CHAPTER IX

Privatisation of PSEs

This Chapter examines the various issues and problems relating to the alternative forms of Privatisation of Public Enterprises and the experience in this respect. Based on this analysis, it goes on to suggest a policy direction for India in this regard. The problem has acquired great urgency and importance.

The Privatisation Wave

In the forties, nationalisation was considered to be the panacea for socioeconomic ills in several countries. The decade of 1980's has witnessed a massive wave of privatisation that has swept across the world, both the developed and developing economies. Even the citadel of State-owned business, viz. the Soviet Block has crumbled and is being taken over by privatisation. This is because badly run enterprises had a devastating effect on the entire economy. The twin objectives behind the privatisation moves have been to cut their losses which were being financed by the treasury and to replace Government monopolies by competitive market pressure so as to encourage efficiency, quality, and innovation.

The number of countries which have moved towards privatisation is increasing rapidly. Recently, the USSR and Eastern Europe are passing through massive
reforms towards an open market economy. Even earlier, the Peoples Republic of China had opened its economy to foreign investments and allowed more participation by the private sector even though to a limited extent some years ago. Britain has vigorously privatised its government-owned enterprises including some municipal services.

Prof. Gary Becker of Chicago University calls privatisation as "the wave of the future" (1). Hardly a week or a month goes without some new evidence of sale of State enterprises by some Western European Countries as France, Italy, Sweden, the Federal Republic of Germany, and, of course, the champion industrial company privatizer, Britain. It is also happening in Japan. The broad reasons for this burst of interest in privatisation is that Governments everywhere are searching for new ways to mobilise resources and for ways to use more effectively the resources they possess.

In the socialist countries or the centrally planned economy, the thrust for privatisation has come in the form of "individualisation" of economic activity, i.e. allowing individuals to own and control certain forms of economic activities. The most striking example is the People's Republic of China. But the same phenomenon can be seen in Hungary and some other centrally planned economies.
In the LDCs (Less Developed Countries), there have been a mixture of approaches. There have been cases of divestiture of a type similar to that carried out in industrial countries. For example, Singapore Airlines recently sold a substantial share of its equity on private markets. Malaysia is privatising a major port facility in a similar fashion. The telecommunications systems in several countries of South East Asia are being privatised through the sale of stock to the public.

Private firms can diversify into new fields of activities on a competitive basis, raise funds through the market without getting bogged down by public expenditure controls. They are largely immune to political interference which has been the undoing of the state enterprises.

Privatisation is not an end in itself but only a means of increasing the:

"efficiency and contribution to development of both Governments' business, i.e. the public and private sectors. It would release Government resources and skill for high priority activities".(2)

Successful privatisation presupposes an important role for banks, financial institutions and the stock markets. The privatisation of British Telecom was a successful privatisation because it had market acceptance.
Forms of Privatisation

Privatisation can take a wide variety of forms which reflect various degrees of divestment of Government ownership and control over individual enterprises. These forms can be as under:

1. **Selling off of public enterprises** - This is the most conspicuous way of privatisation and can take many forms such as wholesale or a partial sale, sale limited to nationals or open to foreign investors, open only to individuals or to private corporations, etc. In some cases, only the assets or rights to a Government activity or enterprise are sold to private owners but the liabilities will have to be paid off by the Government. Sometimes, this takes the form of open sale of shares to investors. This has been done in Britain, some Latin American countries, Mexico, Kenya, and Peoples Republic of China.

2. **Contracting of public goods and services from private enterprises** - The Government contracts with private firms or other providers of goods and services for delivery of goods and services. It pays them for those goods and services which can range from health, education, waste collection, water, fire protection, communication services, and public security. The Government enters into contracts with private firms to provide goods and services or to manage certain
Government activities. The advantage of contracting is that it introduces competition into the provisioning of Government services, leading to lower costs and higher quality as profit-making firms seek to win Government business and attract the customers. It is being used in USA in services like health care, refuse collection, weather forecasting, map making etc. In Indonesia, the Government recently contracted out the nation's customs services as a way of both reducing cost and increasing revenues through better compliance and less corruption.

3. Franchises - Franchise can be exclusive or non-exclusive. This type of arrangement is suitable for providing common utilities. An exclusive franchise is an award of monopolies to a private firm usually with price regulation by a Government agency.

4. Grants and Vouchers - The State pays private producers grants to produce services in area where consumption of goods and services is to be encouraged and where private investors have no interest in investing their money. The Government provides eligible individuals with dedicated purchasing power, often in the form of a certificate, that can be used to buy specific goods and services from private providers. By taking advantage of the competitive market of service providers, vouchers assist the poor in obtaining high quality service at lower cost. The vouchers are
coupons with money value to be used by the grantees to buy services from private providers of their choice. The providers redeem the value of vouchers from the Government. If low income housing is a Government priority programme, then it can subsidise private investors to reduce the price of low income housing for the unprivileged.

5. **Joint public - private venture** can be an intermediate form in which the government remains influential partner. It allows equity participation by the private sector to lessen the stake of the Government and also utilise the experience of the private entrepreneur. This approach has not achieved much in respect of the existing Central Public Enterprises.

6. **Leasing** is a "non-sale" privatisation or what might be called "privatisation of management" through management contracts and leases, but not of ownership. The assets of an enterprise are leased to a private operator. It has been called as "back door privatising". Leases provide politically acceptable "foot in the door" for the private investors, and it is probably the best way to begin. Through various arrangements on the leasing side, it is possible to determine the degree of write-down of assets that needs to take place.
7. **De-reservation** of industries, exclusively reserved for public sector, introduces an element of competitive private enterprise in an industry which was earlier monopolised by state, thereby bringing pressure for more efficient management.

Thus privatisation can take many forms as found in different countries or even in the same country. Some Governments have sold the shares of erstwhile state undertakings to the general public, while others have sold the shares or the assets of public enterprises to single buyers. Public offerings are possible where the capital market is developed and the enterprise also possesses certain attributes. The popular conception that the Government should not privatise the money-makers but only the money-losers is unworkable from the perspective of the business sector.

In Western Europe privatisations are characterized by (a) a combination of private sale of shares and public offerings, (b) the intervention of an independent privatisation commission to set the transfer value and provide advice on other aspects of privatisation, as in France (c) usually, full, i.e. 100% divestment instead of partial or gradual divestment. In the case of privatisations, through sale of assets, the State may be left with substantial residual financial liabilities of the undertaking. However, the gain for the state is that operating
subsidies represented by running losses get eliminated in the future.

**Reasons for Privatisation**

The United Kingdom has been the pioneer of privatisation. The objectives as set forth in the United Kingdom White Paper on the subject are enumerated below:

i) To reduce Government involvement in the decision-making of the industry;

ii) To permit industry to raise funds from the capital market on commercial terms and without government guarantee;

iii) To raise revenue and reduce public sector borrowing requirements;

iv) To promote wide share ownership;

v) To create an enterprise culture;

vi) To encourage workers' share ownership in their companies;

vii) To increase competition and efficiency; and

viii) To replace (state) ownership and financial controls with a more effective system of economic regulation designed to ensure that benefits of greater efficiency are passed on to consumers.*

The early advocacy of public enterprises was based on certain assumptions. They were supposed to be operated profitably, efficiently and in conformity with commonly accepted commercial principles without causing a drain on Government resources. The experience has been quite different. One factor has been the rigidity because of being governmental. This prevented quick
adjustments even when necessary, such as finding a substitute market for manufactured materials, reducing the work force or closing or selling of the firm. This was because of statutory and administrative controls. A second factor has been political interference.

Benefits:

The benefits may be listed as follows:-

1. It is a means to improve the efficiency of the enterprise because it limits the scope for political interference in decision making.*

2. It makes the managers responsible to share holders who will monitor their performance better than Government.

3. It will impose financial discipline of private capital markets.

4. It will provide incentive to seek productive efficiency.

5. Through privatisation an enterprise can gain access to private sector financing and private owners may bring access to new markets.

6. If the sale of shares is made to small investors, this will broaden share ownership. This did happen in

UK where the number of share-owning individuals has substantially increased directly from privatisation offers of shares to general public. Thus privatisation will result in the development of domestic capital markets.

7. It will result in reduction of public sector deficit by disposing of loss-making enterprises.

8. Privatisation is associated with increased competition and hence improvements in allocative efficiency.

Privatisation is seen as one way of dealing with the Government's liquidity problems because of public enterprise losses. Under these circumstances, privatisation is considered as a way of raising revenues by selling profitable public enterprises. For example, the British Government raised over 16 billion between 1980 and September 1987 by selling sixteen major publicly owned companies. In under-developed countries, privatisation is seen as a tool to reduce fiscal and credit pressure by getting rid of losing public enterprises which require continuous budgetary support.

From a commercial point of view, there is a growing realisation within both the private and public sector that many functions under Government by their
very nature can be performed commercially by the private sector more efficiently, more quickly, more satisfactorily and at a lower cost. This is confirmed by several privatisation examples. In the case of Japanese Railways, for example, the quantity of transport handled by the Japanese Railways has increased significantly after privatisation. Their financial performance also improved. The relocation of excessive work force was successfully handled. Similarly, in the case of telecommunication, due to increased competition, the rates of long distance calls have come down.

Most public enterprises are inefficiently managed resulting in wasteful use of resources. Public enterprises can afford such waste since they cannot be driven out of business easily even when bankrupt. They do not face the risk of takeover, as inefficient private enterprises do. Public enterprises have failed to achieve allocative efficiency from macro angle because they do not respond to consumer demands. The public sector has robbed the economy of its flexibility. It has been observed by Elliot Berg of University of Michigan, that "privatisation usually brings with it more dynamic management". (4)
M. Peter McPherson, USAID Administrator, regards privatisation as,

"the right step at the right time to finally liberate developing countries' economies from slow growth or stagnation". (5)

Efficiency results, not so much from the kind of ownership, but from the degree of competition to which an enterprise is subjected to in the process of providing goods and services, regardless of the nature of ownership. It has been pointed out by the World Bank in their Report on "The Reform of State-Owned Enterprises" as under:

"In theory efficiency will be the highest when an enterprise -- public or private -- strives to maximize profits in a competitive market, under managers with the autonomy, capacity and motivation to respond to competition, and when enterprises that cannot compete go bankrupt". (6)

Conditions required to ensure gains:

Gains in efficiency from divestiture are not automatic, but conditional on the following:

1. Developing a policy environment that encourages efficiency in the private sector. The policy environment should stimulate investment, technology, and competition.

2. Avoiding special privileges to buyers of state enterprises i.e. protection from competition, tax exemption, subsidised funds, etc. These run contrary to the efficiency objective.

3. Creating and strengthening the capital market because if the capital market is weak, companies may have to be sold to business families which can lead to concentration of wealth and economic power in a few hands, as has been the experience in Chile.
4. Devising appropriate measures for alleviating unemployment because this problem can be very severe in short run and affects vulnerable groups.

**Implementation Problems : Key Questions**

Implementing privatisation is not as simple as it looks. Once a political decision has been taken to divest, the key questions relate to financial matters-getting the correct valuation of assets, and then putting the assets up for sale at the right price, using the facility of a well-developed capital market, and finding the right private entrepreneur or banker to implement the decision.

It has been the experience of UK that it is difficult to establish the market value of an enterprise before its sale. The contributing factor to this difficulty are :-

1. the size of the enterprises being sold;
2. uncertainty with regard to the structure of the market in which the enterprise will operate;
3. the impact of any regulatory control that will accompany privatisation; and
4. the extent to which the private sector sees opportunities to improve the efficiency of privatised enterprises that the public sector ignores.

Who ends up owning the divested assets, may be of importance in some cases. In LDCs (Less Developed Countries) generally capital markets are undeveloped and potential buyers few in number. In determining who
will be allowed to buy the divested assets, numerous political, social, and cultural factors come into play. Opposition may arise if a State enterprise is likely to fall into the hands of an unpopular private group or is seen as causing greater concentration of economic power in irresponsible private hands.

The Government will also have to decide whether or not to allow foreign potential buyers. If foreigners are allowed to purchase enterprises, they may pose a threat of economic colonisation of the domestic economy. Direct foreign investment is often ruled out if privatisation relates to a strategic industry.

**Natural Monopolies**

The question whether an industry which is a natural monopoly, no matter how inefficiently run as a state enterprise, should be privatised remains a moot question. The inevitable Government monopoly reduces pressures to allocate resources efficiently in the product market because inflated costs can be easily passed on in full. Here is the paradox of privatisation.

The efficiency gains resulting from competition in a market dominated by natural monopolist are restricted by the limited opportunities for new
entrants. A change in ownership through privatisation will involve no more than a change in the form of regulation, with little expected impact on economic efficiency.

The concept of natural monopolies is also undergoing a change. Technology and growth are eliminating or reducing many natural monopolies. Telecommunication is an example, which was regarded as a natural monopoly but is fast becoming a competitive sector. Also unfortunately public ownership has not proved to be a cure against the abuse of monopoly power.

Privatised monopolies can be regulated by the Government. As in the case of British Telecom which has been put under the surveillance of OFTEN (Office of Telecommunication).

Opposition to privatisation:

In India, the resistance to privatisation moves is formidable, specially from the labour unions. Even bureaucrats and many intellectuals are opposed to it. The political leadership will need great courage to admit mistakes or weaknesses in organising huge Government enterprises that have failed and, where it will be necessary to write down the book values before the enterprises can be privatised.
Apart from labour, the senior management is also likely to be most influential interest group in any enterprise which is a candidate for sale to the private sector. They may accept their transfer to the private sector only if there is no threat to their own employment, position and amenities. Because of these attitudes, in some cases at least privatisation may simply mean that an inefficient public sector monopoly takes the form of an inefficient private sector monopoly. In some industries, private firms and their state-owned counterparts operate in much the same economic environment, and have common trade unions. Privatisation in such industries may not yield significant benefits unless the environment can be changed.

Prof. Rehman Sobhan and Ahmad Hasan of Bangladesh conducted a study of the performance of 217 disinvestment units which were transferred from public to private control. The study showed mixed trends in production and sales while financial performance was more negative than positive. The employment level went down in these enterprises. The units demonstrated poor capability to repay their loans as they failed to generate the premised surplus and they paid less tax to the Government.
An argument often used against privatisation is that many public enterprises have significant social and other non-commercial objectives, such as improved income distribution, increased job opportunities, the development of backward regions etc. In such circumstances, privatisation raises problems because private business will only undertake profitable activities. Mary M. Shirley has observed:

"the immediate visible social costs of privatisation......unemployment, closure of Plants, cutbacks in services etc. These costs can be severe in the short run, while the benefits of growth and expanded employment and investment do not appear until the medium term".²⁸

Suffice to mention here that even in such cases the achievement of social goal is at a heavier cost to the society than strictly necessary. The losses suffered by many State enterprises have actually undermined their social goals. For example, the inflationary financing of enterprise deficits has increased income inequalities. Moreover, placing a value upon social objective is a subjective exercise, fraught with conceptual and technical difficulties. A rigorous cost-benefit analysis of such objective becomes impossible.

Preparatory work needed.

Knowledge of individual enterprise is very important before a decision on privatisation can be
taken. Any privatisation programme based on generalities is bound to create serious problems. Detailed authoritative studies of enterprises that are non-viable should be undertaken. Authorities have to be convinced that a particular enterprise has to be either written down drastically, liquidated or sold with a drastic write-down. The price and modus-operandi of privatisation will have to be determined case by case.

Pricing of assets in case of sale of a PSE to a single private buyer is a ticklish problem. Frequently, there are accusations of corruption on the part of politicians and bureaucrats. For example, according to a news item published in Economic Times of 12th April, 1991 concerning the privatisation of power sector in Gujarat, it was reported that the Utran Power House, which had a capacity to generate 22.5 MW of electricity was being disposed of to the private firm of Rajvivik Enterprise against a consideration of Rs. 1.75 crores only whereas the scrap itself was said to be worth of Rs. 2 crores. Mr. Jitendra Rawal, a partner, in Rajvivik Enterprises himself is reported to have remarked "It is a good deal. Even if we sell the scrap of copper, brass and iron, we could net about Rs. 2 crores. But we intend to use a part of the equipment for power generation and sell part of it to other industries". Such deals of privatisation which provide large windfall gains to the affluent few, are bound to
be opposed and they vitiate the environment for privatisation move. Some safeguards by way of transparency of deals, such as through tenders, will be necessary.

Privatisation should be preceded by full public discussions of the benefits of better resource utilization, reduction of pressure on the budget and in particular, of the reallocation of labour and management to more productive tasks. Privatisation will run into difficulty if too much stress is placed on reduction of employment and liquidation and writing down of national assets. Imposition of privatisation under pressure will also be resented by people as is the case in Pakistan. Prof. Jonathan Aylen of Salford University regards appearance of privatisation on the development agenda as:

"largely due to external pressures from international aid donors and handling agencies, such as the World Bank and the IMF. The US Agency for International Development (USAID) promotes denationalisation for avowedly ideological reasons". (9)

A real difficulty is that many plants built by the Government are so over-capitalised and unlikely to be profitable in competitive world markets, even under a new management. The plants may be wrongly located or badly designed. These are circumstances which discourage any local entrepreneur from buying up such plants.
Even in the case of privatisation, 100% divestiture is uncommon. Very often, it is implemented in doses evaluating the consequences of each dose before giving the next dose. Chronic losses and a highly regulated business environment create difficulties in the way of private enterprises as the most enterprising overseas potential buyers are discouraged. This suggests that privatisation can only be a small component of an overall programme directed at raising the performance of State-owned firms in a troubled economy.

**Privatisation : The Indian Context**

Only a few years ago, privatisation of public enterprises was an unthinkable possibility in India. More recently, however, there has been a certain spurt in the interest on privatisation of public enterprises in India.

Public sector in India was born out of an ideology that was enshrined in the Constitution of India, specially Article-39. In pursuance of this, the Parliament adopted "socialistic pattern of society" as the principal guiding objective of socioeconomic policy. The Industrial Policy Resolution of 1956 and 1977 reaffirmed that the State would check concentration of wealth, remove regional disparities,
ensure social justice and achieve self-reliance. The public enterprises were setup with the objective of achieving these goals. Over the years there has been considerable expansion of public enterprises. The central public enterprises have played an important role in subserving the goals of self-sufficiency and industrial development.

The state also took over a large number of sick industries in the private sector to safeguard employment. Most of these industries continue to be sick beyond recovery.

The over-all financial performance of public enterprises has become the most worrisome feature because of budgetary deficits. The pressure for reform of public enterprises comes from this source. Many Government documents, such as the Budget Speech 1990-91 and the Eighth Plan Approach Paper have emphasized the urgent need for increased role of the private sector.

At the level of State Governments also, Maharashtra, West Bengal, Kerala, U.P., Bihar, A.P. and Gujarat, have welcomed the participation of the private sector in several areas, like power, road transport and bridges. Maharashtra has proposed a massive scheme of privatisation worth Rs.10,000 crores in the areas of highways, thermal power plants, transmission lines,
ports, urban development schemes. The Andhra Pradesh Government has sold its shares in Allwyn-Nissan to Mahindra and Mahindra, the only successful case of divestiture in India. The CPI(M) - ruled West Bengal has approved several Joint Sector Projects with the private sector in the fields of petrochemicals and power. The U.P. Government is "on an unparalleled privatisation spree". Apart from privatising power, several loss making state enterprises in U.P. are being planned to be auctioned.

The U.P. experience regarding privatisation of the Dalla Cement Factory by its partial sale to Dalmia indicates that route to privatisation will not be easy. The State-owned Dalla Cement factory was brought under the joint sector with Dalmia group in the ratio of 51:49, but the management was to be run by the Dalmias. Although it was not a case of 100% privatisation, yet the workers strongly opposed it, resulting in violence and a number of deaths in police firing.

Most of the central public enterprises are making huge losses and are grossly over-manned. The brutal truth is that they cannot be made profitable without shedding some manpower. Here is the rub. This was one of the recommendations at the 8th ADB/KDI Development Round Table on the Management of Public Enterprises and
Privatization. It "works mainly through job redundancies". The Article gives the illustrations as under:

1. In New Zealand, in the telecom sector, the work force was reduced from 25000 to 16500 and office staff from 2,000 to 350. Forestry Corp's staff was cut from 7000 to 2000.

2. In Japan, out of 2,70,000 employees of Japan National Railways, 65,000 had to be fired in 1987.

In India, as a matter of fact, only 10 central public enterprises are making adequate profit, 30 others also make only sub-normal profits, about 100 make implicit losses; while the remaining about 100 have negative worth.

The Union Government has identified some profit-making public enterprises for disinvestment including Steel Authority of India Ltd., Bharat Heavy Electricals Ltd., Minerals and Metal Trading Corporation, State Trading Corporation, Metallurgical and Engineering Consultants (India) Ltd., Hindustan Zinc Ltd., Metal Scrap Trading Corporation. Disinvestment would start by off-loading government equity in these Units to mutual funds and financial institutions.

'The shares of the PSEs will be sold to the mutual funds by a competitive bidding process. ....it will give the mutual funds a good opportunity to acquire PSE shares, if they want to'.

(Mr. Venkitaramanan, Governor, RBI, Economic Times, 20.11.1991)
Direct offering of shares to public will be done at a later stage when the Government acquires some experience.

'We do not have any experience in this and would prefer, as a first step, to place them with the mutual funds. Subsequently, these can be listed on the stock exchanges'.

(Finance Minister, Dr. Manmohan Singh, Economic Times, 20.11.1991).

The first list is intended to be followed by a larger list of 50 undertakings making profits. Normally, equity sought to be disinvested will be limited to 49% only, so that the Government will still be able to retain full control. Dilution of equity, whether by sale to mutual funds only or to general public will put pressure for better financial discipline. The Union Government has recently decided to sell upto 20% of the equity of select public enterprises to mutual funds, scheduled commercial banks, central financial and investment institutions to mop up an expected Rs.2500 crores in the financial year 1991-92.

The World Bank and other international financial institutions also favour privatisation of the nationalised banks along with deregulation of money and capital markets. According to the World Bank, "India's commercial banks are uncompetitive, overstaffed and often provide poor service. They are among the least profitable and least efficient in the region". 

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Privatisation moves in India are the result of the recent economic compulsions, viz., failure of public sector enterprises to generate surpluses, widening deficit in Government Budget, and slow rate of economic growth. So long as privatisation helps in achieving wider share ownership, more competition, improved performance for public enterprises, reduced political intervention and better availability of goods and services to consumers at lower prices, it should be welcome. It has already been successfully applied in countries like Great Britain, Japan, Malaysia, the Philippines, Chile, Mexico, Australia, Thailand, Singapore, Hongkong, and Korea.

Policy for Identifying Privatisation cases:

The policy with regard to privatisation has to be very selective in India. Private ownership and the market mechanism should be extended cautiously. Market mechanism may offer an effective possibility for the production and delivery of commodities and services, but at the same time, the state may be required to play an important role in correcting certain market failures. Privatisation should be restricted to enterprises that are not in the key sector or where the private sector can be more efficient in the production of goods and services, and where not much social
obligations are involved on the part of the state. For example, production of cars in the public sector is not needed for the welfare of the masses of India.

In the case of vital natural resources like oil and coal, the public enterprises should continue because the merciless exploitation of these resources at the hands of private entrepreneur, guided solely by profit motive, will leave posterity worse off. But the processing and distribution of such resources can be handed over to private entrepreneur since they operate on "margins". In the case of consumer industry, joint sector may be the right choice. In the case of heavy industries like steel, heavy engineering, shipping units etc., joint ventures may be considered. In the case of trading where enterprises are operating as agents of Government, competition may be introduced.

Above division is more or less in line with the recommendation of the Arjun Sen Gupta Committee. This will retain the distinction between core and non-core sector as made by Arjun Sen Gupta Committee report. The Committee has not favoured sale of the shares due to problems of ownership. Loss making units cannot sell shares. The above approach does not assume such a problem. The distinction between profit making and loss making units, as made by the Committee, has been dispensed with because privatisation would have potential for turnaround actions.
Certain points may be noted in this connection:

1. Political factors will put a limit to privatisation. However, there are economic, financial, and institutional factors that could also influence the process.

2. The performance of private sector in India is not necessarily efficient. There are about 60,000 medium and large private sector industrial units which have gone sick during the last three decades. The recent survey of Reserve Bank of India on sickness indicates an alarming number of 2.6 lacs sick units in the private sector. The incidence of sickness in private small and medium sector is very high. The emphasis should be on competition which will ultimately usher in greater efficiency.

3. There should be safeguards that privatisation may not lead to concentration of economic power or monopoly in private hands.

4. The apprehension of re-nationalisation can be a inhibiting factor, specially in case of partial divestment. Private entrepreneur may not respond positively till an atmosphere of non-reversibility is created. It will be difficult for political party to give such an assurance to private investors.

5. The workers and managers are likely to resist any move towards change in ownership, control and even competitive environment. The emphasis on technical or operational efficiency would cause redundancy. Reduction of excessive work force will be a hard political decision but it must be remembered that excessive work force alone has made several public enterprises sick. Coal India with its subsidiaries and the National Textile Corporation are examples where the Government sacrificed the interest of economic viability to placate the trade unions. The entire economy has to bear the cost not only in terms of wages to the excessive work force but also in the form of higher production cost which have an inflationary effect on the entire economy. Decision on trimming down over-manning will require a very strong political will as unemployment will mean political dynamite.
An issue to be considered is which units should be privatised? Should it be limited to the successful enterprises or to sick enterprises? In India, nearly 50% of the central public sector enterprises are loss-making. Is privatisation possible in such cases? Even if Government were able to sell the shares of these enterprises, it would have to write off the accumulated losses before doing so to make the sales financially attractive.

Evaluation of shares will pose another difficulty.

a) Privatising profit-making PEs

Under these circumstances, the most practical strategy would be to start with a partial divestiture programme. The Central Government may sell upto 49% of the equity in selected viable public enterprises to the general public. This measure will give an immediate boost to the Central Governments financial resources, cutting down the budget deficit. At the same time it will also broaden the Indian capital market as the addition of good scrips of well-performing companies will be listed on the stock exchanges. The efficiency of these enterprises will improve as the public interest in the enterprises will keep their management on their toes. ASSOCHAM has estimated about possible realisation from partial sale of 43 profit-making PEs,
to be about Rs. 3816 crores even while retaining the
majority equity in all these cases in Government hand.

For example, the Computer Maintenance Corporation,
ONGC, the oil companies and the ICPL are some units
whose equity could be broad based by entering the share
markets and in the process raise resources. There can
be the possibility of big houses trying to corner
shares in public sector but so long as the Government
divests only less than 50% of total equity, it can
retain full control. When privatising public
utilities, the regulatory aspects are of paramount
importance. The state must retain its regulatory role.

In the case of profit-making units being
divested, the financial institutions may be quite
willing to acquire their shares. Dilution of shares in
the public enterprises in favour of mutual funds only,
has some disadvantages as it would limit the private
sector's access to mutual funds. No mutual fund or
financial institution would be willing to subscribe to
shares of non-viable public sector enterprises. Also
selling shares to public sector financial institutions
would not really be privatisation because these
institutions are themselves part of the public sector
although there would be some pressure for financial
discipline. However, advantages of privatisation
would accrue only if these companies are forced to
operate in a competitive environment without the crutch of administered prices. This would not enable them to make monopoly profits as in the case of Oil Companies.

Selling of profitable public enterprises is not favoured by some people. They argue that since the money from the sale of such units will be utilised to pay for routine Government expenditure, it amounts to selling the family jewels in order to ward off bankruptcy. If the proceeds are utilised to nurse the ailing public sector units, then it would amount to good money being thrown after bad. Moreover, even in the case of profit-making undertakings, the dividend paid is very low. Out of 43 profit making companies, 12 did not pay a dividend at all. Bongaigon refineries paid a dividend of 3% on its equity, while Rashtriya Chemicals and Fertilisers paid a dividend of just 2%. Even Maruti Udyog paid just 5%. Only the Oil companies and Mahanagar Telephone Nigam paid dividends above 14%.

At present, the Government has selected 47 Public Undertakings making a profit of 8% or more on their equity for possible disinvestment. Out of 244 Public Sector Undertakings, only 16 made a profit of over 20% in 1989-90, 15 had a profit between 12-20%, 16 had a profit between 8-12%. The most pressing motive behind disinvestment appears to be mobilisation of resources.
The Planning Commission had recommended that the equity of PSEs should be sold to the general public, including the employees, and the proportion should be limited to 25% so that the public sector character is not disturbed. Even if the equity is in the first instance sold to Mutual Funds and Financial Institutions, they should be allowed to pass it on to the general public which in turn would imply listing them in the stock exchange.

b) Privatising loss-making PEs

For the sick enterprises, there will be no takers. They will not be able to raise money from the market. The Government has to work out a policy for their rehabilitation. Shri Suresh Kumar, Secretary, Public Enterprises Department, has pointed out that "privatisation is not a remedy for the sick units". There are 58 chronically sick public sector units employing about 4 lakh workers and accounting for Rs. 1700 crores of annual loss. Therefore, privatisation is not likely to bail out the Government with a large number of sick public enterprises. It will not be out of place to mention that most of the sick public enterprises were rescued from private sector to protect employment. It sounds really strange that the private sector now talks of privatisation when it is more than responsible for the ailment of the industrial structure
of the country. Even presently the BIFR has established that more than 1000 companies in the private sector have been brought to virtual ruin by mismanagement. Prof. R.K. Mishra and Prof. Nand Gopal of Institute of Public Enterprises have identified 23 central Public enterprises, most of which are chronically sick, for closures/privatisations. Their study is based on the criteria laid down by the Arjun Sen Gupta Committee. These 23 PEs are:

Braithwaite & Co. Ltd.
Weighbird(India) Ltd.
Bharat Brakes & Valves Ltd.
Biecco Lawrie Ltd.
National Instruments Ltd.
Richardson & Cruddas (1972) Ltd.
Central Inland Water Transport Corpn. Ltd.
Cycle Corporation of India Ltd.
National Bicycle Corpn. of India Ltd.
Bharat Ophthalmic Glass Ltd.
The Mandya National Paper Mills Ltd.
Nagaland Pulp & Paper Co. Ltd.
National Jute Manufacturing Corpn. Ltd.
Rehabilitation Industry Corpn. Ltd.
Tannery & Footwear Coop. of India Ltd.
Tyre Corporation of India Ltd.
The Elgin Mills Co. Ltd.
National Textile Corpn.(Gujarat)Ltd.
National Textile Corpn. (Uttar Pradesh) Ltd.
Bharat Gold Mines Ltd.
Bengal Chemicals & Pharmaceuticals Ltd.
Bengal Immunity Ltd.
Goa Antibiotics & Pharmaceuticals Ltd.

In the case of loss-making units it would be proper to sell them lock stock and barrel to willing entrepreneurs in the country. The Government may also consider franchising or contracting out to private parties various services, such as catering, garbage
disposal, transport, etc. At the same time the Government should refrain from nationalising or taking over loss making units any more.

**Legal Impediments:**

The existing legal provisions giving protection to workers, do not allow reduction of work force. In India, the Industrial Dispute Act (1947) and its 1984 amendments have made any lay-off, retrenchment or closure illegal for firms employing more than 100 workers except with prior permission of the appropriate Government authority. Privatisation would be difficult, if not impossible, despite the mutual agreement of the Government and the private party, as illustrated by the case of Scooters India where labour has opposed the transfer since March 1988.

An important hurdle is Article 12 of the Constitution. By application of Article 12 to the public sector, any employee or contractor is entitled to seek the intervention of a court of law against the decisions of the management. Article 12 needs to be amended to help public enterprises to run on "sound business principles and prudent commercial practices". The Standing Conference of Public Enterprises (SCOPE) admits in a report that Article 12 has "negated the very concept to IPR of 1956 under which the public sector enterprises were set up for playing a dominant
role in the economy of the country by generating surpluses, removing regional imbalances and creating employment opportunities".

**Concluding Remarks:**

A misconception is that privatisation means the abrogation of Government responsibility for essential services or for the general welfare of the people. What matters most for promoting general welfare is the quality and cost of the product or service provided, and not who provides it. The Government can always prescribe and should always be supervising standards which must be met by any service. It need not itself provide the service or the product as long as others are able and willing to do so more efficiently than the government. It is not the form of ownership but the efficiency of the enterprise to provide goods and services at the most competitive costs which will maximise not only the economic goods but also the social good.
References


2. 


10. Asian Business, *First Fire Half the Workers* 1990, pp.34.
PEs of the Central Government qualifying for closure as per the recommendations of the Arjun Sengupta Committee (As on 1st April, 1986)

Closure - Non-core Sector Enterprises (Rs. in lakhs)

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<th>Per capita monthly emol.</th>
<th>Cumulative loss for 5 years</th>
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<p>|       |                          | 9,589           | 13,239          | 26,843     | 16,835   |</p>
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Source: Privatisation & Public Enterprises - The Asia Pacific Experience Edited by Geeta Gouri (pages 578-580).