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ORIGINAL ARTICLE

PRIVATIZATION OF PUBLIC ENTERPRISES

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Abstract:

There is no doubt that the regulatory, promotional and participative roles of the government have assumed significant place for the economic development of the country. The PEs have been used by the government as a tool or instrument to perform these roles. To what extent these PEs have helped the government in these roles is a debatable issue. The main issue which we are going to examine in the present day context is whether there has been any change in the Directive Principles of State Policy and sanction of five times passed Industrial Policy Resolution (IPR) in parliament in 1948, 1956, 1977, 1980, 1985? No, we still have an expanding role for the PEs in India.

KEYWORDS:

Privatization , Enterprises , Promotional , Industrial Policy Resolution .

INTRODUCTION:

But it is quite true that we have now changed our plan priorities for the PEs. Earlier, PEs were not forced to generate surpluses for their further expansion programmes. Now the position is different and they have to justify their existence by positive results. Seventh Plan document clearly indicates that "to perform its historic task, the public sector has to undergo basic structural changes to conform to the plan priorities of efficiency and productivity. Only in the measure that the public sector generate investible surpluses can it play its indispensable social role of providing an adequate infrastructural base for the economy, being a vehicle for the introduction and absorption of new technology in critical sectors of the economy and for achieving balanced regional growth".[1]

In this way, the evaluation criteria for investment in PEs have also now been changed. They have to earn surpluses like private enterprises, at least for their survival. So quantification and comparison of operational performance of PEs in relative form opens a most crucial issue, i.e., privatization. They have to deliver the goods. They have to earn sufficient surplus. They have to maintain operational efficiency otherwise they would be privatized. These are the lines on which government has been forced to think. How long public could be taxed for the inefficient operations of these PEs? Even Ninth Finance Commission in its report has voiced deep concern about low returns on the huge investments made in PEs which should be an engine of growth rather than a drag on government resources. The commission has suggested that "possibilities should be explored for restructuring and phasing out loss making enterprises in the non-core-sector by appropriate package of measures. [2]

MEANING OF PRIVATIZATION:

Privatization may be defined in many different ways. Some of the popular meanings are as follows:

1.Liberation Approach: Privatization may be used in the sense of liberalization having fewer controls and

regulation by the state, in economic activities. This also means slowing or stopping of new controls and regulation and also dismanting of the existing controls and regulation.
2.Relative Share Enlargement Approach: Privatization may relate to relative enlargement of the share of the private enterprise in the production of goods and services in the economy. This means faster expansion of goods and services produced by the private sector and slowing down of production of goods and services in the public sector.
3.Association of Private Sector Management Approach: Privatization means associating personnel with long experience of private sector management on the Board of Directors and other levels of management of public enterprises.
4.Transfer of Minority Equity Ownership Approach: Privatization may be defined in terms of transferring minority equity ownership of the public enterprises to private individuals and institution so that the ultimate control continues to remain with the state.
5.Transfer of Complete Ownership Approach: Privatization can also be used in the sense of sale of all the shares to the private parties so that public enterprises are converted into private enterprises.

Forms of Privatization:

Privatization of PEs can be made in the following forms: [3]

1.Complete Privatization: Privatization could be total and in that sense, it tent amounts to denationalization of PEs both in terms of ownership and management. This form is quite popular in U.K. in the Indian situation, such an extreme posture may, generally speaking, be neither rational nor feasible. Over the several decades following the dawn of freedom, the Indian polity wedded itself, almost unequivocally, to socialism which got incorporated even in the name of the Republic through a constitutional amendment brought into force in 1976. There seemed to become parting away under the Janta regime during 1977-80. But inspite of any temporal and stray departures, the ruling party has recently reaffirmed in its annual meet (1988), the position as established by the Avadi Session (1955). So, a complete decontrol is not a political feasibility. May be, some indifferent projects in the public sector are sought quietly to be passed on to certain private, interests as part of some strategic moves.
But one can hardly think of key sectors like railways, insurance and banking parceled out in that manner.
2.Partial Privatization: Partial privatization may be effected in two ways: minor or major. Under the minor complexion, a wholly owned government enterprise may offer minority interest (not exceeding 49%) to private parties. However, anything less than 20% share may fail to generate enough enthusiasm amongst private interests for such a joint sector arrangement. About 37 percent share of Scooters India Ltd. was offered to the public but failed to maintain efficiency in it. In case of majority ownership is passed on to private interest, the state may find it extremely difficult to monitor such organization in the matter of social interest. Therefore, the possibility of imparting a higher degree of dynamism into a PE through private participation appears to be remote.
3.Privatization of Management: This could be formally effected through the device of an operating contract being entrusted to any private party – leasing of state mines to private sectors. Besides, private sector managers, industrialists and professionals have also been associated with the management of PEs.
No doubt, excellent results were obtained by the choice of persons like JRD Tata (who headed Air-India for 25 years (1953-1978) and Mr. P. L. Tandon (who as Chairman of Punjab National Bank, and the STC created history by implanting a highly dynamic MIS) as chief executive of PEs drawn from the private sector. Mr. Ratan Tata (Air-India) and Mr. Rahul Bajaj (Indian Airlines) typify examples which are more recent and of persons in the younger age group. However, this technique cannot be taken as a panacea in every situation.
4.Creating Competition Condition: Creating a situation, in which PEs compete amongst themselves and/or with comparable private enterprises can be looked upon as another form of privatization. In 1953, a system was created to bring competition between Air India and Indian Airlines (at least on certain routes directly) though of late, attempts have been made to bring about a merger of several PEs in a monolithic Air Transport Corporation. The General Insurance Corporation as a holding unit has been overseeing the functioning of four competing companies since 1973. Although the rates and terms standardized, the subsidiary units have been able to complete effectively with regard to standards of service.
5.Deregulation/Liberalization Measures: Privatization may also be resorted to in the form of decontrolling and liberalization measures for the private sector. Some of them are delicensing of a good number of industries, raising of limits and relaxations under the MRTP, legalization of additional capacities, raising of income and wealth tax ceilings, relaxation under the FERA regulations, etc.

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