III. Long Answer Type Questions

Question 1. Describe the Industrial Policy 1991, towards the public sector.
Answer: Development of a country originates from industrial development. Industrially developed countries are also economically prosperous. The 2nd Five Year Plan also called the Mahalnobis Model lead to the promotion of heavy and key industries in India. The period 1950 onwards witnessed development of infrastructure, research and development, establishment of large scale along with many small scale industries, co-existence of public and private sector enterprises, growth of both consumer and capital goods industries. The industrial sector made a significant contribution to agriculture and trade.
The industrial policy plays a key role in influencing the foreign trade policy, fiscal policy, the monetary policy, the economic policy of the country. Government of India declared its 1st Industrial Policy Resolution (IPR) in 1948. It divided the industries into four categories.

1. Industries that were to be state monopolies. These were limited to atomic energy, arms and ammunition and railways (3 in all).
2. Basic industries in which the state would have the exclusive right to new investment- 6 industries were included in this - iron and steel, ship building, mineral oils, coal, aircraft production and telecommunication equipments.
3. Industries of national importance that the state might regulate and license in consultation with state government. 18 industries were placed in this category.
4. All other industries that would be opened to the private sector without constraints. IPR 1948 remained in force till 1956. Two developments had taken place. One; the first plan which was initiated in 1951 was completed. Second, Parliament accepted socialistic pattern of society. This led to IPR 1956.

Special features of IPR 1956 were as follows:

1. Specific and all important roles assigned to the public sector - all industries were classified into 3 groups. These groups were called schedule A,B,C.
   - Schedule A - Exclusive responsibility of state. There were 17 industries in this.
   - Schedule B - Progressively state owned - 12 industries.
   - Schedule C - Generally left to private sector. The state reserved the right to enter this if need be.
2. Protection to cottage and small scale industries.
3. Cautious approach towards foreign capital.
   IPR 1956 remained the basis of industrial policy till 1991.

Question 2. What was the role of the public sector before 1991?
Answer: Before 1991, public sector was supposed to perform the following role in India:

1. Rapid Economic Development: It was required to make efforts so that the rate of economic development accelerates.
2. Provision of Infrastructure: Another expectation from public

sector was to provide infrastructure in the form of better roads, more hospitals, more schools, better irrigation facilities etc.

3. Sound Industrial Base: We also needed public sector to develop a sound industrial base because Private Sector either did not have huge capital required for these or were not interested in this sector as they had a long gestation period.
4. Development of Backward Regions: Public sector also aimed at developing backward regions as it is necessary for the balanced development of a country. Private sector being profit minded does not take interest in investing in backward regions.
5. Generation of Surplus: Another expectation from public sector was to generate a surplus that could be used for investment in other sectors whereby the growth rate could be accelerated.
6. Creation of Employment Opportunities: Public sector also played its role in creating employment opportunities in organized sector so that poverty can be reduced and standard of living can be enhanced.
7. Control of Monopoly and Restrictive Trade Policies Public sector also aimed at controlling monopoly and restrictive trade policies. Otherwise few private industrialists would have gained extreme economic power. It could be harmful for the nation as a whole.
8. Serving of Strategic National Interests: Public sector also plays its role in serving strategic national interests. They provide law and order, administrative services, police, defence, and many infrastructural facilities even when they are not given any profit as such in monetary terms.

Question 3. Can the public sector companies compete with the private sector in terms of profits and efficiency? Give reasons for your answer.
Answer: It is difficult for a public sector undertaking to compete with a private sector undertaking in terms of profits due to following reasons:

1. Motive of public sector is not profit: Public sector works not for profit but for social welfare. It gives first priority to social welfare then it is almost impossible for it to compete with private sector enterprise on the basis of profit which mainly works for profit only.
2. Public sector takes care of strategic industries: Public sector invests in strategic areas even when these industries have low return generating capacity and long gestation period. These industries do not give monetary returns but if we consider their return in development of our economy otherwise their return is really high.
3. Public sector provides many facilities free of fast to the weaker section of society:
   We can't expect a government hospital or a government school to generate profits. Many public sector undertakings provide many facilities for free or at a very low cost due to the benefits that it gives to other sectors of the society.

It is difficult for a public sector undertaking to compete with a private sector undertaking in terms of efficiency due to following reasons:

1. Dependence on authorities for taking minor decisions: Public Sector undertakings follow a protocol for everything. It leads to delay in decision making and inefficiency in operations.
2. Job security: Workers of Public Sector enjoy job security. It reduces their performance as they know that in spite of bad performance there is no fear of losing job.
3. Red tapism and bureaucracy: In public sector undertakings

there is red tapism and bureaucracy. It leads to inefficiency in operations.

Question 4. Why are global enterprises considered superior to other business organizations?
Answer: Global enterprises are considered superior to other business organizations because it
has following advantages which other business organizations may not have.

1. Huge capital resources: MNCs possess huge capital resources and they are able to raise lot of funds from various sources.
2. International operations: A MNC has production, marketing and other facilities in several countries.
3. Centralized control: MNCs have headquarters in their home countries from where they exercise their control over all branches and subsidiaries. It provides only broad policy, framework to them and there is no interference in their day to day operations.
4. Foreign collaboration: Usually they enter into agreements relating to sale of technology, production of goods, use of brand name etc. with local firms in the host country
5. Advanced technology: These organisations possess advanced and superior technology which enable them to provide world class products and services.
6. Product innovations: MNCs have highly sophisticated research and development departments. These are engaged in developing new products and superior design of existing products.
7. Marketing strategies: MNCs use aggressive marketing strategies. Their brands are well known and spend huge amounts on advertising and sale promotion.

Question 5. What are the benefits of entering into joint ventures?
Answer: Benefits of joint ventures are as follows:

1. Greater resources and capacity: In a joint venture the resources and capacity of two or more firms are combined which enables it to grow quickly and efficiently.
2. Access to advanced technology: It provides access to advanced techniques of production which increases efficiency and then helps in reduction in cost and improvement in quality of product.
3. Access to new markets and distribution network: A foreign company gains access to the vast Indian market by entering into a joint venture with Indian company. It can also take advantage of the well established distribution system of local firms.
4. Innovation: Foreign partners in joint ventures have the ideas and technology to develop innovative products and services. They have an advantage in highly competitive and demanding markets.
5. Low cost of Production: Raw materials and labour are comparatively cheap in developing countries so if one partner is from developing country they can be benefited by the low cost of production.
6. Well known brand names: When one party has well established brands and goodwill, the other party gets its benefits. Products of such brand names can be easily launched in the market.

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