

Privatization in India: Transforming Public Enterprises for Efficiency and Growth

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ABSTRACT

This paper highlights the debate between privatization and public provisioning of education is at the heart of educational reforms in India. In India, privatization is sought to be achieved through two measures. Privatization is the process of selling off or transferring the ownership of a government-owned business, operation or property to a private, non-government. This paper refers to the transfer of ownership, management and control. of public sector enterprises to the entrepreneurs in the private sector. The transfer of ownership, property or business from the government to the private sector is termed privatization. Outright privatization has many implications which undermine the value of public enterprises.

Keywords: privatization, organizations, management, public enterprises, private, and non-government

INTRODUCTION

India adopted a mixed economy model, where the Public Sector Enterprises (PSEs) were established on a socialistic pattern of development. The Industrial Policy Resolution, 1956 accorded a strategic role to public enterprises and the public sector has played a crucial role in India's industrialization. Areas of strategic importance and core sectors were exclusively reserved for public sector enterprises. Unlike in the past today private sector is ready for investments involving large magnitudes and long gestation periods. A thinking has developed that public investment should not be routine matter but as the last resort if there are no alternatives. Private sector should be given opportunities to invest in these sectors which were exclusively in the public sector. A large part of the manufacturing and fabrication of rockets and satellites happens in the private sector.

The government has established some organizations to bring about stabilization of prices or supplies. The Food Corporation of India, The National Dairy Development Board, the Cotton Corporation of India etc. are to check monopolistic tendencies of the markets and they were essential to give impetus to socialistic pattern of society adopted by the government. In the same way State Trading Organizations like the STC. MMTC etc. were established to promote exports and to assure proper supplies and distribution of precious and indispensable commodities. If such organizations are put in the hands of the private players the objective of establishing a welfare state may recede to horizon. So in such organization the scope for privatization seems to be remote.

Coal mining was nationalized in the seventies because private players had indulged in slaughter mining exploited the workers for maximum profits. The employing unscientific methods and moreover, they had government had to establish Coal India Ltd. to prevent unmindful mining, to safeguard the interests of the workforce and to assure proper supplies to the genuine needy. This company does face many problems but it does not mean it should be handed over to private players. "Public Sector Undertakings (PSU) in India are enterprises in which at least 51% of the stake in the corporation is under the ownership of the Government of India or state governments. These types of firms can also be a joint venture of multiple PSUs. These entities perform commercial functions on behalf of the government" (Kaushik, Kshama 2012:86) Privatization means the government transfers management control to a private entity by selling 51% or more stake.

Oil and natural gas resources are scarce but they play a vital role in the national economy and they need subsidies and they must reach even the remotest regions; all this cannot be left to the private sector. In the field of exploration private players can be engaged but distribution must remain under the control of the state through different agencies. Similarly in the field

of power generation and its distribution private sector can be allowed to play a limited role. Management of crucial infrastructural sectors can be shared and it would certainly give the state some reprieve to mitigate other monumental problems. Indian railway system does need huge amounts for modernization and upgradation and its return value is not dependable and its role is indispensable as the national freight carrier and as such the feasibility of its privatization is also remote.

The state took into its hands transportation to establish more extensive communication network and providing better service. Most of the transport corporations are running into losses and they are being subsidized heavily. Private players can be called for to take over public road transportation but the state must control their activities and see that these private players do not neglect non-profitable regions and leave remote regions and areas without transport service. In the field of road transportation privatization with some controls is feasible. Similarly if banks, insurance, postal services and telecommunications are privatized better and durable service can be rendered to the public because a sort of internal competition would ensure better management and more efficiency. But the state must oversee the interests of the poor sections of society and the needs of the remote regions.

Those public enterprises which are doing well should not be privatized even if internal pressure or external pressure compels the government to do so. But before handing over any public enterprise in the hands of a private player its pros and cons must be looked into thoroughly. Burden should not be offloaded to increase burden. Wholesale privatization is not feasible and desirable. A selective approach is recommended. First priority of the government is to deal with the problem of loss-making enterprises. Who will buy them? So while selling profit-making enterprises government should make it mandatory that the private player will have to buy one sick unit also. Moreover, government must extend some incentives to the private players who buy such sick units. Tax holiday can be one of the incentives.

To reduce the budgetary gap the government has resorted to partial disinvestment to raise money to be used for some other urgent necessities. Fear is that this partial disinvestment may not enhance concentration of economic power in a few hands. Moreover, dividend will go to the shareholders and it will decrease government's earning. If the government uses the proceeds from disinvestment to reduce the budget deficit or to avoid the imposition of new taxes, it will amount to using capital receipts towards current expenditures. This will not be good for economy in the long run. "Critics of private ownership of India's agricultural and industrial entities most notably Mahatma Gandhi's independence movement instead advocated for a self-sufficient, largely agrarian, communal village-based existence for India in the first half of the 20th century" (Gosalia, Sushila 2021:80). Privatization of the public sector is the transfer of government-owned enterprises to private ownership or management for improved efficiency and growth.

It is better to close down sick units in public sector by resorting to VRS (Voluntary Retirement Scheme). Strangely enough the government has taken over some sick private undertakings on political grounds or to benefit some individual knowing very well that these sick undertakings could never recoup to health. This has also increased financial burden on the exchequer. Possibilities should be explored to sell sick-enterprises to willing private players. Above all the government must think twice if rehabilitation of the sick enterprises is worthwhile and no decision should be taken under pressure from one party or the other. It must rise above party lines and should not bother about loss of vote-bank because its efforts in the best of the country would be applauded one day or the other. If a rehabilitation package seems practical, it should be adopted without any delay and hitch or vice-versa.

Even after partial privatization efficiency of the crucial enterprises will remain very indispensable for our economy. So by hook or by crook efficiency of strategic public undertakings must be enhanced. Programme must be designed to run public undertakings on the lines and pattern of private undertakings. "Other contemporary criticisms of India's public sector targeted the lack of well-funded schools, public libraries, universities, hospitals and medical and engineering colleges; a lack seen as impeding an Indian replication of Britain's own industrialization in the previous century" (Chaudhary, Latika 2009:269). Privatization of the public sector enterprises by selling off part of the equity of Public Sector Enterprises (PSEs) to the public is known as disinvestment.

Nationalized sick units account for one-third of the public enterprises. A number of public enterprises have come up in non-strategic, non-core, consumer goods and service sectors. From now onwards public sector should be confined to strategic, high tech industries and essential infrastructure. Board for Industrial and Financial Reconstruction should be left free to decide the fate of the sick and unviable units. Government's share holding should be brought down.

Measures have been taken in the right direction. More and more public sector units would be brought under the purview of Memorandum of Understanding (MoU) system. It is a performance contract between the government and a public unit to move the unit from controls and procedures to management by result and objectives. At the start of the reforms 18

important industries were reserved for the public sector. This list has been reduced to 6, covering industries on arms and ammunition, atomic energy, mineral oil, atomic minerals, hazardous chemicals and industrial explosives and railway transport. Liberalization has attracted domestic as well as foreign players towards those enterprises which were reserved for the public sector earlier. Very recently our PM's science czar advocated private sector in N-energy also.

The public sector is still hamstrung by excessive government and bureaucratic controls. No sick unit has been closed because the decision to close the units has been challenged in the courts by labour unions. There has been no progress whatsoever on putting in place an exit policy for firms but the public sector restructuring has been initiated.

To sum up, let us consider those factors which gave impetus to the demand of privatization:

- (i) Excessive bureaucratic controls became shackles on growth
- (ii) Overstaffing leads to increase in cost of operation
- (iii) Low rate of return on investment
- (iv) Poor work ethic due to excessive job security and absence of incentives for better work.
- (v) Entry of public sector in areas of consumer goods for which it was never meant. Unnecessary expansion resulted in absence of focus and dilution in the quality of management and thus efficiency suffered.
- (vi) Loss-making units could not be closed down.

Measures have been taken to reform public sector. Through VRS the problem of overstaffing is being tackled. In 1990-91 there were 22.19 lakh employees in PSUs but in 1994-95 their number came to 20.41 lakhs. Bureau for Industrial and Financial Reconstruction (BIFR) is working to recommend closure and rehabilitation of the sick units. Greater operational autonomy is being given to PSUs to pursue their objectives. Efforts have shown results. Profit of PSE's has increased from 4,545 crores to Rs. 7,217 crores. Another step taken was disinvestments of PSUs. The government has been offering equity of 31 selected enterprises varying from 5 to 20% to mutual funds and financial institutions. "After liberalization in 1991, India shifted from a mixed planned led Soviet model to a more market-oriented dirigisme economy with indicative planning" (Srivastava, Pankaj 2011) A better solution than privatization may well be giving Public Sector Banks autonomy to reform themselves and function free of political interference.

On the whole the reforms of PSUs including privatization and closing the unviable units have not yielded the desired results. Disinvestment has been piecemeal and the funds so raised are being used to reduce the budget deficit rather than strengthening the PSUs. Labour problem, political and bureaucratic interference still persist. Socialistic pattern of state and welfare objectives do not allow total privatization, it would be advisable to reform the public sector. "On 17 May 2020, as part of a stimulus package the Finance minister Nirmala Sitharaman announced that the government will privatize all government establishments which also include Public sector enterprises in all the sectors. She also stated that in all the strategic sectors, the number of PSU's will be limited to 4. In strategic sectors with more than 4 PSU's, the government will privatize, merge or consolidate the PSU's under holding companies in order to reduce wasteful administrative costs. Nirmala Sitharaman stated that there is a need for a coherent policy where all sectors are open to private sector participation while PSU's play an important role in defined areas" (Aulakh, Gulveen 2020) Privatization aimed to reduce the inefficiencies in public sector enterprises (PSEs) and alleviate the fiscal burden on the government.

Indian economy has a tremendous potential for growth. The economy which used to rise at 3-4% of GDP had steadily registered rising growth from 7 to 9 percent after introduction of reforms. Privatization will give ample space for creative and innovative thinking as well as systematic and strategic planning to realize the full potential of economy. India introduced privatization in 1991 to reduce the government's financial burden and improve the performance of public sector enterprises.

CONCLUSION

The PSUs in India are suffering from the problem of inefficiency and privatization would be the best tool to remove this inability. In the Indian economy at present, private sector is predominant. Its share of GDP is far greater than the share of the public sector. In respect of employment also the private sector is more important. Of the total workforce 90% is engaged in the private sector. In terms of quantity, private sector is vast. In terms of quality the percentage share of public sector in the key sectors like fuel, steel, petroleum, fertilizers, and communication equipments varies from 50% to 100%. The public sector has 'Commanding heights'. Public sector is important for heights and the private for vastness. Let both go hand in hand. Why can't serious and sincere efforts make public sector work like private sector? Such efforts can't go waste. Privatization of Public Sector Undertakings (PSUs) can bring about positive changes such as efficiency gains and innovation.

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