CHAPTER-1
INTRODUCTION

Economic reforms, initiated in India in 1991, attempted some macroeconomic restructuring. Almost every macro variable was affected by them in one way or the other. Though the reforms were not directed at the public sector undertakings nor were they sparked by the working of the same. But like any other economic variable or institutions the PSEs were also affected by them. In fact it was not the reform measures as such but the changing outlook towards the PSEs that seems to have influenced them. The PSEs were created as a result of a well thought out strategy and a political philosophy that might have its genesis in the colonial past.

1.1 Relevant Historical Development:

Industrialization in India did not take place as a normal course of economic development where economy’s resources and savings generated in agriculture and other traditional sector helps it in the initial days, extra labor is also taken off from agriculture to be employed in upcoming industries. Thus, both the sectors are benefited, manufacturing sector gets cheap labor and agriculture relieved of redundant labor which is more a liability than asset. This course of economic development ought to be followed in the countries that have vast agricultural sector and abundant labor resource.

Indian economy was moving well on the path of economic development and its manufacturing sector had developed in good manner and was competing in western market till the middle of the 18th century. The use of modern machines (the result of industrial revolution in Europe) was absent; rather it was the indigenous tools and technology coupled with very fine quality of artisanship that Indian manufacturing sector had developed. Since the technology was labor-intensive one, it suited the requirements of the economy best.

But India became the subject of alien power which did not have its commercial interests as well. India was to be made a market for the British manufacture. So as a result of deliberate policy designs, Indian handicraft was
subjected to unfair competition resulting in decaying of age old manufacturing sector. The subsequent period of colonial rule worsened the economy. It had been deprived of sizeable portion of its savings which was draining out in the favor of "home charges". The magnitude of such drain was estimated to be roughly 25 per cent of India's National Income.

It is that not only Indian economy received no government help in the form of the creation of social and economic infrastructure but also the atmosphere congenial to economic growth and development could not be allowed to do whatever it could have done on its own. Therefore, what India could inherit from its colonial past was backward agriculture and substantial amount of disguised unemployment, weak infrastructural base, and almost no industrialization (except in few pockets where some industrial activity could be stated despite the adverse circumstances).

India as a sovereign nation was at liberty to chalk out its strategy for economic development keeping in consideration the limitations. Achieving higher growth rate was essential to cope with the problem of abject poverty and deprivation of essential goods and services of a large number of its population. To meet this end, the certain direction was required to be given to the investment. Economies all over the world were following either capitalist mode or the socialist one. Both of these have their merits and demerits. Former being based on the market was said to offer best solution as the market reflects the people's choices. Latter, on the other hand, does not have the things to be determined by the market determined solution as it may not be socially optimal. India adopted the model representing the mix of two where the private sector would be allowed to coexist with the public sector the latter being assigned the dominant role.

1.2 The Public Sector Enterprises in India:

There has always been a debate over the question of government's interference with the economic matters of an economy. The issues that becomes the main subject of debate is; the extent of government's intervention.

---

1 Nauroji, Dadabhai: Poverty and British Rule in India, London 1901.
2 State where marginal productivity of labor is zero.
One approach could have been entering the arena as a big player of the game; the other one could be only the regulatory role where government would regulate the private sector. Each of these approaches has consequences for the economy. Whereas the former would entail increased amount of government's claim over economy's savings and investing in every sector in order to give the private sector a healthy competition, the latter approach subjects the private sector to various kinds of control in defiance of market wisdom.

India adopted an approach different from either of the two. The Industrial Policy Resolution (IPR) 1956 reserves the items that would be the exclusive domain of the public sector. The items included in this category are the one which were considered to be sensitive from the view point of security. Those items in which both the private sector and the public sector could have entered, the government's desired to enter those areas where it was feared that the private investment would not be forthcoming as they might not promise the handsome project.

After Independence, under the Keynesian era of world economy, a developing country like India had been pursuing a path in which the PSEs were expected to be the engine of growth. Historically the public sector had been assigned an important role and contributed a lot to the progress of Indian economy. While the public sector has to its credit some notable achievements but all is not well with its working. Some serious failings have crept into it, so that the concept of public sector has been questioned. The public sector had overgrown itself and its shortcomings started manifesting in the shape of low capacity utilization and low efficiency due to substantial time and cost over runs, inability to innovate and to take quick and timely decisions, large interference in decision-making process, etc. The public sector in general has, therefore, become a liability rather than a productive asset, which it ought to have been. The government started to deregulate the areas of its operation and in the year 1991 the national economic policy underwent a radical transformation.
The new policy of liberalization, privatization and globalization de-emphasized the role of the public sector in the nation’s economy. Till date, several arguments have been put forward by the apologists of market-oriented economic structure.

- The government must not enter into those areas where the private sector can perform better.
- Market-driven economies are more efficient than the state-planned economies.
- The role of the state should be as a regulator and not as the producer.
- Government resources locked in commercial activities should be released for their deployment in social activities.

The government is of the view, that PSEs have not generated internal surplus on a large scale due to the reasons best known to them. To provide a solution to the problems of public sector, the government has decided to adopt a new approach; one of the new approaches is disinvestments policy. In other words, between 1980 and 2002, the average rate of return on capital employed by PSEs was about 3.4 per cent as against the average cost of borrowings, which was 8.66 per cent. Disinvestment of PSEs has, therefore, been offered as one of the solutions in this context.

Table 1.1
Percentage Share of Private and Public Sector in the Plan Outlay

<table>
<thead>
<tr>
<th>Plan Period</th>
<th>Percentage Share in Plan Outlay</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Public Sector</td>
</tr>
<tr>
<td>First Five Year Plan (1951-56)</td>
<td>54</td>
</tr>
<tr>
<td>Second Five Year Plan (1956-61)</td>
<td>60</td>
</tr>
<tr>
<td>Third Five Year Plan (1961-66)</td>
<td>65</td>
</tr>
<tr>
<td>Fourth Five Year Plan (1969-74)</td>
<td>64</td>
</tr>
<tr>
<td>Fifth Five Year Plan (1974-79)</td>
<td>70</td>
</tr>
<tr>
<td>Sixth Five Year Plan (1980-85)</td>
<td>62</td>
</tr>
<tr>
<td>Seventh Five-Year Plan (1985-90)</td>
<td>52</td>
</tr>
<tr>
<td>Eighth Five Year Plan (1992-97)</td>
<td>50</td>
</tr>
<tr>
<td>Ninth Five Year Plan (1997-2002)</td>
<td>45</td>
</tr>
</tbody>
</table>

Source: Net
The government, therefore, did not adhere to the logic advanced by the proponent of minimal government (neo-classical approach) where the government should confine itself to the provision of public goods or may be few merit goods. Rather it went in for developing a huge public sector, taking which to the commanding heights was the stated objective as evident from Table 1.1. The justification for dominant public sector was that the economy's savings could be channeled into the desired direction regardless of immediate profit only through this way.

We know that the area of work of Public Enterprises during British period was almost limited to Railways, Post and Telegraph, Port Trust etc. But there were many industries which could not be developed by private sector during 1940's or 1950's as there was not enough money in the money market and entrepreneurship was limited as well. Further, it is a common thinking that for economic development of strategic sector of the economy and the security of the country, state investment and control over concerned industries is a must. Sometimes the closure of certain enterprises may cause major economic or
social loss, which encourages the government to look into the affair and take charge of such enterprise. Considering above and such other reasons, the government opted for nationalization of industries. Different Five-Year Plans and industrial policies of Indian Government have shown significant impact on industrialization. The state-controlled enterprises registered impressive growth during the first five-year plans, especially after the second five year plan due to the industrial development instead of agricultural development. The percentage share of Public Sector in the plan outlay started declining since the sixth five year plan, which has taken a dip of as low as 45% in the ninth five year plan.

As a result, India could develop various heavy and basic industries in the public sector which include power generation, oil and natural gas, refineries, telecommunications, petrochemicals, steel, fertilizer etc. The development of these industries went a long way in India’s economic growth.

1.3 Theoretical Aspects:

Creating a huge public sector would not have been possible without resorting heavy public debt. Incurring public debt used to be considered imprudent by the neo-classical wisdom which believes in the efficacy of market forces in bringing about necessary equilibrium. All the major macro-variables such as employment and price output attain their equilibrium value through the market process.

The crisis in the capitalist world in the early 1930s shattered the neo-classical belief and paved the way to the acceptance of Keynesian approach which favored enhanced public spending through public debt. The post war recovery had further strengthened the Keynesian argument about the public debt.

After independence, the India decided to create the huge public sector, Keynesian approach became the justifying instrument. Though Keynes did not advocate the creation of public sector but certainly made a case for public debt. This public debt was no longer a frightening proposition; rather it came to be recognized as the instrument to raise the employment level and thus effective demand.
The decline of Keynesianism the world over and its replacement by neoclassicism coincided with the economic crises in India in 1991 which too found it constrained to switching over to the neoclassical approach to public policy. The new approach did not approve public debt and called for the reduction in fiscal deficit to some sustainable level.

But with the current global crisis, once again the Keynesian perception of enhanced public spending, debt is no longer a dreaded word. So the new global situation would induce the government to rethink its approach towards the PSEs even if some of them are not yielding profit. The study tries to explore such angle as well.

By the time, some of the public sector undertakings became the target of critics as they were running into huge losses. Besides, the questions about the proficiency of their management began to be raised. Some were criticized on the ground that they were not required in the first place and the area was not the strategic one from the view point of the economy. But largely the focus of criticism remained on their incapability to earn profit. Since they were receiving budgetary support in order to run over, they were being considered to be a big burden on budgetary resources.

Since the beginning of 1980s, Keynesian wisdom itself was overshadowed by neo-classical approach which would not approve fiscal profligacy. International financial institutions like IMF and World Bank were adherent to this approach.

India continued to offer budgetary support to many of its PSUs regardless of the severe constraints on the budget itself as the revenue deficit, which appeared in the Union government's budget in 1979-80 for the first time, increased with each passing year. In such situation when there were fiscal crisis in 1991, the attack of loss-making PSUs intensified again.

In the wake of negative balance on revenue account whatever savings was occurring in the public sector could be the savings generated in the PSUs. Though such savings would have been meager as compared to the household savings, but for the most part during the period (since late 1950 till the

3 Keynesian approach justified the deficit budget in order to increase aggregate demand.
beginning of the reform), it was comparable with the private corporate sector savings.

Again, there are other arguments against the public sector. That is, though the overall savings of the PSEs is positive, the loss-making PSEs are drag on growth and drain on resources. Still another argument is the lack of correspondence between investment and growth in the PSEs. Such phenomenon leads to crowding out of the private investment. The situation obtained thus, it is argued, is akin to the deployment of capital where it is less productive.

But to judge the PSEs on the basis of profitability and their growth may lead to erroneous conclusion as would amounts to not acknowledging their contribution in other respects such as contribution to employment, indirect contribution to exchequer in the form of various taxes and keeping the price of key inputs in check. The present study attempts to track such things.

After 1991 crises and the initiative of reforms, budgetary support to the PSEs became unsustainable. The overall reform process included disinvestment of the PSEs as one of its component and the stated strategy was to divest the loss-making PSEs. Disinvestment of the PSEs is supposed to accord two benefits. One; the public sector will be relieved of loss-making PSEs and two; the revenue from such sale will go a long way in bringing down the fiscal deficit. Since such receipts are non-debt incurring, they were expected to contribute to fiscal correction.

1.4 Economic Reforms:

Economic reforms so initiated in 1991 were not forced by the under-performance of the PSUs. It was, rather, balance of payment difficulties that became the immediate factor. In order to get out of that situation, the structural adjustment programme was initiated. The economic reforms in the mild form have been carried out on and off in India. However, the reforms undertaken in 1991 were different from the earlier one. They were wider in coverage (being attempted in various aspects of economic activities) and also intended for bringing about such structural adjustments that could represent the break from
the past with a sense that the philosophy of economy's manageability itself had undergone a significant change. Economic development with socialistic pattern almost gave way to market-friendly economy, albeit not in totality. Reforming the PSEs was one such program.

1.5 Disinvestment:

There is some confusion about the concept of disinvestment and privatization. These two concepts are different with each other or we can say that disinvestment and privatization are interchangeable terms. Disinvestment means a process by which the capital stock of an economy or enterprise is reduced, as by not replacing obsolete plant and machinery or we can say that it is an act of withdrawing investment from an enterprise or country.

Simply, disinvestment refers to the sale or liquidation of an asset or subsidiary of an organization or government to the private sector. Where as privatization means transfer of ownership and/or management of an enterprise from the public to the private sector.

The basic difference between the two is that, whereas in the case of privatization, whole of the equity is sold but in case of disinvestment, partial equity is sold to the private sector.

It may be pointed out that the concept of disinvestment is to be understood in the framework of generating resources for restricting of the public sector undertakings so that the drain on the budgetary resources can be stopped. It is explained in the context of the public sector undertakings. There was a time when the entire capital had to be provided and therefore, owned by the government and, therefore, the government held all the equity and also gave loans. The objective of 100 percent share holding, which given the government the authority to take decisions considered appropriate in their interest can be achieved even with a majority holding like 51 percent. The balance of equity can be sold to the public, especially, small investors and the workers. In effect, disinvestment broad bases the ownership of the undertaking, which is the essence of public sector. What proportion should be sold is a matter for experts to decide and, hence, the Disinvestment Commission.
If disinvestment is to be compared with privatization, a 100 per cent disinvestment or the total sale of a unit forms complete privatization when it is sold to the private sector. Anything short of 100 per cent connotes different degrees of disinvestment. Hence, the majority share of 51 per cent being with the government explains a situation as that of a joint venture or undertaking with the government holding the majority state.

Thus, disinvestment of a part of Government equity in the public sector enterprises (PSEs) is a major policy initiative in India to carry out economic reforms. The purpose of disinvestment exercise is to improve the performance of PSEs and also to increase their public accountability by broad basing their management and ownership. Furthermore, the merit of privatization is seen in terms of improvement in efficiency and reduction in the budgetary burden of state-owned enterprises.

Privatization furnishes new life to a sick public sector enterprise, or permits an already profitable PSE to become even faster, bigger and stronger. But primarily, privatization tackles three major problems of PSEs- incentives, priorities and access.

1.5.1 Rationale of Disinvestment:

Disinvestment moreover as one of the method of privatization or as an instrument for raising revenues or finances should be handled carefully based upon certain preset and well thought out policy framework in order to get good results out of it. Giving the rationale for disinvestments, the Ministry of Disinvestment had outlined the following as the principal objectives:

- Releasing the large amount of public resources locked up in non-strategic PSEs, for redeployment in areas that are much higher on the social priority, such as basic health, family welfare, primary education and social and economic infrastructure.
- Stemming further outflow of these scarce public resources for sustaining the unviable non-strategic PSEs.
- Reducing the public debt that was threatening to assume unmanageable proportions.
• Transferring the commercial risk to the private sector wherever the private sector was willing and able to step in.
• Releasing other tangible and intangible resources, such as, large manpower currently locked up in managing PSEs, and their time and energy, for redeployment in high priority social sectors that were short of such resources.
• Disinvestment would expose the privatized companies to market discipline, thereby forcing them to become more efficient and survive or cease on their own financial and economic strength.
• Disinvestment would result in wider distribution of wealth through offering of shares of privatized companies to small investors and employees.
• Disinvestment would have a beneficial effect on the capital market, the increase in floating stock would give more depth and liquidity, give investors easier exit options, help in establishing more accurate benchmarks for valuation and pricing, and facilitate raising of funds for their projects or expansion in future.
• Opening up the public sector to appropriate private investment would increase economic activity and have an overall beneficial effect on the economy, employment and tax revenues in the medium to long-run.
• In many areas, e.g., the telecom sector, the end of public sector monopoly would bring relief to consumers by way of more choices, and cheaper and better quality of products and services as had already started happening.
• With the quantitative restrictions removed and tariff levels revised owing to opening of world markets/ WTO agreements, domestic industry had to compete with cheaper imported goods. In the bargain, the common man would have access to whole range of cheap and quality goods. This would require Indian industries to become more competitive and such restructuring would be easier in a privatized environment.
1.5.2 Benefits of Disinvestment:

Some benefits of disinvestment are given below:

- Disinvestment would expose the privatized companies to market discipline, thereby forcing them to become more efficient and survive or cease on their own financial and economic strength. They would be able to respond to the market forces much faster and cater to their business needs in a more professional manner. It would also help in freeing the PSE from the government control and introduction of corporate governance in the privatized companies.

- Disinvestment would result in wider distribution of wealth through offering of shares of privatized companies to small investor employees.

- Disinvestment would have a useful effect on the capital market; the increase in floating stock would give the market more depth and liquidity, give investors easier exit options, help in establishing more accurate benchmarks for valuation and pricing and facilitate raising of funds by the privatized companies for their projects or expansion in future.

- Opening up the erstwhile public sectors to appropriate private investors would increase economic activity and have an overall beneficial effect on the economy, employment and tax revenues in the medium to long term.

- In many areas, e.g. the telecom sector, the end of public sector monopoly would bring relief to consumers by way of more choices and cheaper and better quality of products and services as has already started happening.

1.5.3 PSEs as Burden on the Government:

The Central Government, and many state governments, were already facing debt crisis, resources were scarce and PSEs were losing money beyond afford. Carrying on as inefficiently, as before, was simply no longer an option.

The government could not continue pumping in more tax-payers money indefinitely when Indian families had urgent needs like water, schools, roads
and medicines. Experience shows that the longer one waits before privatizing a state enterprise the worse it gets and the more subsidies it needs. Since 1992-93 the Central Government had drained in Rs.34104 crores in the name of revival/restructuring of PSEs. And they remained where they were. Six attempts were made to revive HEC but it still made a loss of more than Rs.1000 crores in 1999-2000. Similar was the story with IDPL, HSCL, Jessop, Hindustan Shipyard, and MAMC and so on.

Needless to say that there is no point in throwing good money after bad. This meaningless waste of the tax-payers money has to stop. Privatization would end the waste of money in subsidies and let these companies succeed in the private sector. The government could redirect the savings to the sectors and causes that needed it most.

Several PSEs were already sick, and their condition was deteriorating by the day. Out of a total of 240 PSEs, 116 were loss-making and 87 were already sick in 1993-94. Since payments were often held up, workers suffered delays in payment and they might even lose jobs, apart from the demoralization arising out of sitting idle. Without privatization, things could only go from bad to worse and the Government’s problems were to increase. Sick PSEs were a sticky problem for our political leadership, and the sooner we dealt with it the better it was.

Moreover, less than two per cent of India’s workforce was employed by PSEs. The argument advanced, therefore, was that more than 98 per cent of Indian workers and 100 per cent of Indian taxpayers and consumers were penalized by PSE losses and PSE under-performance. And as such it was not fair that so many should be made to suffer because of so few. Under these circumstances it was deeply felt that privatization was the best way to revive and rebuild weakened public-sector enterprises. But at the same time it should be born in mind that profitability could not be the criterion to judge their viability. The crisis of early 1990s once again provided the opportunity when at least loss-making units were to be privatized.

In the chapter on economic reforms, we found that the pruning of public sector was justified on the ground of fiscal prudence.
The process of disinvestments in India began in 1992, which was supposed to be the tool in the hands of government to improve the functioning and profitability of public sector enterprises and also raise funds to mitigate its fiscal deficits. There are two major reasons for disinvestments:

a. To provide fiscal support.

b. To improve the efficiency of organization.

The fiscal support argument is mainly due to increasing demand on both the central and the state governments. Because of the current revenue expenditure on items such as interest payments, wages and salaries of government employee and subsidiaries, the government is left with hardly any surplus for capital expenditure on social and physical infrastructure. Whereas the government should be spending on basic education, primary health and family welfare, the huge amounts of resources are blocked in several non-strategic sectors such as hotels, trading companies, consultancy companies, textile companies, chemical and pharmaceuticals companies, consumer goods companies etc. Not only is this, but the continued existence of the PSEs forcing the government to commit further resources for the sustenance of many non-viable PSEs. The Government continues to expose the taxpayers’ money to risk, which it can readily avoid. To top it all, there is a huge amount of overhanging debt, which needs to be serviced and reduced before money is available to invest in infrastructure. This makes the disinvestments of the government at stake in the PSEs absolutely imperative.

The idea initially was to bail out loss-making PSEs and if it was not possible then sell them off. The results that disinvestment program produced were the mixed one. But in the name of PSE reforms, it was only disinvestment that was attempted; so much so that a separate disinvestment ministry was formed in the Union government, though dismantled latter for political expediency.

Disinvestment is one of the most critical areas of economic reforms and has been subject of controversy since 1991 when these reforms were introduced at first. This issue is more political in nature since it is an issue relating to the idea of the role of state. The economic considerations are of
secondary importance since the amount involved in disinvestments has been relatively small and the major impact of Indian economy is yet to be seen. It is interesting to note that the critique hardly objects to privatization process than to disinvestments. The distinction in these two must be understood clearly. The entire approach of economic reforms is now market-oriented and guided by private considerations evolving in public enterprises and by a large number of people including critics of disinvestments who have accepted that public enterprise should also earn profit and, therefore, policy measures be directed towards it.

1.5.4 Criteria for Selection of PSEs for Disinvestment:

(a) “Comparative Advantage Criteria: Ramanadham advocates that where a public enterprise loses its comparative advantage, it is preferable to privatize it. As long as public enterprise is a superior means of making a contribution to the national well-being, it should be preferred to other forms; but when it has a comparative disadvantage in this respect; it should be reorganized into a private enterprise.

The comparative advantage is to be measured in terms of the commercial returns, social returns and a desired trade-off between them. The social-financial return combinations would be dissimilar among different enterprises or sectors, and hence the concept of comparative advantage has to be addressed in an enterprise-specific and time-specific manner. As these conditions change in the course of time, private enterprise may begin to gain an edge over public enterprise, not necessarily because it is intrinsically more efficient, but because of two other reasons.

First, the social returns element in the comparative advantage of a public enterprise generally weakens over time in several sectors of activity. Second, public enterprise, as an institution, is exposed to certain intrinsic costs, which can be a constant drag on its performance. There is undue focus on mistakes, resulting in ‘play safe’ syndrome by managers who avoid taking risk. In a public enterprise loss of comparative advantage is not necessarily synonymous with inefficiency. The situation may have arisen from certain macro changes in the
national economic circumstances and from changes in the scales of social preferences.

(b) Economic Criteria: According to this, the criterion for divestiture is net economic yield generated by the enterprise as state-owned entity and as privatized entity. Two distinct elements affect this difference: the transfer of funds from the private sector to the public sector in connection with purchase of enterprise and the transfer of productive facilities from the public sector to the private sector.

Jones et al. have suggested a model to answer which enterprises should be disinvested. According to this, an asset should be sold only if the seller is better off after the sale, i.e. the change in welfare ($\Delta W$) is positive. If the government behaves as a private seller, then this would simply require that the sale price exceed the value of the future-earning stream foregone, i.e.

$$\text{Sell if } \Delta W = Z - V_{sg} > 0$$

Where $\Delta W =$ Change in welfare.

$Z =$ Price at which sale executed.

$V_{sg} =$ Social value under continued government option.

The value to society under public operation is the present value of expected net benefits accruing the society as a whole from the continued public operation of the enterprise. As the government is concerned about overall welfare of society, it must also consider the firm’s performance after sale ($V_{sp}$), i.e., social value under private operation. The social value under private operation is the present value of expected net benefits accruing to society as a whole from the private operation of enterprise.

Another consideration is the impact of transferring funds from private to public hands in case of divestiture. One impact may be ‘crowding out’ of other capital needs in the private sector in the country. However, the government may use this income to retire some of its own debts, thereby releasing new funds to the private sector and thus could offset the crowding out effect.

Another impact which should be examined is how the sale proceeds are used. This depends on the difference between the private revenue multiplier ($\lambda_p$) and government revenue multipliers ($\lambda_g$). Thus, divestiture has both a
behavioral impact (reflected in the $V_{sp} - V_{sg}$ differential) and a fiscal impact (reflected in the $\lambda_g - \lambda_p$ differential).

Keeping these parameters in view, the decision to sell becomes:

Sell if, $\Delta W = V_{sp} - V_{sg} + (\lambda_g - \lambda_p) Z > 0$

Or sell if, $Z > V_{sg} - V_{sp} / (\lambda_g - \lambda_p)$

This means that whenever social welfare is higher under private ownership than public, and government revenue multiplier greater than private profit multiplier, the price is of no consequence, and the government should be willing to pay the private sector to take over the enterprise. This might happen, if the enterprise which is loss-making under government operation becomes viable under private ownership without large deleterious welfare effects on consumers or workers.\(^4\)

As a general principle, the commission recommended that where appropriate, PSUs should be restructured before disinvestment in order to enhance enterprise and the intrinsic share values, where disinvestment becomes necessary, it will be based on the following considerations:\(^5\)

- Extent of restructuring required and the potential for improving share values,
- The permissible extent of disinvestment with reference to the classification of industry as core or non-core,
- The size of the company and the phasing of disinvestment,
- Equity fund raising program of the concerned PSU,
- Categorization of the industry as high, medium or low potential,
- Alternatives modalities of disinvestment.

In short, disinvestment entails loss of assets and potential future income. The receipts expected from the sale of assets should therefore be put against the worth being lost in terms of assets. This is important because loss-making units might not fetch better price. Besides the asset loss it is the social aspects of such sale that is required to be factored in. Therefore, the following research questions emerge;

\(^4\) Kaur, Simrit (2003); Privatization and Public Regulation: The Indian Experience; Macmillan India Ltd., New Delhi; P. 135-137.

\(^5\) Disinvestment Commission, Report 1; February 1997; P. 21; Net
• If the need for which huge public sector was created, did not exist any longer,
• If there is some problem inherent in the structure of PSEs,
• If the project selections were made objectively.

1.5.5 Arguments against Disinvestment:

Opponents of disinvestment argue that it is undesirable to let private entrepreneurs own public institutions for the following reasons:

• Private companies do not have any other goal than to maximize profit.
• The public does not have any control or oversight of private companies.
• A centralized enterprise is generally more cost-effective than multiple smaller ones. Therefore, splitting up a public company into smaller private chunks will reduce efficiency.
• Profits from successful enterprises end up in private pockets instead of being available for the common good.
• Nationalized industries are usually guaranteed against bankruptcy by the state, they can therefore borrow money at a lower interest rate to reflect the lower risk of loan default to the leader.
• In the cases where public services or utilities are privatized, it can create a conflict of interest between profit and maintaining a sufficient service. A private company may be tempted to cut back on maintenance or staff training etc. to maximize profits.

1.6 Objectives of the Study:

Present study seeks to evaluate the issue in totality. The principal issues to be examined, therefore, were:

1. To what extent PSEs failed to realize the objectives for which they were created,
2. Would loss-making PSEs be still undesirable if other benefits like, their contribution to social security, economic infrastructure and competition to the private sector etc. are taken into consideration,
3. If the selection of PSE units for privatization was economically justified, and if not, the social considerations were so compelling to outweigh the former,
4. Did disinvestment yield the government sufficient revenue to justify it?

1.7 Data Base and Methodology:

Data used in the study are secondary one. They are taken from Government publications like- Public Enterprise Survey, Economic Survey; Report on Currency and Finance; RBI: Handbook of Statistics on the Indian Economy; Centre for Monitoring Indian Economy (CMIE).

Most of the analyses are presented through the ratios, percentages and graphs. The government’s policy decisions with regard to public sector, especially the disinvestments have been evaluated by considering the problems in totality rather than merely the profitability. The following hypothesis has been proposed to be tested.

“Disinvestment of public sector especially the manner in which it was carried out was not a sound policy option”.

1.8 Limitations of the Study:

The study is subject to certain limitations as well. The major limitation is the absence of the use of econometric tools which should have yielded the precision to various findings of the study. Still another aspect that has been left out is the predictive assessment about the future revenue implications of the disinvestment decisions. For such things to attempt certain forecasting techniques would have to be deployed.

In spite of these limitations, an attempt has been made to at least identify the problem areas and the possible solutions.