevent restrictive trade practices and also to control the concentration of economic power. The MRTP Commission was assigned with the power to investigate and control monopolies and all restrictive trade practices of the MRTP companies.

Again, the Government has formulated the Industrial Policy Resolutions, 1948 and 1956 which were subsequently revised with industrial policies resolutions in 1980, 1990 and 1991. All these industrial policy sectors, provided non-discriminatory treatment for the private sector units, finalized the attitudes towards foreign capital and provided necessary supporting measures for "the small scale and village industries of the country.

In spite of providing necessary support structure to the private sector, the regulatory and control structure of the government has maligned its purpose. Too much control and restrictions imposed on the private sector have restricted its operations and even its expansion activities.

Even the Industries (Development and Regulation) Act, 1951 and the Industrial Licensing Policy, 1970 etc. became a restrictive instrument. Besides legislative measures, some other restrictions like price controls, monetary and fiscal controls were appended with the control mechanism to control the private sector. All these have frustrated the industrial incentives leading to a slower growth of the industrial sector.

Considering the fast changing scenario of the industrial economy, the Government has felt the need for modifying the necessary support structure and regulatory framework for the industrial sector. With the similar intentions the Government has liberalized the private sector from such stricter regulatory framework.

Accordingly, the new Industrial Policy, 1991 was announced by the Government which systematically abolished the licensing in all

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industries excepting 15 industries, un-shakled the private sector from unnecessary bureaucratic controls and removed the pre-entry scrutiny of investment of MRTP companies.

PROSPECTS OF THE PRIVATE SECTOR

Since independence, the private sector was assigned with a secondary role to participate in the industrial activity of the country by the Government. It was only since the Sixth Plan, the Government started to assign much responsibility to the private sector by allocating about 47 per cent of the total planned investment in the private sector. Side by side, the private sector has also improved its condition, showing sufficient buoyancy and registering higher rate of growth by raising higher volume of funds from the capital market and also by setting up many joint ventures in some other countries. Inspite of that, the private sector of India was about 20 years behind the schedule as compared to that of other developing countries.

In order to overcome such gap, a series of measures has been taken by the Government so as to improve the conditions of the private sector. These measures include permitting automatic expansion of capacity to a good number of industries, providing special incentive to export oriented units, exemption from MRTP restrictions on industrial units producing export goods, granting licenses easily to industrial units located in “zero industry” districts, fastening the licensing procedures, liberalization of import and pricing policies etc. All these measures which were introduced during the Sixth Plan, were further liberalized and strengthened during the Seventh Plan. Moreover, the Government has announced the New Industrial Policy, 1991, which has liberalized the private sector considerably. The main changes brought by this new policy include abolishing the system of industrial licensing for all industrial undertaking except for a short list of 18 industries, reducing the list of industries under public sector to 8 as against the 17 industries reserved earlier, inviting private sector participation in PSUs earning higher profit, abolishing, the system of pre-entry scrutiny of investment decisions of the MRTP companies, removing the asset limit of the MRTP companies, providing automatic permission for foreign technology agreement, removal of mandatory convertibility clause etc. Thus, the new policy has assigned a greater role on the private sector by removing restrictions and controls and introduced a liberalized regime for the private sector of the country. Thus, the prospects of the private sector in the future development programme of the country are quite bright under the new liberalized regime. Private sector has now been allowed to participate in those basic, difficult and strategic areas to compete with the public sector of the country. Thus, this is quite a challenging situation before the private sector of the country. It is expected that the private sector will be able to accept this challenge and prove its worth within the definite time frame.

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