Reopen the files, reconsider privatisation

(Mains GS 3 : Indian Economy and issues relating to planning, mobilisation of resources, growth, development and employment.)

Context:

Privatisation of the public sector, including banks, has been part of the wish list of economic reforms since 1991 and it was at the core of the 'Washington Consensus'.

Privatisation is efficient:

- The private sector is inherently more efficient.
- However democratic politics in India kept coming in the way of actual privatisation.
- However progressive disinvestment of the shares of public sector undertakings in the market has been taking place over the years.
- And now privatisation being pursued with vigour, has high priority with extremely ambitious targets, reminiscent of the Thatcher era in the United Kingdom.

India faces deeper economic crisis:

- India is right now going through its worst economic crisis.
- The highest-ever contraction in the economy took place last year, unemployment has risen, incomes for growing numbers are falling, bank non-performing assets (NPAs) may be ballooning, and the fiscal deficit is rising.
- In these circumstances, it would be prudent to think through the pros and cons of the aggressive privatisation of public enterprises that is on the anvil.

Categories, issues, solutions:

- There is the category of enterprises which have been sick for a long time and their technology, plants and machinery have become obsolete.
- Their managerial and human resources have atrophied and are beyond redemption.
- Thus they should be closed, and assets need to be sold.
- But this has been difficult with successive governments as the labour in these enterprises have had a political constituency which has prevented closure.

Steps needed:

- The Government should be able to close these sick enterprises in a time-bound manner with a generous handshake for labour.
- After selling machinery as scrap, there would be valuable land left and these land values have become high.
- Prudent disposal of these plots of lands in small amounts would yield large incomes in the coming years.
- All this would need the creation of dedicated efficient capacity as the task is huge and challenging.
- These enterprises may be taken away from their parent line Ministries and brought under one holding company which should have the sole mandate of speedy liquidation and asset sale.

Enterprises which can be turned around:

- There are enterprises which have been financially sick but can be turned around.
- Their difficulties can be traced to ministerial micromanagement especially in enterprises with a direct consumer interface.
- This should be pursued on priority, where private management through privatisation or induction of a strategic partner is the best way to restore value of these enterprises.
- Air India and the India Tourism Development Corporation (ITDC) hotels are good examples.

Need bold decisions:

- Air India should ideally be made debt free and a new management should have freedom permitted under the law in personnel management to get investor interest.
- Once it becomes debt free then its management control with a 26% stake may be given.
- As valuation rises, the Government could reduce its stake further and get more money.
- If it is well handled then significant revenues would flow to the Government.

The Chinese model:

- There are many profitable enterprises which should be guided by pragmatism instead of ideology.
- The Chinese chose to nurture their good state-owned enterprises as well as their private ones to succeed in the domestic and global markets by increasing their competitiveness in cost, quality, and technology.
- In the Fortune 500 list, the number of Chinese enterprises is 124, and of these, 91 are state-owned enterprises.
- The Chinese chose to promote both their public as well as their private sector enterprises to rise and both have made China the economic superpower that it is today.

Goal should be calibrated disinvestment:

- With profitable public enterprises, the Government can continue to reduce its shareholding by offloading shares and even reducing its stake to less than 51% while remaining the promoter and being in control.
- Calibrated divestment to get maximum value over the medium term after considering market conditions should be the goal instead of being target driven to get a lower fiscal deficit number to please rating agencies.

Management needs to be strengthen:

- Management may be given longer and stabler tenures, greater flexibility to achieve outcomes, and more confidence to take well-considered commercial risks.
- Many of them have the potential of becoming global champions.
- They can also be asked to invest patient capital in strategic areas where risk is high and where risk averse private investment may not be easily forthcoming.

Redirect the private sector:

- Outright privatisation has many implications which undermine the value of public enterprises.
- The number of Indian private firms which can buy out public sector firms are very few.
- Their limited financial and managerial resources would be better utilised in taking over the large number of private firms up for sale through the bankruptcy process.
- The successful large corporates need to be encouraged to invest and grow both in brownfield and greenfield modes in the domestic as well as international markets.

Higher growth trajectory:

- A higher growth trajectory with an increase in investment rates is better for India.
- Sale at fair or lower than fair valuations to foreign entities, firms as well as funds, has adverse implications from the perspective of being ‘Atma Nirbhar’.

Conclusion:

- In dealing with the novel coronavirus pandemic crisis, the Government has been able to use its ownership to get banks and public enterprises to do so many things on an immediate basis.
- Thus it would not be in India’s interest to lose the strategic capacity that its ownership of public enterprises including financial ones provide it.