Reconsidering privatization

What is the issue?

- After a pause for few years, now, privatisation is being pursued with vigour in India.
- In the backdrop of an economic contraction, it is prudent to revisit the aggressive privatisation of public enterprises.

How advisable is privatisation now?

- India is right now going through its worst economic crisis.
- The highest-ever contraction in the economy took place in 2020.
- Unemployment has risen, and incomes for growing numbers are falling.
- Banks' non-performing assets (NPAs) may be increasing, and fiscal deficit is also rising.
- In these circumstances, it would be prudent to think through the pros and cons of the aggressive privatisation of public enterprises.
- There are three categories of public sector enterprises, with each needing its own analysis.

What about the enterprises that have been sick for a long time?

- Their technology, plants and machinery are obsolete.Their managerial and human resources have been lost.
- Such enterprises are beyond redemption. They should be closed, and assets sold.
- But this has been difficult with successive governments.
- Because, the labour in these enterprises have had a political constituency which has prevented their closure.
- The Government should take efforts to close these in a time-bound manner.
- After selling machinery as scrap, there would be valuable land left.
- Prudent disposal of these plots of lands in small amounts would yield large incomes in the coming years.
- These enterprises may be taken away from their parent line Ministries and brought under one holding company.
- This should have the sole mandate of speedy liquidation and asset sale.

What is the second category of enterprises?

- These are the enterprises that have been financially sick but can be turned around.
- Wherever possible, 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.
- 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 debt free, management control with a 26% stake may be given.
- As valuation rises, the Government could reduce its stake further and get more money.
- If well handled, significant revenues would flow to the Government.

What about the profitable enterprises?

- With profitable public enterprises, the government can continue to reduce its shareholding.
- It can offload its shares and even reduce its stake to less than 51% while remaining the promoter and being in control.
- In parallel, managements may be given longer and stabler tenures, greater flexibility and more confidence to take well-considered commercial risks.
- 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.
- The Chinese have done this well.
- The Chinese chose to nurture their good state-owned enterprises as well as their private ones.
- This helped it succeed in the domestic and global markets, by increasing their competitiveness in cost, quality, and technology.

What is the way forward?

- 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.

- Then, these successful large corporates need to be encouraged to invest and grow.
- This is much better than using the scarce resources for taking over government enterprises with no real value addition to the economy in the near term.
- Another consideration is that public enterprises provide for reservations in recruitment.
- With privatisation, this would end and unnecessarily generate social unrest.
- India has a strategic interest in the ownership of public enterprises including financial ones. It cannot afford to lose this.

Source: The Hindu