



Mains Practice Question

Q. Is it a good idea to privatise even the profit-making public sector enterprises? Give reasons in support of your answer. (250 words)

15 Jan, 2020 GS Paper 3 Economy

Approach

- Highlight recent policy change in disinvestment policy with examples.
- Briefly discuss the pros and cons of such changes along with illustration (from India as well as from world).
- Based on the above arguments provide way forward (it must be conclusive in nature) with alternative solutions if possible.

Introduction

Recently there has been a change in disinvestment policy for CPSEs, allowing for strategic disinvestment in profit-making CPSEs like BPCL, Shipping Corporation of India, Container Corporation of India, some of which have Navratna status.

Body

Good Idea

- **LPG reforms:** Over the years, keeping in line of LPG reforms, disinvestment targets have been raised so as to allow private players more space for investment e.g. FY 2010-11 target was 40000 crore while in FY 2019-20 it is 90000 crore.
- **To plug fiscal deficit:** Necessity to fulfil targets of FRBM Act, which itself have been comprehensively reviewed in 2016 due to regular slippages.
 - New Targets: Fiscal Deficit by FY2020-21 2.8% and 2.5% by 2023
 - Though there have been declining fiscal deficit from over 5% in 2012-13 to 3.4% in 2018-19, challenges remain in face of welfare role of state e.g. PM-KISAN scheme.
- **To ensure the attractiveness of PSEs for the private sector:** To achieve objectives of bringing down shareholding by the government to less than 51% along with the attractiveness of such profit-making CPSEs will help overcome challenges faced in loss-making CPSE's privatization, such as Air India.

Not a Good Idea

- **Against values and objectives of LPG reforms:** a profit-making PSU is able to show professionalism, higher productivity, able to compete in the domestic and global market along with meeting welfare objective doesn't need further privatization (a private entity will have only one aim of profit-making).
- **Need for short-term liquidity** (meeting FRBM target etc.) should not compromise stable long term macro-economic structural adjustment. E.g. there is a need to enhance revenue from tax collections and rationalise subsidies. This route also disincentivises the government in ensuring

targets of the fiscal deficit are met.

- Global level corporations like China's PetroChina have state support and are profit-making. CPSEs in India can be developed on such a line in strategic areas like energy, shipping etc.

Way Forward

Thus, such privatization should not compromise long-term socio-economic considerations. Even if it is done, at the most, some stakes should be diluted rather than going for full-scale privatization that too on level playing and rule-based regime.

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