

ROLE OF PUBLIC SECTOR IN INDIA IN EMPLOYMENT IN INDIA

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ABSTRACT

Historically, public sector assume significant importance to India's economy, in both pre-and post-independence period. In the pre-independence era, the public sector was confined primarily to select sectors including railways, posts and telegraphs, port trust, ordnance factories, etc. The development of public sector enterprises was identified as a key driver for self-reliant economic growth in the absence of significant private capital. With the onset of economic reforms in 1991, the Government initiated a systemic shift to a more open economy with greater reliance on market forces and a larger role of the private sector including foreign investment.

Public sector has played a dominant role in generating employment in India. There are two important categories of public sector employment: (a) Government administration and defence and other government services like health, education, research and various activities to promote economic development; and (b) public sector proper. Compared to the private sector employment, there was rapid growth of employment in the public sector during the period 1961-81, a relative slow down during 1981-91, and a declining trend since 1991.

Keywords: Organized sector, economic reforms, employment structure, labour welfare

INTRODUCTION

Economic development has been the prime concern of Indian state since India got independence in 1947. At the time of independence India was plagued with mass poverty, illiteracy, unemployment and disease. It faced the challenge of growth and change to catch up with the developed countries. It had to decide on vital issues such as its development strategy for the future, the economic policy it had to adopt to achieve the goals of eradicating poverty and removal of unemployment. The purpose of this paper is to give a brief overview of the importance of public sector and its role and performance in generating employment in India.

Importance of Public Sector in India

In a developing economy like India, some industries had to be brought within public ownership and control, for otherwise rapid growth of the economy was thought to be impossible.

At the time of Independence, activities of the public sector were restricted to a limited field like irrigation, power, railways, ports, communications and some departmental undertakings. After Independence, the area of activities of the public sector expanded at a very rapid speed. To assure the private sector that its activities will not unduly curbed, two industrial policy resolutions were issued in 1948 and 1956 respectively. These policy resolutions divided the industries into different categories. Some fields were left, entirely for. the public sector, some fields were divided between the public and the private sector and some others were left totally to the private sector. A cursory glance at the division of fields of industrial activity 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 corporations, railways, air transport, etc., are in the public sector, the entire agricultural sector has been left for the private sector.

The important point that arises at this juncture, is - why were the heavy and basic industries like iron and steel, heavy engineering, heavy electrical plant, etc., selected for development in the public sector while quick-yielding consumer goods industries were left for the private sector? The answer to this question has been attempted by R. K. Hazari according to whom the industrial programmers of government that emerged after 1955 were built around two hypotheses: (i) private investment in relatively simple goods would be promoted by shutting out imports as well as through excess capacity at home, with a consequent boost to profits; and (ii) public investment, being autonomous of profits, would take place in basic areas which had long gestation periods, low or no profits, a large foreign exchange component, complex technology and equally complex problems of co-ordination. The logic of the first hypothesis was that private investment was in the nature of 'induced investment' and could be promoted by adopting a policy of protection against imported substitutes. The logic of the second hypothesis was that investments in low profit yielding and heavy investment requiring industries were in the nature of 'autonomous investment' and could, accordingly, be undertaken only by the State. Since the very beginning, PSUs have been the mainstay of the Indian economy and were set up with the mandate to:

1. Serve the broad macroeconomic objectives of higher economic growth.
2. Achieve self-sufficiency in the production of goods/services.
3. Facilitate long-term equilibrium in the balance of payments.
4. Ensure stability in prices and create benchmarks for prices of essential items.

5. Promote redistribution of income/wealth and balanced regional development.
6. Create employment opportunities.

Historically, PSUs assume significant importance to India's economy, in both pre-and post-independence period. In the pre-independence era, the PSUs were confined primarily to select sectors including railways, posts and telegraphs, port trust, ordnance factories, etc. Post-independence era was characterized by an agrarian economy with a weak industrial base, regional imbalance in economic development, low level of savings, inadequate infrastructure facilities, and considerable inequality in income and levels of employment; thus, the development of public sector enterprises was identified as a key driver for self-reliant economic growth in the absence of significant private capital. Consequently, the Industrial Policy Resolutions 1948 and 1956 laid emphasis on constituting public enterprises by the Central Government for industrial development in the core sectors.

With the onset of economic reforms in 1991, the Government initiated a systemic shift to a more open economy with greater reliance on market forces and a larger role of the private sector including foreign investment. Accordingly, the PSEs were exposed to competition from domestic private sector companies as well as large multinational corporations. Given the competitive environment, the PSUs undertook significant initiatives for upscaling technologies and capacities in order to operate at par with the private counterparts in the liberalized economy. The continued focused efforts towards achieving excellence have helped several of the PSUs to become self-reliant and to play a critical role in building the Indian economy.

It may not be out of context to mention that many of today's success stories in the developing world began life as state-owned enterprises (SOEs). In France, for instance, Renault, Alcatel, EdF, Thomson, and Elf were SOEs for a long time, as were Rolls-Royce and British Aerospace in the UK. In the Indian context also, consequent to the initiatives taken during the five-year plans, the role of central PSUs in terms of contribution to the Indian economy has increased manifold.

PUBLIC SECTOR EMPLOYMENT

Growth and Size

Public sector has played a dominant role in generating employment in India. The growth of public sector employment, in India, has extensively been debated on various grounds, and has particularly received wide attention since liberalization. In the early 1960s there was a tendency of growing share of public sector in the gross fixed capital formation and industrial investment in the developing countries, particularly India. It is important to note that, among the Asian

countries, share of public sector in India, covering major sectors such as agriculture, manufacturing, banking, and trade, was relatively higher than the private investment. It was felt that public sector would be more inclined to create employment opportunities and would achieve high growth rate of output in the long term. Thus, the public sector investment was given utmost importance for more than three decades of planning. However, since the liberalization in 1991, India has witnessed major policy changes such as opening up of the domestic economy, foreign direct investment, and large scale private participation in key sectors such as banking, retail, hotel, and communication.

Nearly more than six decades of planning is gone by, it is important to examine the growth of employment in the public sector and its changing role in the organized employment. There are two important categories of public sector employment : (a) Government administration and defence and other government services like health, education, research and various activities to promote economic development; and (b) public sector proper i.e., economic enterprises owned by the Centre, State and Local Government Table 1 shows the size and growth of employment in the organized sector since 1971. A close look at the composition of organized public and private sector employment, reveals some interesting transitions. The organized sector in India basically consists of the public and the private sectors. Compared to the private sector employment, there was rapid growth of employment in the public sector during the period 1961-81, a relative slow down during 1981-91, and a declining trend since 1991.

For instance, public sector employment in manufacturing significantly increased its share in organized manufacturing employment, between 1961 and 1993-94, before declining in 1999-00 (Tendulkar, 2003). Of the total organized public and private sectors, public sector accounted for 70 lakhs in 1961 i.e. nearly 58 percent of the total organised sector employment. Community, social and personal services (52 percent), transport, storage and communication (24 percent) and, manufacturing (6 percent) were the major economic activities in providing employment under public sector. By 1981, public sector employment had increased to 15.5 million, which accounted for about 68 percent of the total employment in the organized public and private sectors. However, India recoded a slowdown in the public sector employment and a marginal decrease of 0.9 percent in 2001, over 2000. On the other hand, the employment in the private sector has increased by 0.1 percent. More aptly, there has been a transition from the public sector to the private sectors, but the volume of this transition is quite small. The total number of workers employed in the public sector in 1971 was 111 lakhs, but by March 1991, their numbers grew to about 190 lakhs. After 1991 there has been gradual decline in employment in public sector and it dropped to 176 lakhs in 2012. Since employment in the public sector is confined to the organized sector, public sector employs 69 per cent of the workers employed in organized sector of the Indian economy.

Table 1: Public and Private Sector Employment in India (In lakhs)

	(1)	(2)	(3)	(4)
	Public	Private	Total	
	sector	Sector		1 as% of 3
1971	111	67	178	62
1981	155	74	229	68
1991	190	77	267	71
2003	186	84	270	69
2004	182	82	264	69
2005	180	84	264	68
2006	182	88	270	67
2007	180	93	273	66
2008	177	99	276	64
2009	178	104	282	63
2010	179	108	287	62
2011	176	115	290	60
2012	176	120	296	59

Source : Economic Survey, (2011-2012), Government of India

Structure of Employment

From table 2, it may be noted that in 2012, 52 per cent of the total employment in the public sector was in Government administration and community and personal services and the balance 48 percent was spread in other economic enterprises run by the Centre, State and local governments. The biggest chunk of employment in economic enterprises was in transport, storage and communications of the order of about 29 lakhs and next in importance was manufacturing (13.6 %). About 5.0 lakh persons employed in agriculture and other allied activities reflect employment under Employment Gurantee Scheme rather than any productive activity in the normal sense.

The share of public sector in total employment in the organized sector (public plus private) reveals that in transport and communications, electricity, gas and water and construction, the

share of the public sector is in the range of 95-98 per cent, a situation of total dominance. These are the traditional areas which have been the exclusive preserve of the public sector since the days of the British rule. However, in manufacturing, the share of the public sector was about 27 per cent of the total since its entry in this area is of recent origin. With the nationalization of coal mines and takeover of 20 major commercial banks, there has been a significant improvement in the position of the public sector. In an overall sense, the public sector is a big employer (69 per cent of total) in so far as the organized sector of the Indian economy is concerned.

Table 2: Employment in the Public Sector (In Lakhs)

	1991	2000	2005	2008	2010	2011	2012 P
1.Manufacturing	18.52 (9.71)	15.31 (7.92)	11.30 (6.27)	10.44 (6.04)	10.66 (6.08)	10.2 (5.90)	10.7 (6.17)
2.Transport Storage and Communication	30.26 (15.87)	30.77 (15.93)	27.51 (15.27)	26.34 (15.24)	25.29 (14.44)	23.8 (13.78)	24.9 (14.36)
3.Financing, insurance, real estate and business service	11.94 (6.26)	12.96 (6.71)	14.08 (7.81)	13.47 (7.79)	14.13 (8.07)	13.6 (7.87)	13.6 (7.84)
4.Government administration community, social & personal sectors	92.27 (48.41)	97.71 (50.59)	92.52 (51.38)	88.54 (51.22)	90.51 (51.70)	91.0 (52.69)	90.4 (52.16)
5.Mining & quarrying	9.99 (5.24)	9.24 (4.78)	10.14 (5.63)	11.21 (6.48)	11.03 (6.30)	10.9 (6.31)	10.8 (6.23)
6.Agriculture, hunting	5.56 (2.91)	5.14 (2.66)	4.96 (2.75)	4.71 (2.72)	4.78 (2.73)	4.8 (2.77)	4.7 (2.71)
7.Electricity, gas & water	9.05 (4.74)	9.46 (4.88)	8.60 (4.77)	7.96 (4.60)	8.35 (4.77)	8.3 (4.80)	8.2 (4.73)
8.Construction	11.49 (6.02)	10.92 (5.65)	9.11 (5.05)	8.52 (4.92)	8.59 (4.90)	8.5 (4.92)	8.3 (4.78)
9.Wholesale & retail	1.50 (0.78)	1.63 (.84)	1.84 (1.02)	1.64 (0.94)	1.71 (0.97)	1.7 (0.98)	1.7 (0.98)
Total	190.58	193.14	180.06	172.83	175.05	172.7	173.3

Source: Economic Survey, Ministry of Finance, Government of India (2011-2012)

NB: Figures in the parentheses shows percentage of the total.

Employment Structure by Type of Government

Table 3 shows the absolute numbers of employees, and percentage change in employment over the years by types of government, for half a century (1961 to 2012). During the employment boom, i.e., 1961 to 1981, most of the increase occurred in quasi government broadly representing

the widening role of the state in the production of goods and services, followed by state governments to provide the welfare services. During the contraction (1991-2012), central government bore the brunt – both in absolute and in percentage terms – followed by the quasi governments.

The other reason for the decline in public sector employment is natural attrition. Those who joined the services in 1960s and the 1970s would have retired in the 1990s, and 2000s, contributing to a decline in the pay roll. After the reforms as a policy matter central government froze fresh recruitment, leaving posts vacant, amounting to 18 per cent of the sanctioned positions in 2012.

Table 3: Composition of public employment by levels of levels of government.

(in 00.000)

Year	Central Govt	State Govt	Local Govt	Quasi Govt	Total
1961	20.9	30.1	11.7	7.7	70.5
1971	27.7 (32.6)	41.5 (37.9)	18.8 (60.7)	19.3 (150.7)	107.3 (52.2)
1981	32.0 (15.5)	56.8 (36.9)	20.4 (8.5)	45.8 (137.3)	154.8 (44.3)
1991	34.1 (6.6)	71.1 (25.2)	23.1 (13.2)	62.7 (36.9)	190.6 (23.1)
2001	32.6 (-4.4)	74.3 (4.5)	22.6 (-2.2)	61.9 (-1.3)	191.4 (0.4)
2012	25.2 (-22.7)	71.8 (-3.4)	21.1 (-6.6)	58.0 (-6.3)	176.1 (-8.0)

Public Sector and Labour Welfare

Public sector has not only contributed to a significant extent in improving the overall employment situation in the country but has also acted as a model employer by providing the workers with better wages and other facilities as compared to the private sector, the number of persons employed in the Central public sector enterprises as on March 31, 2009 was 15.35 lakh (excluding casual workers and contract labour). The average per capita emoluments in central public sector enterprises stood at about Rs. 5,45,500 per annum. The industrial sectors which, have a sizable number of employees in the public sector include coal, steel, textiles, heavy engineering, and medium and light engineering.

The public sector enterprises have also spent a considerable; amount on the development. of townships around them. These townships were provided with facilities like schools, hospitals, shopping complexes, etc. A substantial sum of money is spent annually on the maintenance and administration of these townships and social overheads. For instance, gross expenditure worth

Rs. 3,581 crore was incurred by public sector units as on March 1, 2007 on township maintenance, administration and social overheads. The employees of the public sector enterprises also enjoy medical amenities, subsidized canteen facilities, transport and, educational facilities, etc.

Comparative Position

In 2009-10, as per the Economic Survey, public sector employed 18 million persons, aggregated over all levels and forms of government – constituting 4 per cent the national work force, and their wages 8 per cent of GDP. Contrary to popular belief and scholarly writings, compared to other countries the size of the public employment in India is not large, relative to its population. Though, international data are hard to come by, the few available figures attest this fact.

For instance, in the US, in 2012, all the levels of the government put together, employed 22 million persons constituting 15 per cent of the workforce (Rampell, 2012). As per a news report, in 2011, for every 100,000 residents, India had 162.3 government servants; the figure for the US was over four times larger at 768.1 (The Hindu, January 30, 2012). Considering that the size of public sector in the US is small, relatively to other developed countries, one can reasonably infer that public sector employment (relative to population) in the advanced countries is, in general, much higher than in India. For comparing India with developing economies available data is dated and scanty, but the information put together in an IMF study does not suggest India to be a positive outlier.

CONCLUSION

Public sector has played a significant role in providing employment besides preparing sound infrastructure for economic development in India. However in the current phase of economic reforms, a deceleration in growth of employment in the organized sector has been observed. This has largely occurred because employment in public sector has declined after 2003. A matter of grave concern is that employment elasticity in the organized private corporate sector has been very low. The organized sector employment which grew 1.2 percent per annum during 1983-94 recorded much less growth of 0.05 per cent during the post reform period 1994-2008. Higher GDP growth in this period failed to generate higher employment in the nineties and in the first decade of present century 1994-2012. After 1994 there has been negative growth in employment in the organized public sector and growth of employment in the organized private sector has not been sufficient to make up for the loss of jobs in the public sector.

SUGGESTIONS

- Use of labour intensive and capital saving technologies should be promoted.
- Definition of organized sector presently in terms of capital intensity should be reviewed and it should be designed in terms of job created rather than investment made.
- Employment creation in small enterprises will have to be promoted by incentives linked to jobs created rather than capital invested.
- Appropriate pro – employment macro policies are needed for employment generation.
- Even now agriculture absorbs more than 50% of the labour force. Hence all efforts should be made for sound development of agricultural sector.

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