Privatisation of PSEs

This article is based on **"Weighing in on the public sector privatisation debate"** which was published in The Hindu on 01/01/2020. It talks about issues related to the privatisation of Public Sector Enterprises (PSEs) in India.

At independence, India adopted a **mixed economy model.** In this context, the Public Sector Enterprises (PSEs) were established on a **socialistic pattern of development.**

Apart from that, there was a need to create adequate infrastructural facilities which served as the most important consideration leading to the expansion of the PSEs.

However, due to the **poor performance of several PSEs** and the consequent **huge fiscal deficits,** the issue of privatisation has come to the forefront. Privatisation is ought to infuse efficiency by bringing PSEs to the competition in the market.

The term 'privatisation' is used in different ways, ranging from **'transition to private legal forms' to 'partial or complete denationalization of assets.'** In India, privatisation is sought to be achieved through two measures:

- The disinvestment of the government's equity in public sector undertakings.
  - Disinvestment: Selling off public sector equity to mutual funds, financial institutions and the private sector.
- The opening up of hitherto closed areas to private participation.

The current direction of privatisation of PSEs has been spelt out in a policy laid down by parliament in 2002. The policy stated that the main objective of disinvestment is to put national resources and assets to optimal use and in particular to unleash the productive potential in our public sector enterprises.

The policy aims at:

- Modernisation and up-gradation of PSEs
- Creation of new assets
- Generation of employment
- Retiring of public debt

In India, there seem to be broadly **three positions with respect to the privatisation of PSEs:**

- One, PSEs should not be sold irrespective of its performance.
- Second, the market view i.e. the business is not the business of government.
- Third, the privatisation of profit-making PSEs is also debated.

    For example, Bharat Petroleum Corporation Limited (BPCL) which is making handsome profits, comes under this category.

Issues Related to Privatisation of PSEs

- **No Buyers for Loss-making PSEs:** No one would buy PSEs with their huge debt and employee liabilities.
    - If shares of public sector enterprises are offered for sale to the private sector, the latter will naturally be interested only in the shares of profit-making concerns.
    - Therefore, the government may even have to pay the buyer, as it happened in the case of the Delhi Discom privatisation.
- **Privatisation not the first option:** In India, **privatisation is not a default option;** rather, it is resorted to only out of extreme necessity.

    This may explain the hesitation to privatise some of the largest loss-making PSEs like Air India, BSNL and MTNL.
- **Excessive Bureaucratisation:** Public sector industries in India are plagued with inefficiencies due to excessive bureaucratisation. Their chairman-cum-managing directors are bureaucrats who may not have domain knowledge or technical service people bereft of business acumen.
    - Also, monopoly/oligopoly of certain PSEs leads to the **administrative price mechanism.**
    - For example, oil PSEs have been allowed to make a profit as they can dictate oil pricing, this allows them to have profits but there have been no innovations in the oil marketing sector.
- The valuation of the PSEs critically depends on the **market structure post-privatisation.**

- Since the government had to give fiscal support to loss making public firms, the fiscal deficit of the government kept on mounting year after year. One specific step that has been taken to reduce the deficit is privatisation, through an act of disinvestment.
    - However, the entire way in which disinvestment has been undertaken gives the impression that it is an exercise to bridge the budgetary deficit rather than revamping of PSEs.

Way Forward

- **Value subtracting enterprises,** where restructuring or even ensuring an additional infusion of funds and other resources in PSEs have not produced results, should be disinvested or can follow the exit route through the new **Insolvency and Bankruptcy Code.**
    - **For example,** some of the major loss-making PSUs like BSNL, MTNL and Air India should follow this route as their losses are greater than their revenue.
- **Privatisation of profit-making PSEs** will still bring in benefits of the efficient operation of the private sector through reduced costs.
    - For example, Air India is marred with issues like poor punctuality, high staff-to-plane ratio, high operating costs and overall customer indifference. These issues can be rectified by the privatisation of PSEs.
- **For PSEs of Strategic importance,** the government should go for the de-bureaucratisation of the public sector, instead of privatisation.
- The government should disinvest its share of luxury hotels and restaurants, bakery, etc. By disinvesting shares of these luxury goods-producing public sector industries, it can **raise a lot of financial resources.**
- Privatisation must be accompanied by competition in the post-privatised scenario.
    - In order to improve the performance of inefficient units, the creation of a competitive market environment is absolutely essential.

Drishti Mains Question

Privatisation should not be done in a way that leads to the conversion of public monopoly to a private monopoly; it will only result in inefficiency being replaced by private profits. Critically analyse.