ABSTRACT

Industrialisation, specially after the Industrial Revolution in West European countries, came to be recognised as a means of modern living. Thereupon, a number of countries started making planned efforts towards attaining the objective of better ways of living. Industrial Policies were evolved by the countries, after taking into account the socio-economic and political conditions. The Industrial Policy of any nation is basically composed of two components - one is the philosophy of a given society to shape industrial growth and the other is the implementation which gives practical shape to the philosophy of the society. It can broadly be classified into (i) Capitalist System (ii) Socialistic Approach and (iii) Mixed Economy Approach.

The First World War caused vulnerability to the Indian economy and the government resolved to examine the industrial policy. Lord Hardinge, on November 26, 1915, wrote to the Secretary of the State, 'it is becoming increasingly clear that a definite and self-conscious policy of improving the industrial capabilities of India will have to be pursued after the war.' This led to the appointment of the Indian Industrial
Commission in 1916. The pace of industrialisation was, however, not upto the mark to meet the grave challenges posed by increasing population of the country and the low per capita income. Infrastructure in fact, needed the pivotal concern of the policy makers. The Russian revolution of 1917 also brought about economic revolution in the whole world. USSR made rapid industrial strides though it was all through regimentation, suppression and appression. A large number of countries copied Russian model of development while many others who followed 'Mixed Economy' pattern in the name only also sided with Soviet Russia. Thus, the world came to be divided into Capitalist and Socialist blocs. The socialist governments took all important economic activities under their control and practically left nothing to the private sector. The Indian National leaders in their freedom struggle had educated the masses about the colonial exploitation and contemplated faster rates of growth of industrialisation for achieving speedy development. After Independence in 1947, therefore, the government of India, following Russian pattern of development, took all such steps which brought all effective means of production and distribution under government control and regulation.
With the passage of time all the PSUs in all the countries became inefficient because these countries enacted legislations favouring the work force. In the ultimate analysis, the governments lost millions and billions of dollars in the forms of not getting adequate returns on the capitals invested because of under utilisation of capacities, strikes, manhours lost, low productivity, shrinkage in excise duty and tax income to the exchequer etc. Besides, the SOEs created structural distortions in the economies of a number of countries, leading to many crises. Involvement of political parties made things so complicated, that almost all the SOEs, except for a few, became white elephants for their respective governments which ultimately placed them into private hands. Indeed, the process of privatization has been crisis-driven all over the world through the reasons behind, objectives to be attained and concerns of the political parties with respect to privatization in different countries have not been very much different.

In terms of the IPR of 1956. PSUs were accorded 'commanding heights' and all important activities at the national level were entrusted to them while at the state level such activities were undertaken by the SLPSUs. It continued to be considered
as 'Economic Constitution of India' and dominated in country's industrial scene till the end of the Seventh Five Year Plan. The field for the operation of the private sector was confined to the unorganized small and tiny sector where individuals could engage themselves in petty shop keeping or trading and manufacturing on a very small scale. For encouraging small scale industries the Government reserved certain items which could be produced only by the small-scale sector.

The terms 'Public Sector', 'Public Enterprises' 'Government Undertakings', 'State-Owned Enterprises' and 'Public Sector Undertakings' are used synonymously. In France Public Enterprises mean industrial and commercial undertakings of Government. In USA, Public Sector means all government agencies which are engaged in providing specific goods and services. In U.K. Public Corporations are the Public Enterprises. In Italy, Public Enterprises are those which are run either by local bodies or by Statement Government.

Late 'Eighties' and early 'Nineties' witnessed such unprecedented changes in the world which nobody could have even dreamt of. Dismemberment of USSR, demolition of Berlin Wall and reunification of the two
Germanies are but a few outstanding examples of such changes. In view of these sweeping changes India, as many other countries of the world, passed the Industrial Policy Amendment Act of July 24, 1991 and declared NIP. The basic philosophy hidden behind this policy is summarized as 'continuity with changes'. The government took a series of initiatives in respect of the policies related to the areas: (a) Industrial Licensing (b) Foreign Investment (c) Foreign Technology Agreement (d) Public Sector Policy (e) MRTP Act (f) Small and Tiny Sector.

In relation to the Public Sector Undertakings the NIP clearly stated that in order to raise resources and encourage wider public participation a part of the Government's holdings in the public sector would be offered to the mutual funds, financial institutions, the general public and workers.

The worthwhileness of the PSUs in India had been a bone of contention from the very beginning. Some of the PSUs which earned huge profits were actually monopoly profits and due to inter-government departmental transfers rather than their efficient performance in the real sense of term while the aggregate sum of money invested in them amounted to Rs. 1,78,628 crores as on March 31, 1996.
While commenting on the performance of any business organisation financial aspect comes to the force. Though a number of PSUs are not business concerns in the strict sense of the term but their financial aspect can not be ignored. In a mixed economy where private sector is also allowed to operate and compete with PSUs simultaneously this aspect occupies all the more importance. Judging against this background, financial performance of a large number of PSUs has not only been satisfactory but majority of them have proved to be an utter failure.

After the implementation of a number of liberalisation measures, situation has radically changed even for those PSUs which had been earning profit mostly either because of their monopoly rights or under government protection. Again the years 1993-94 and 1994-95 were the boom years for the Indian economy as a whole. During these two years many of the loss-making undertaking have also shown profits. The situation for 1995-96 and 1996-97, for which the data are not available, will surely be quite different.

In order to be fair and objective it would be necessary to take into account the obligation of Public Enterprises which transcends the concepts of production
and profits. Given that, the performance of public enterprises either at micro or at macro level, has to be evaluated keeping in view the contributions made by them in discharging their socio-economic obligation, development of backward regions, provision of public utility services, selling basic inputs or products at administered prices etc. There is no denying the fact that all this has been possible despite several handicaps from which Public Enterprises suffer such as locational disadvantages in some cases, very high initial capital investments in others, having to do with technology which was not necessarily among the best available, cost of learning and development and presence of large number of sick units taken over from the private sector etc. All this may be true but the costs involved in the PSUs far outweigh than the benefits.

The government could not curb enormous wasteful expenditure, put an end to the subsidies amounting to billions of rupees and huge PSU losses resulting in large budgetary deficits. To reduce such gaps year after year, the sources of soft loan, available earlier, dried up and most of the borrowing was available only on commercial terms. The intensity of
debt burden can be imagined from the fact that it has gone up to the level of over Rs. 2,02,972 crores unto September 1992 and the internal burden exceeds at about Rs. 3,55,800 crores. It takes more than one-fourth of the GDP to service our external debts. The Government of India had no option but to tighten its belts on PSU losses and non-essential expenditures. Simultaneously, International Aid Agencies had been pressing hard for structural adjustments in the economy so that the country may be able to pay its external debts without much difficulty.

Privatization in the world started from the beginning of 'Eighties', though a few countries started it much earlier, with a view to increase productivity through efficient utilisation of material and human resources, widening the share of ownership of economic assets and getting rid of political entrepreneurs. The champions of privatization were Mrs. Margaret Thatcher of the United Kingdom and Ex-President Ronald Reagan of the United States of America. Globally, privatization has been adopted as one of the major policy instruments. It has been taken up in more than fifty countries ranging over the industrial countries of the West, centrally planned economies of the Europe and
newly industrialized nations of the Asia-Pacific Region. Even the debt ridden nations of Latin America and South Asia, including India, Pakistan, Bangladesh, Nepal, Sri Lanka and a host of third World Countries, have been swept through the wave of privatization.

The Government of India declared New Industrial Policy which opted for radical changes from the policy pursued until then. The NIP, in fact scrapped control through licensing, except in some strategic areas like defence, production of Coal, petroleum oil, drugs and a few luxurious items. It diluted the MRTP Act, 1969 to enable large industrial houses to invest their surpluses and enhance foreign equity participation from 40 per cent to 51 per cent, proposed divestiture of 20 per cent of Public Shares in some of the PSUs, announced deregulation of a large number industries to free them from the shackles of bureaucratic control, dereserved a large number of items so far reserved for small-scale industrial sector and opened its doors to the foreign firms to encourage competition.

Privatization is specifically defined as the government-initiated transfer of assets, operations, rights and activities from the public to the private sector through a variety of means. On the other hand,
the divestiture of small equity stakes to private sector investors or the sale of shares to mutual funds or other institutions controlled by the government without any significant change in the level of government control or managerial freedom does not constitute privatization. But the process does include contracting out to the private sector those services which had, historically, been performed by the public sector and the provision and financing of new infrastructure projects.

Initially, government of India selected Power Telecom, Banking, Airlines and Oil & Gas sectors for privatization. The process of privatization in India was compared with a number of other countries. In order to facilitate sector-wise comparisons an overall achievement rating was derived from four criteria evaluated on a five-point scale where 1 stood for completely regulated and 5 implied completely competitive. By comparing each sector's performance against a publicly stated objective of the government, it was possible to assign a rating to the present status of privatization in each of these sectors. Then, to benchmark the performance against the global experience, India's overall performance was compared to
those of the economies of six countries two each from Western Europe, the Americas and Asia-U.K. Portugal, Mexico, Argentina, Thailand and Indonesia.

Based on a number of key privatization parameters such as the governments defined objectives, the political will, the timescales involved, the objectives achieved the methods employed etc., India's performance has been very poor. During the last 15 years most of Britain's nationalised industries and utilities have been privatised and the total proceeds now exceed $ 95 billion, Argentina collected $ 22 billion while India has been able to raise about $ 3 billion by auctioning off 0.65 per cent of government investments in the public sector in the four rounds of disinvestment that have taken place since 1992. Under the present circumstances, privatization is an economic must but political impossibility because it needs hard decisions.

The present study titled, 'PRIVATIZATION OF PUBLIC SECTOR UNDERTAKINGS IN INDIA - A CASE OF AUTOMOBILE INDUSTRY' is an attempt to examine the need, objectives, methods employed and achievement of targets since the initiation of the process of privatization of PSUs in India. The study is based on secondary sources
of information and, to some extent, on primary sources in the sense that points of view of Government officials, academicians and professionals on different aspects of privatization have also been considered and included in the text without mentioning their names. The study is divided into six chapters.

As industrial development of any country is the outcome of its Industrial Policy, the first chapter deals with the IPRs of 1948, 1956 and subsequent Industrial Policy Statements alongwith the changes brought therein by different governments at the Centre at the time of their rule in the country. It was all the more necessary because the basic document was that of 1948 and the IPR of 1956 was only more refined and sharp in giving all important economic activities to the government grip. Further, IPR of 1956, also used to be called 'Economic Constitution of India' by some nationalists, dominated the Indian Industrial scene till the late 'Eighties'.

Chapter second examines the growth of Central Public Sector Undertakings in particular and State Level Public Sector Undertakings in general right from the initiation of planning process in the country in
1951 to the end of the Seventh Five Year Plan. SLPSUSs have not been discussed in greater details because of two reasons. Firstly, it was not necessary as the States of the country have, by and large, followed the policy of the Central Government in this respect. Secondly, the data in respect of SLPSUs, if collected and analysed, would have been quite unwidely.

Chapter Third dwells upon the performance evaluation of Central PSUs by applying different parameters. In addition to their overall assessment, the chapter also analyses in detail the performance of manufacturing and service group of PSUs separately. It also brings to light the 'top ten' profit-making and loss-incurring PSUs because it is these PSUs which are responsible for more than sixty per cent profits of all the PSUs and account for roughly fifty per cent of the total losses suffered by them.

The Fourth Chapter examines the concepts, objectives techniques, modalities and experiences of different countries in relation to privatisation. It is here that privatization at micro and macro levels has been discussed alongwith a sample of eleven countries selected from the developed West, earstwhile USSR and
developing countries including the newly industrialised nations of South-East Asia and the Asia-Pacific Region. Also, privatization process of India has been compared with six selected countries on a five-point scale.

The Fifth Chapter gives a comprehensive account of Indian Automobile Industry in its historical perspective. Alongwith old and established automobile manufacturers like Hindustan Motor Limited, Premier Automobile Limited, Tata Engineering and Locomotive Company Limited and Mahindra & Mahindra Limited, performance of Maruti Udyog Ltd. has been evaluated. After privatization of MUL in June 1992, a number of reputed international automobile manufacturers like Daewoo and Hyundai Motors of South Korea, Honda Motors and Mitsubishi of Japan, Daimler Benz and BMW of Germany, Frezer Nash and Concept Auto of the U.K. and Ford and General Motors of the USA etc. have signed joint ventures with their Indian counterparts and very soon plan to introduce their fuel efficient vehicles in Indian market which will lead to cut-throat competition. All these things have been discussed in this chapter.

The Sixth and final chapter, as usual, gives summary and findings of the work. Some of the
suggestions given are really very challenging and require strong political will and hard decisions on the part of the government if privatization is to prove success in India. The researcher will feel his labour amply rewarded if this work stimulates further interest among those who are not tired of life and love learning.