International Research Journal of Management and Commerce

ISSN: (2348-9766)

Impact Factor 5.564 Volume 5, Issue 12, Dec 2018

Website- www.aarf.asia, **Email** : editor@aarf.asia , editoraarf@gmail.com

PRIVATISATION OF PUBLIC SECTOR ENTERPRISES: THE DISINVESTMENT PROGRAMME IN INDIA

Dr. Gakul Chandra Saikia
Associate Professor of Economics,
H.P.B. Girls' College, Golaghat.
Email: saikiadrgc@gmail.com

Abstract

The policy of the Govt. of India on disinvestment has evolved over a period of time, where the term 'disinvestment' is used to indicate the process of privatisation. Since the announcement of Industrial Policy, 1991, the coalition forms of different governments that came to power adopted the disinvestment policy with minor modifications here and there. Since the beginning of 1980s, the functioning of the public sector began to be questioned. It was held that the public sector performed well only when protected through state monopolies, entry reservation, high tariffs and quotas etc. Since quite a large number of public enterprises incurred losses year after year, it was argued that the state should not be called upon to meet the losses of these enterprises out of tax payers' money, since in our country, the public sector had entered into two many areas, the question of withdrawing from these areas was also raised, consequently, the question of privatisation of the public sector was debated. This paper is an attempt to examine the rationale of privatisation of public enterprises in India along with its evolution, problems of PSEs, methods of privatisation, and criticism.

Key terms: Public Sector Enterprises, Privatisation, Disinvestment, Evolution of Privatisation

1. Introduction

In recent years, encouraged by successful privatisation measures in Japan, Korea and Britain, development strategists and multilateral financial and aid–giving agencies have increasingly focused on urging privatisation of public enterprises in the Third World. Privatisation has been prescribed as a panacea for improving the operating efficiency, and hence profitability of public enterprises. The privatisation issue is of paramount importance to countries where public enterprises—also known as state enterprises—are fast becoming the dominant form of economic organisation, far outweighing privately–owned multi-national corporations in terms of both business turnover and capital invested(Gillis,1980).Public enterprises were established in these developing countries with the expectation that they would earn a surplus and would also accomplish other societal objectives not necessarily financial in nature. The main reason may be that the corporations have not been generating the expected surplus for which many alternatives have been proposed to improve their profit performance. The alternatives range from using better

management tools and methods to selling them to private stakeholders and thus turning the public enterprises into private corporations. Therefore, privatisation is a process by which the government transforms the productive activity from the public sector to the private sector. Many countries of the world—industrial market economies, the former socialist economies (belonging to central and Eastern Europe and Soviet Union), and a large number of developing countries belonging to Asia, Africa and Latin America—have launched massive programmes of privatisation during the period of last two-three decades or so, while many industrial market economies (particularly OECD member countries) have carried out the programme of privatisation on their own accord, former communist countries and many developing countries were forced by the IMF and World Bank to carry out privatisation as a condition for assistance under the economic stabilisation and structural adjustment programmes.

2. What is Public Enterprises?

A public enterprise is an organization which is owned by public authorities to the extent of 50 Percent or more. It is under the top management control of the owning public authorities such as public control, including inter alia, the right to appoint top management and to formulate critical policy decisions. It is established for the achievement of a defined set of public purposes which may be multi-dimensional in character. It is engaged in activities of a business character and consequently placed under a system of public accountability which involves the basic idea of investment and returns and services. This delineation excludes non-profit making public institutions which are purely concerned with providing social services such as fire departments, government relief organizations, public hospitals, regulatory bodies and state organizations which have no economic or commercial functions and often referred to as state enterprises.

Public enterprises vary quite considerably in their rationale and function. They may differ in methods of incorporations, in their relationship to the central administrative structure, their source of capital funds and the degree of management independence. Therefore, public enterprises run the gamut between governmental departments and privately owned and controlled profit /non-profit organizations. They are engaged with the economic activities including agriculture, mining, construction, manufacturing, utilities, commerce, financial and other services (Mariam, Y.H. and Mengista, B., 1988).

In the mixed economics, they compete with the domestic private producers for market share and may often be fully or particularly exempt from tariffs for importing capital goods and raw materials.

3. Origin of Public Enterprises

Fabrikant (1976) traces the origin of public enterprises in developing countries to colonialism, pointing out that many former European Colonial Nations utilised corporations as an arm of their government for seizing foreign territories. The British East India Company and the Hudson Bay Company operated under Charters granted to them by the British Government though they were privately owned and were used as an instrument of British Colonial Policy. During the colonial period, the colonial administration also participated in the distribution of goods through marketing boards. For example, in India, there were more public enterprises at the time of independence than there were in the former colonial power, Britain. But, as the colonial structures were dismantled, existing infrastructures such as

© Associated Asia Research Foundation (AARF)

railways, postal and telegraph services and a host of ordnance factories were inherited by the newly-established governments. Assets abandoned by colonial powers were also transformed into state enterprises by the governments of many developing countries (Akinsanya, 1980).

At independence, many former colonies adopted a policy which welcomed an uninhibited inflow of foreign private capital. In response to this policy, the late 1960s saw an influx of foreign private capital into the Third World, mainly via multinationals. Later, in many countries the multinationals were to be blamed for creating dual economies, sluggish growth and foreign dependency (Frank, 1969).

Many developing countries, therefore, opted for a strategy of economic development based on state ownership and control of much of the industrial sector, which may bring about structural changes in their economies. Nationalisation of foreign and domestic assets was thus widely undertaken by most of the developing nations as a matter of development strategy. In addition, some countries expanded the public sector through negotiated purpose of foreign and domestic companies, later turning them into public enterprises.

4. Problems of Public Sector Enterprises

The public sector enterprises have been established in many developing countries to achieve the dual purposes of earning profit and achieving other societal objectives which may range from providing jobs to developing depressed regions of a country, while achievement of the profit objective can be measured by accounting tools, measurement of the societal objectives may be difficult in terms of tangible factors. Therefore, to evaluate the overall performance of public enterprises, one must examine profitability objectives together with the societal objectives of these enterprises.

Despite the seemingly contradictory expectations that state enterprises are expected to meet, policy makers in developing countries have constantly reminded Board of Directors and Managers that state enterprises were expected to break even and "…..produce sufficient surplus to finance new investment"(Nyerere,1977).In East Africa, projects or proposals for setting up new state enterprises were evaluated on the basis of several perceived goals, the most important being profitability or discounted cash flow(Loxley & Saul,1972).

A simple way of determining the economic performance of a public enterprise is to examine its profitability or discounted cash flow. The different classifications of public enterprises and the divergent, and at time conflicting objectives, make it difficult to generalise about their financial performance. The most important criticism levied against the public sector has been that, in relation to the capital employed, the level of profits has been too low. Even the government has criticised the public sector enterprises on this count. In India, the Eight Five Year Plan notes that the public sector has been unable to generate adequate resources for sustaining the growth process (Govt. of India, 1992) Of the various factors responsible for low profits in the public sector, the following are particularly important.

Private sector enterprises are operated with the sole aim of maximising profits. Accordingly, prices are determined at a level that would cover total cost (including taxes) and provide a sufficient net return over and above this. As against this, the purposes of setting up and operating public sector enterprises are varied and price policy is determined by

the objectives which they are expected to serve. Even under conditions of monopoly, the objective of the pricing policy of a particular public sector enterprise may not be profit maximisation. It is very easy for these enterprises to earn huge profit simply by increasing their prices. Their object was not profit maximisation but fulfilment of some social objectives; they opted for losses in some cases while in some instances they just tried to equate total revenue to total costs.

As regards the pricing policy of public sector enterprises, we can find two different approaches—

i. The public utility approach and ii. The rate of return approach.

The former implies a pricing policy that yields a no-profit–no-loss situation. This pricing policy was followed for a long period by many public sector enterprises. It obtained support from the fact that many public sector units were in the area of basic industries and unduly high prices of their products could cause cost increases over a large segment of the economy. Since a large amount of investment has gone into public sector enterprises, it is essential that they yield sizeable returns. If this does not happen, the process of economic development will suffer a severe jolt as scarcity of investment resources would appear. Therefore, while some public sector enterprises might adopt a 'public utility approach' in their pricing decisions, others have to yield returns on investment. This brings us to the 'rate of return approach' which has been accepted by the government as the right principle for determining the pricing policy of a number of industries.

Underutilisation of installed capacity is another reason for the low level of profitability in public sector enterprises. A large number of these enterprises have operated at less than 50 percent of their capacity for a number of years. Therefore, we must ponder seriously why investments worth thousands of crores of rupees in the public sector were not utilized properly and resulted in substantial under utilisation of capacity. Some people have attributed this to the lack of foresightedness on the part of the govt. According to Vijay Kelkar— "Public Sector Enterprises became increasingly instruments for meeting immediate or ad hoc demands such as producing mass consumption goods, stimulating growth in economically backward areas or using locally available raw materials which were in some cases of poor quality.

Public sector enterprises are often plagued with undue political interference in their day-to-day working and this has demoralising effect on the management and other personnel of these enterprises. Many appointments at the top are not made on the grounds of professional competence or suitability but are determined by various political considerations. Often the management at the top is constituted of the traditional administrative services of ICS and IAS. These non-specialised, non-technical people are often unequal to the task of providing the requisite managerial competence in the complex, capital-intensive industrial projects in the public sector.

Political considerations have also contributed to overstaffing of unskilled labour and payment of higher wages to such labour than in the private sector. As far as skilled personnel are concerned, the public sector enterprises required an imaginative management policy. It was necessary in the form of better wages and better promotion prospects than in the private sectors.

Control of government undertakings refers to their ‘accountability’ to parliament for their work. This accountability is justified on the plea that the public sector enterprises are run with the help of ‘tax-payers’ money and the latter have every right to know whether these enterprises are being run efficiently or not. While ‘autonomy’ refers to the freedom granted to the management of a public enterprises of outside agencies. Autonomy is especially important in the context of day-to-day operations of a public enterprise where many on the spot decisions have to be taken on a variety of issues that crop up before the management.

5. Methods of Privatisation

The first programme of privatisation was adopted in UK by the conservative government of Margaret Thatcher during 1980s. In this swift and widespread programme, a large number of public sector companies that dominated a wide swathe of industry and services in UK, including railways, aeroscape, oil, telecommunications, mining and bus services were sold off. This was followed by privatisation in France and many other OECD countries, former communist countries and developing nations. The methods of privatisation used by these countries were frequently one or a combination of the following methods.

a. Initial Public Offerings (IPO): This is the most important method used for privatisation in UK and OECD countries. Under this method, the shares of public sector undertakings (PSUs) are sold to the retail investors and institutions. The government may, in some cases, sell shares of a PSU in international market also. The IPO method is the best method in the case of those countries which have a strong capital market. In fact, OECD countries raised as much as two-third of all their privatisations proceeds in 1990s through IPOs.

b. Strategic Sale: In this method, the government sells its share in the PSU to a strategic partner. As a result, the managers pass over to the buyers. The advantages claimed for this method are-

i.The performance and efficiency of the enterprise is expected to improve as the private partner introduces better management practices on the one hand, and the unit is freed from government shackles on the other hand;

ii. The government may realise a better price as the strategic partner may be willing to pay more because of the synergy he perceives in combining the PSU business with his own existing business; iii. The strategic partner would be willing to inject more capital into the PSU and modernise its business operations as he would be keen in generating profits;

iv. Loss–making PSUs will be unattractive to the public whereas a strategic acquirer can have the skills to turn around the business even after paying a reasonable price; the method is the most important method of disinvestment in small countries with weak capital markets and in those countries where shares of PSUs are not traded.

c. Sale to Foreigner: This is a variant of the strategic sales method where the buyer is not a domestic company but a foreign company.

d. Equal-Access Voucher Programmes: This form of privatisation involves distribution of vouchers across the population involves and attempts to allocate assets approximately evenly among voucher holders.

e. Management–Employee Buyouts: In this route to privatisation, management and employees themselves buy major stakes in their firms. This method has been widely used in Croatia, Poland, Romania and Slovenia. In addition, several voucher-based programmes,

such as those of Georgia and Russia, gave such large preferences to insiders that most privatised firms were initially owned mainly by managers and employees.

6. Evolution of Privatisation Policy in India

There has been a marked change in the perception towards the role of public sector in the Indian Economy since 1991. Some economist's argued that the fiscal crisis of 1991 was a result of the public sector's inability to generate adequate returns on investment. The govt's attitude also changed markedly as is clearly demonstrated in the following statement made in the New Industrial Policy 1991.

"After the initial exuberance of the public sector entering new areas of industrial and technical competence, a number of problems have begun to manifest themselves in many of the public enterprises. Serious problems are observed in the insufficient growth in productivity, poor project management, over manning, lack of continuous technological upgradation and inadequate attention to R & D and human resources development. In addition, public enterprises have shown a very low rate of return on the capital investment. This has inhibited their ability to regenerate themselves in terms of new investments as well as in technology development. The result is that many of the public enterprises have become a burden rather than being an asset to the Govt."

Consequently, the New Industrial Policy, 1991, advocated privatisation of public sector enterprises. For the purposes of privatisation, the govt. has adopted the route of disinvestment which involves the sale of the public sector equity to the private sector and the public at large.

The salient features of govt's disinvestment policy are---

i. The citizens have every right to own part of the shares of public sector undertakings,

ii. Public sector undertakings are the wealth of the nation and this wealth should rest in the hands of the people

iii. While pursuing disinvestment, govt has to retain majority shareholdings i.e. at least 51% and management control of the PSUs.

Since the Economic Liberalisation Policy, 1991-92, the privatisation policy in India has evolved as follows—

The Govt. of India enunciated a policy to divest up to 20% of its equity in selected public sector undertakings to mutual funds and investment institutions in the public sector as well as workers in these firms. The stated purpose of the policy was to place equity across a broad base, improve management, increase resources to the enterprises and to raise funds for the general exchequer. Initially, shares of different PSUs were bundled together and sold to domestic financial institutions. Later in 1992-93, to ensure better prices, individual shares were auctioned separately.

The Govt. of India appointed a committee on disinvestment in Public Sector Enterprises under the Chairpersonship of C. Rongarajan in 1993 to suggest the correct method of divestiture. The committee recommended that the percentage of equity divested could be upto 49 percent for industries reserved for the public sector and that, in exceptional cases up to 74 percent of the equity could be divested.

© Associated Asia Research Foundation (AARF)
A Monthly Double-Blind Peer Reviewed Refereed Open Access International e-Journal - Included in the International Serial Directories.

In industries not reserved for the public sector, 100 percent of the equity could be divested. Only the following 6 industries were reserved for the public sector—they are coal, minerals and oils, armaments, atomic energy, radioactive minerals and railways. The Govt. of India did not act on these recommendations.

The Govt. of India constituted a five-member Public Sector Disinvestment Commission under the Chairpersonship of G.V. Ramakrishna in August 1996 for drawing a long-term disinvestment programme for the PSUs referred to the commission. The commission recommended disinvestment of 58 different PSUs. Moreover, in a break from a policy of public share offerings, the commission recommended strategic sales with transfer of management. By 1996-97, sales were open to NRIs and foreigners and through global repository receipts in the international markets.

In the Budget Speech,1998-99, the finance minister stated that, Government has decided that in the generality of cases, the government shareholding in public sector enterprises will be brought down to 26 percent. In cases of public sector enterprises involving strategic considerations, govt. will continue to retain majority hoding. The interests of workers shall be protected in all cases.

Reflecting the report of the Rangarajan Committee from some six years earlier, the govt. announced the classification of industries into strategic and non-strategic areas. Strategic industries were limited to –i. Arms, ammunitions and related defence industries, ii. Atomic energy, iii. Mining of minerals for the atomic industry and iv. Railway transport. All other industries were classified as non-strategic. For all PSUs in non-strategic industries, government stakes could be dropped to as low as 26 percent on a case-by-case basis. Since, three-fourth majority is needed to pass certain important board resolutions, for control reasons government set a lower limit of 26 percent of the equity.

The President of India addressed the joint session of Parliament in Februaray,2001 and stated, "The government's approach to PSUs has a threefold objective: revival of potentially viable enterprise; closing down of those PSUs that cannot be revived; and bringing down government equity in non-strategic PSUs to 26 percent or lower. Interests of workers will be fully protected through attractive voluntary retirement scheme (VRS) and other measures".

The National Common Minimum Programme (NCMP) of the UPA coalition government was released on May 28, 2004 and confirmed the commitment of the UPA government to a 'strong and effective public sector' and laid down the following guidelines so far as privatisation of central PSEs is concerned.

a. All privatisation will be considered on a transparent and consultative case-by-case basis;
b. Generally profit-making companies will not be privatised;
c. The government will retain existing 'navratna' companies in the public sector while these companies can raise resources from the capital market;
d. While every effort will be made to modernise and restructure sick public sector companies and revive sick industry, chronically loss-making companies will either be sold-off or closed, after all workers have got their legitimate dues and compensation; and
e. The government believes that privatisation should increase competition, not decrease it that will not support the emergence of monopoly.

The Government of India constituted the National Investment Fund (NIF) on November 3, 2005, into which the proceeds from disinvestment of CPSE were to be channelized. The corpus of the Fund was to be of permanent nature and the same was to be professionally managed in order to provide sustainable returns to the government, without depleting the corpus. It was stated that 75 percent of the annual income of the Fund will be used to finance selected social sector schemes, which promote education, health and employment. The residual 25 percent of the annual income of the Fund will be used to meet the capital investment requirements of profitable and revivable CPSEs that yield adequate returns, in order to enlarge their capital base to finance expansion or diversion.

On Nov 5, 2009, the govt. approved the action plan for disinvestment in profit making government companies such as--

i. Already listed profitable CPSEs (not making mandatory shareholding of 10%) are to be made compliant by 'offer for sale' by government or by the CPSEs through issue of fresh shares or a combination of both;

ii. Unlisted CPSEs with no accumulated losses and having earned net profit in three preceding years are to be listed

iii. Follow on public offers would be considered taking into consideration of the needs for capital investment of CPSE, on a case-by-case basis and govt. could simultaneously or independently offer a portion of its equity shareholding;

iv. In all cases of disinvestment, the govt would retain at least 51% equity and the management control;

v. All cases of disinvestment are to be decided on a case-by-case basis and

vi. The Department of Disinvestment is to identify CPSEs in consultation with respective administrative ministries.

In the Budget Speech 2016-17, the finance minister announced a new policy for management of government investment in public sector enterprises, including disinvestment and strategic sale. He renamed the disinvestment department as Department of Investment and Public Asset Management (DIPAM) in keeping with its wider mandate of managing public sector assets, done away with the requirement of prior government approval to raise foreign investment limit in listed Central Public Sector Enterprises (CPSEs) upto 49% from the earlier limit of 24% and laid out the new strategic disinvestment policy. The finance minister said --, "the NITI Aayog will identify the CPSEs for strategic sale". Moving ahead from minor stake sale in listed companies, the govt. will now encourage CPSEs to divest individual assets such as land and manufacturing units to release their asset value for making investment in new projects.

As per the strategic sale policy road map, NITI Aayog will advise the govt. on the mode of sale, percentage of shares to be sold and the method of evaluation. There will be a three-tier structure which will have an Evaluation Committee (EC), a Core Group of Secretaries on Disinvestment (CGD) and an Inter-Ministerial Group (IMG). The evaluation committee headed by the administrative department, in consultation with NITI Aayog will identify the company, assets and valuation method and shall fix the Reserve Price. The proposal would then go to CGD for approval and after that to the Cabinet Committee on Economic Affairs (CCEA).

Thus, the Government of India has adopted two methods of disinvestment—i. Selling of shares in select PSUs and ii. Strategic sale of a PSU to a Private Sector Company. The former method was used over the period 1991-92 to 1998-99. From 1999-2000 to 2003-04, the emphasis shifted to the latter method which involved strategic sale of a PSU to a private sector company through a process of competitive bidding. After 2004-05, disinvestment realisations have been mostly through the sale of equity.

7. Rationale for privatisation and disinvestment

According to the supporters the rationale for privatisation and disinvestment are as follows-

i. Efficiency and Performance: The private sector introduces the 'profit-oriented' decision making process in the working of the enterprises leading to improved efficiency and performance. Moreover, private ownership establishes a market for managers, which improves the quality of management.

ii. Market discipline: Private units are subject to capital market disciplines and scrutiny by financial experts. In fact, the ability to raise funds in the capital market is crucially dependent on performance. Not so in the case of public enterprises. On account of government ownership of these enterprises, they have easy access to credit and budgetary support irrespective of their performance. Thus, there is no compulsion for these enterprises to perform well.

iii. Political Interference:

Political interference is unavoidable in public corporations and is a major cause of decline in operational efficiency. "such political decision making reflects itself in the less than optimal choice of technology or location, overstaffing, inefficient use of input and purchase or price preference for certain suppliers" (Jalan,1996).

iv. Succession planning: Many public sector enterprises remain 'headless' for long period of time. This causes confusion and delay in decision –making as nobody is sure how the new incumbent will act or react on the policy decision undertaken. Such a situation does not exist in private sector enterprises as the heir-apparent is identified early on and groomed to take over the reins when the time actually arrives.

v. Early Remedial Measures in Private Sectors: private sector firms are more subject to liquidation, threat of take over and loss of assets for owners than public sector enterprises. When owners stand to lose control over assets, there is greater likelihood of remedial measures being taken earlier.

vi. Better service to customers: The very survival of private sector enterprises depends on customer satisfaction since only such satisfaction can ensure more widespread and repeat buying. As against this, so the argument goes, caring for the customer is generally not a priority with public sector enterprises. Once privatisation occurs, the need to create and sustain markets will lead to a sea change in the attitudes of these enterprises towards customers. Hence, quality of services will improve.

vii. Quick Response: In a quick changing business environment, it often becomes necessary to take spot decision without having to worry too much about not having consulted others. In fact, 'delayed decision-making is often equivalent to making no decision at all'. In public enterprises, the concept of response time is almost totally absent as no one is willing to disturb the status quo. Not so in the case of private sector enterprises. Because of the very nature of management in these units, it becomes easier to react to changing situations fast.

8. Criticism of privatisation or disinvestment policy in India

The policy of privatisation and disinvestment has been criticised on the following counts. The performance on the disinvestment front has been dismal. Only in four years— 1991-92, 1994-95, 1998-99, 2003-04 and 2017-18, the targets for disinvestments were exceeded. In all other years, realisations from disinvestment were much less than the targets. The main reasons for this poor performance were as follows-

i. The govt. carried out the whole exercise of disinvestment in a hasty, unplanned and hesitant way. Thus, it failed to realise not only the best value but also the other objective of the disinvestment programme.

ii. The govt. launched the disinvestment programme without creating the required conditions for its take-off. This would be clear from the fact that it did not try to list the shares of the public sector enterprises on the stock exchanges. Thus, adequate efforts were not made to build up the much-needed linkage between the public enterprises on the one hand and the capital market on the other.

iii. The govt. did not adopt suitable methods to overcome the disinvestment of public sector shareholdings.

iv. The Department of Public Enterprise and the finance minister adopted techniques and methods which resulted in far lower realisation than justified.

On account of all these reasons, there was considerable "under pricing" of public enterprises shares resulting in considerable loss to the govt. For instance, the third Report of CAG published in 2006, after studying sale route, arrived at the following main findings (Mathur, 2006).

a. Valuation: In several cases where valuation was done under the asset valuation methodology, core assets like leasehold land, housing, township and plant and machinery and certain other properties were either not valued or ignored. This resulted in an undervaluation of PSUs consequently fixing of lower reserve prices.

b. Insufficient competition: Competition was not generated to secure best price as at the final stage, financial bids were submitted by only one party in case of MFIL, CMC, PPC and two parties in case of BALCO, HTL, VSNL, HZI.

Undervaluation of assets implies substantial losses for the govt. and therefore for the tax-paying citizens of the country. There is a basic problem with all privatisation of public assets which means that they tend to be associated ultimately with losses to the state exchequer rather than gains. If the govt. sells the asset that provides income or profit equal to or more than the prevailing interest on govt. securities, then the govt. would lose future income by selling it. On the other hand, from the private sector's point of view, it makes no sense to purchase an asset unless it provides at least a rate of return equal to the rate of interest on govt. securities because that is where the private investor could otherwise put the money.

© Associated Asia Research Foundation (AARF)

It is often assumed that following privatisation, markets arise quickly to fill up gap whereas the fact is that many govt. activities arise because markets have failed to provide essential services. As argued by C.P. Chandrasekhar and Jayati Ghosh, "Public sector enterprises are not pure profit-making machines, but instruments used by govt. to achieve a range of objectives".

One of the genuine fears of labour is that privatisation is bound to result in unemployment. Most of the privatisation experiments around the globe are testimony to the fact that this indeed does happen. The Govt. of India has been repeatedly harping on the tune that as a result of privatisation there has only been a 'marginal' retrenchment of labour. However, the fact of the matter is that there is a strong pressure from the corporate sector to 'reform' labour laws to enable it to hire and fire workers as it wishes and indications are that the govt. is falling in line. This means that the future employment scenario for labour is a cause of worry. The fear of retrenchment and consequent unemployment is all the more as there is no safety net scheme for labour worth the name. How many workers will be able to get VRS and on what condition is only a matter of speculation. In any case VRS is no solution of unemployment. As argued by Joseph Stiglitz, there are large social costs of unemployment manifested in its worst forms, by urban violence, increased crimes and social and political unrest. Still, in the absence of these problems, there are huge costs of unemployment. Moving people from low-productivity jobs in state enterprises to unemployment does not increase a country's income and it certainly does not increase the welfare of the workers. At times, sale of a PSU to a private company can result in the substitution of a public monopoly by a private monopoly. In such cases, inefficiencies and monopoly power will merely be transferred to the private sector with the costs being borne by the consumers or 'monopolistic exploitation by efficient private owners replaces the inefficiencies of public ownership'. (UNDP,1993).

9. Conclusion

Since the announcement of Industrial Policy, 1991, the coalition forms of different Govts, that came to power adopted the disinvestment policy with minor modifications here and there. Likewise, the question of privatising profit making PSUs has been another issue for debate. It would be of relevance to understand the logic of disinvestment and the wisdom of taking the decision about the disinvestment of highly profitable public sector enterprises like VSNL (Videsh Sanchar Nigam Ltd.) and IBP. The Govt. so far has been putting the proceeds of disinvestment into a black hole known as the Consolidated Fund of India from which it met the budget deficit. A basic criticism of the disinvestment policy, therefore, was that funds raised by selling family silver were used to pay the butler. As such, it was a case of meeting budget deficit by selling PSUs.In this connection, the advice of the late Dr. Kahbub-ul-haq, UNDP expert was: "do not use sale proceeds to finance budget deficit-- retire national debt". But all along the govt. has been ignoring this advice.

While the congress initiated the process of economic reform with emphasis on privatisation and pushed it to some extent, the BJP-led NDA Govt. blatantly and in a muddle-headed fashion carried forward the banner of privatisation, taking advantage of the fact that congress is not in a position to oppose it, being itself the architect of privatisation. In the process, the country had to pay enormous costs to meet the budget deficit by fleecing the healthy PSUs; the Navaratnas are also not spared.

© Associated Asia Research Foundation (AARF)

References:

1. Akinsanya, A. (1980), The Expropriation of the Multinational Property in the Third World, New York, Praeger
2. Fabrikant, R. (1976), "Developing Country State Enterprises: Performance and Control", Columbia Journal of Transactional Law, No.15
3. Frank, G. (1969), Development of Underdevelopment, Monthly Review Press, New York.
4. Gillis.M. (1980), "The Role of State Enterprises in Economic Development", Harvard Institute for International Development, Discussion Paper, No.83, pp.15-17.
5. Government of India (1992), Eight Five Year Plan 1992-97, Planning Commission, Delhi.
6. Jalan, B. (1996), India's Economic Policy, New Delhi.
7. Loxley, J. and John S. Saul (1972), "The Political Economy of the Parastatals", Eastern Africa Law Review, Vol.5, No.1-2.
8. Mariam, Y.H. and Mengista, B. (1988), "Public Enterprises and the Privatisation Thesis in the Third World", Third World Quarterly, Vol.10, No.4, Oct.
9. Mathur, B.P. (2006), "Audit Reports on Disinvestment", Economic and Political Weekly, Dec 16, 2006.
10. Nyerere, J.K. (1977), African Development, Vol.8, No.7
11. UNDP (1993), Human Development Report, New York, 1993.

© Associated Asia Research Foundation (AARF)