Reopen the files, reconsider privatisation

In the backdrop of an economic contraction, it is prudent to revisit the aggressive privatisation of public enterprises

AJAY SHANKAR

Privatisation of the public sector, including banks, has been part of the wish list of economic reformers since 1991. This was at the core of the 'Washington Consensus'. The private sector is inherently more efficient. The ground realities of democratic politics in India, however, kept coming in the way of actual privatisation, though progressive disinvestment of the shares of public sector undertakings in the market has been taking place over the years.

The National Democratic Alliance in the early 2000s did undertake some privatisation but had to pause because of political backlash. This was never in the United Progressive Alliance agenda. For six years, Prime Minister Narendra Modi also did not consider it important. But it is now being pursued with vigour, has high priority with extremely ambitious targets, reminiscent of the Thatcher era in the United Kingdom.

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. There are three categories of public sector enterprises, with each needing its own analysis.

Categories, issues, solutions

There is the category of enterprises which have been sick for a long time. Their technology, plants and machinery are obsolete. Their managerial and human resources have atrophied. Reviews have come to the same conclusion: these are beyond redemption. They should be closed, and assets sold. But this has been difficult with successive governments as the labour in these enterprises have had a political constituency which has prevented closure. With its political strength, the Government should be able to close these in a time-bound manner with a generous handshake for labour. After selling machinery as scrap, there would be valuable land left. 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.

Then 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. Where private management through privatisation or induction of a strategic

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partner is the best way to restore value of these enterprises, this should be pursued on priority. Air India and the India Tourism Development Corporation (ITDC) hotels are good examples. But these 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 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.

The Chinese model

Then there are many profitable enterprises. Pragmatism instead of ideology should guide thinking about them. 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 (https://bit.ly/2Ud8dH6). The Chinese chose to promote both their public as well as their private sector enterprises to rise. Both have made China the economic superpower that it is today.

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. In correct accounting practice, asset sales should not be classified as revenue income for computing the fiscal deficit.

In parallel, managements may be given longer and stabler tenures, greater flexibility to achieve outcomes, and more confidence to take well-considered commercial risks. It was done in the past when, say, Maruti was set up. It can be done again. Many 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. The Chinese have done this well.

Redirect the private sector

Outright privatisation has other implications. First, 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 and where a paucity of buyers is slowing down the much-needed rapid turnaround of these firms to give a higher growth momentum to the economy. Then, these 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. This would be better for India entering a higher growth trajectory with an increase in investment rates which have been falling, than in using their scarce resources for taking over government enterprises with no real value addition to the economy in the near term. 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'. Again, greenfield foreign investment is what India needs and not takeovers.

Then, there are broader considerations. These enterprises provide for reservations in recruitment. With privatisation, this would end and unnecessarily generate social unrest. 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. A similar option does not exist with private enterprises. Would it be in India's interest to lose the strategic capacity that its ownership of public enterprises including financial ones provide it? It would be better to think carefully now. These are one-way streets where one cannot retrace one's steps easily.

Ajay Shankar is former Secretary, Department of Industrial Policy and Promotion, Government of India