Here we detail about the following nine important roles played by public sector in Indian economy, i.e., (1) Generation of Income, (2) Capital Formation, (3) Employment, (4) Infrastructure, (5) Strong Industrial Base, (6) Export Promotion and Import Substitution, (7) Contribution to Central Exchequer, (8) Checking Concentration of Income and Wealth, and (9) Removal of Regional Disparities.

1. Generation of Income:

Public sector in India has been playing a definite positive role in generating income in the economy. The share of public sector in net domestic product (NDP) at current prices has increased from 7.5 per cent in 1950-51 to 21.7 per cent in 2003-04. Again the share of public sector enterprises only (excluding public administration and defence) in NDP was also increased from 3.5 per cent in 1950-51 to 11.12 per cent in 2005-06.

2. Capital Formation:

Public sector has been playing an important role in the gross domestic capital formation of the country. The share of public sector in gross domestic capital formation has increased from 3.5 per cent during the First Plan to 9.2 per cent during the Eighth Plan. The comparative shares of public sector in the gross capital formation of the country also recorded a change from 33.67 per cent during the First Plan to 50 per cent during the, Sixth Plan and then declined to 21.9 per cent in 2005-06.

But the Public sector is not playing a significant role in respect of mobilization of savings. The share of public sector in gross domestic savings increased from 1.7 per cent of GNP during 1951-56 to only 3.6 per cent during 1980-85. During 1980s, the share of public sector in gross domestic savings declined from 16.2 per cent in 1980-81 to 7.7 per cent in 1988-89.

In this connection Narottam Shah observed, "The failure of the public sector contributes only 21 per cent of the nation's savings; that also in part, through heavy taxation and semi-fictitious profits of the Reserve Bank. The remaining 79 per cent of the nation's savings came from the private sector." Again the share of public sector in gross domestic savings increased from 4.78 per cent in 1990-91 to 6.61 per cent in 2005-06.

3. Employment:

Public sector is playing an important role in generating employment in the country.

Public sector employments are of two categories, i.e:

(a) Public sector employment in government administration, defence and other government services and

(b) Employment in public sector economic enterprises of both Centre, State and Local bodies. In 1971, the public sector offered employment opportunities to about 11 million persons but in 2003 their number rose to 18.6 million showing about 69 per cent increase during this period.

Again in 2003, the public sector offered employment opportunities to 18.6 million persons which was 69 per cent of the total employment generated in the country as compared to 71 per cent employment generated in 1991. However, there is considerable decline in the annual growth rate of employment in the public sector from 1.53 per cent during 1983-1994 to 0.80 per cent during 1994- 2004.

Moreover, about 69.0 per cent of the total employments are generated in the public sector. Moreover, at the end of March 2004, about 51.7 per cent of the total employment (i.e. about 96 lakh) generated in public sector is from Government administration, community, social and personal services and the remaining 48.3

per cent (i.e., nearly 89.7 lakh) of the employment in public sector is generated by economic enterprises run by the Centre, State and Local Governments.

The maximum number of employment is derived from transport, storage and communications (28.1 lakh). The public sector manufacturing is the next industry which generated employment to the extent of 11.1 lakh persons.

4. Infrastructure:

Without the development of infrastructural facilities, economic development is impossible. Public sector investment on infrastructure sector like power, transportation, communication, basic and heavy industries, irrigation, education and technical training etc. has paved the way for agricultural and industrial development of the country leading to the overall development of the economy as a whole. Private sector investments are also depending on these infrastructural facilities developed by the public sector of the country.

5. Strong Industrial base:

Another important role of the public sector is that it has successfully build the strong industrial base in the country. The industrial base of the economy is now considerably strengthened with the development of public sector industries in various fields like—iron and steel, coal, heavy engineering, heavy electrical machinery, petroleum and natural gas, fertilizers, chemicals, drugs etc.

The development of private sector industries is also solely depending on these industries. Thus by developing a strong industrial base, the public sector has developed a suitable base for rapid industrialization in the country. Moreover, public sector has also been dominating in critical areas such as petroleum products, coal, copper, lead, hydro and steam turbines etc.

6. Export Promotion and Import Substitution:

Public sector enterprises have been contributing a lot for the promotion of India's exports. The foreign exchange earning of the public enterprises rose from Rs. 35 crore in 1965-66 to Rs. 5,831 crore in 1984-85 and then to Rs. 34,893 crore in 2003- 04. Thus, the export performance of the public sector enterprises in India is quite satisfactory.he public sector enterprises which played an important role in this regard include—Hindustan Steel Limited, Hindustan Machine Tools (HMT) Limited, Bharat Electronics Ltd., State Trading Corporation (STC) and Metals and Minerals Trading Corporation.

Some public sector enterprises have shown creditable records in achieving import substitution and thereby saved precious foreign exchange of the country. In this regard mention may be made of Bharat Heavy Electricals Limited (BHEL), Bharat Electronics Ltd., Indian Oil Corporations, Oil and Natural Gas Commission (ONGC). Hindustan Antibiotics Ltd. (HAL) etc. which have paved a successful way tor import substitution in the country.

7. Contribution to Central Exchequer:

The public sector enterprises are contributing a good amount of resources to the central exchequer regularly in the form of dividend, excise duty, custom duty, corporate taxes etc. During the Sixth Plan, the contribution of public enterprises to the central exchequer was to the tune of Rs. 27,570 crore.

Again this contribution has increased from Rs. 7,610 crore in 1980-81 to Rs. 18,264 crore in 1989-90 and then to Rs. 85,445 crore in 2003-04. Out of this total contribution, the amount of dividend contributed only 2 to 3 per cent of it.

8. Checking Concentration of Income and Wealth:

Expansion of public sector enterprises in India has been successfully checking the concentration of economic power into the hands of a few and thus are redressing the problem of inequalities of income and-wealth of the economy. Thus, the public sector can reduce this problem of inequalities through diversion of profits for the welfare of the poor people, undertaking measures for labour welfare and also by producing commodities for mass consumption.

9. Removal of Regional Disparities:

From the very beginning industrial development in India was very much skewed towards certain big port cities like Mumbai, Kolkata and Chennai. In order to remove regional disparities, the public sector tried to disperse various units towards the backward states like Bihar, Orissa, and Madhya Pradesh. Thus, considering all these foregoing aspects it can be observed that in-spite of showing poor performance, the public sector is playing dominant role in all-round development of the economy of the country.

Changing Role of Public Sector

As we know that in 1991 India opened up its economy and started the process of globalization. But also, through the same changes in economic policies, we embraced privatization. Up until then in the post-independence period, the public sector was an integral part of the development and progress of our country.The government took the responsibility of investing huge capital in infrastructure and manufacturing industries. The private sector was not equipped to handle such immense projects with heavy capital inflow and long gestation periods. So the central and state governments relied on public enterprises to provide thee services to the economy.

The first few Five Year Plans were all designed to promote and safeguard the public sector. But then came the era of privatization and globalization in 1991. The role of public sector companies was reevaluated. Now the public sector was to actively participate in a competitive market with the private enterprises. Inefficiency and uninspired management were not tolerated.

The public sector was also held responsible for the huge losses of their companies. And so the role of public sector in our economy saw an overhaul. Let us take a look at the Changing Role of Public Sector.

Change in Government PolicyIn the overhaul of our economic policies and reforms in 1991, the government of India introduced four major changes regarding the public sector. These four changes forever changed the role of public sector in our country

1] Reduction in Industries Reserved for the Public Sector

In the first Five Year Plan, the government had reserved seventeen industries for the public sector. This meant that only the government could operate in these industries, no private capital would be involved. But by 1991 this number was down to 8. And now there are only 3, which include the railways and atomic energy.While the public sector must be credited with developing these industries, now the private sector is quite capable of taking them forward. Now the private and public companies co-exist and compliment each other in these industries, for example, mining, air transport etc.

2] Disinvestment

Disinvestment from the public sector means to sell equity shares in public companies to the private sector and the public at large. Also, disinvestment allows for the new influx of capital and better efficiency and financial discipline in private hands. It also ensures that the government has additional funds to invest in social programs and causes, things such as public health and sanitation.Disinvestment also shifts the commercial and financial risks to the private sector. It brings the companies under the purview of corporate governance and reduces the amount of public debt. In some cases such as the telecom industries, disinvestment has also benefitted the consumers by raising competition and lowering prices.

3] Closure of Sick Units

After the change in policies, all public sector units were to be reviewed by the Board of Industrial and Financial Reconstruction. This board would review the condition of the units and decide whether they were capable of rehabilitation or were to be shut down permanently. But this upset the workers and employees of the sick units that were shut down.Since the government was not able to sustain such sick units they had to be shut down. The workers were provided with a safety net as to their loss of income. A National Renewal Fund was set up to finance Voluntary Separation Scheme and Voluntary Retirement Scheme for such workers. But in the end, they were insufficient measures.

4] Memorandum of Understanding

This was a system to give the public sector units a chance at revival. The management of the unit and the concerned government authorities would sign a MoU. Clear standards will be given for the enterprise to meet. If the targets were met the company would continue. Otherwise, it would be shut down or disinvested.