Privatisation and the Role of the Public Sector in India

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INTRODUCTION

An economy always aims at accelerated economic growth with social justice. The historical experience shows that there are diversified roads or instruments to achieve this objective. The two important aspects of development economics relate to the role of the state and the market. The former mainly refers to the public sector and the latter to the private sector.

ROLE OF THE PUBLIC SECTOR PRIOR TO 1991

After independence, India opted for the path of planned development and followed inward-looking, import-substitution strategy of economic development. The mixed economy model was adopted for nearly four decades, with the commanding heights being confined to the public sector. Summing up the post-independence economic performance of the Indian economy, the ninth five year plan observed that "…covering a span of thirty years from 1951 to 1981, the Indian economy grew at the rate of 3.5% which of course was more than the growth of its population and much more impressive compared to the decadent economic situation in the pre-independence decades. During the eighties, the Indian economy entered into the higher growth path of nearly 6% per annum."

While accepting the framework of mixed economy, the public sector was expected to contribute effectively to the social ends in view and grow at a faster rate than the private sector. There was a widespread belief that without increasing the role of the state, it was not possible either to accelerate the process of growth or to create an industrial base for sustained economic development. The Indian government was committed to being a welfare state. But, owing to the failure of the public sector, it took a bold step of changing tracks of minimizing the role of the state as a part of structural adjustment in the name of economic reforms in 1991.

The principal charges against the public sector were: low rate of return on investment, declining contribution to national saving, poor capacity utilization and bureaucratization leading to excessive delays and wastage of scarce resources.

ROLE OF THE PUBLIC SECTOR AFTER 1991

The economic reforms that were set in motion on a moderate scale in 1985 got a big boost in 1991 and the New Economic Policy with a minimum role of state was introduced. The new policy introduced radical changes to unshackle the Indian economy from unnecessary bureaucratic controls. As a result, the government withdrew as a controller and licenser of private activity, allowing competition and market forces to guide investment decisions. Apart from the impact of various unilateral economic reforms undertaken since 1991, the economy also had to reorient itself to the changing multilateral trade discipline within the framework of WTO.

A sharp controversy has been going on about the impact of Liberalisation, Privatisation and Globalisation (LPG) on the Indian Economy. The supporters saw in the new development, a mechanism for the transfer of technology to our developing economy. The critics saw in it a clear move by the advanced nations to gain control over important areas of organised production and thereby economic and political authority. They maintain that multinationals act with the sole objective of profit maximization and drain away the resources in the form of profits, royalty payments, commission and technical consultancy fees. The free international trade paving way for the development of multinationals was viewed as a form of neo-imperialism. It would therefore, be of interest to examine the impact of LPG on the Indian economy.

THE IMPACT OF LIBERALIZATION, PRIVATIZATION & GLOBALISATION ON THE INDIAN ECONOMY

Liberalisation and privatisation was touted as the solution to the problems faced by the Indian economy. However, a decade of liberalization and privatization shows that it is no guarantee for a balanced economic growth. Though the results were encouraging in the first half of the decade, it is quite discouraging in the second half.

The Performance of the Indian economy

As per the figures released by the WTO in its December 1998 Annual Report, India had only 0.6% of the world merchandise export trade amounting to US$ 33.9 billion in 1997 but imported goods worth US$ 40.4 billion during the same year. The internal and external liability of the Indian government has risen from 53.8% of GDP in 1992 to 54.9% of GDP in 1999. Annual inflation rate based on wholesale price index (1993-94 = 100, on point-to-point basis) has increased from 4.4% in 1995–96 to 6.5% in 1999–2000 and expected to rise to 8.2% by the end of 2001. According to RBI report, non-performing assets of the private sector banks have risen from Rs. 946 crores in 1999-2000 to Rs. 1,619 crores in 2000-01, an increase of over 71%. While the fiscal deficit has hardly declined between 1990-93 (5.4% of GDP) and 1998-2000 (5.2%), the revenue deficit has increased by 3.5% of GDP for the same period. The growth of the index of industrial production has fallen from 5.0% in August 2000 to 2.2% in August 2001. The annual growth of agricultural production has fallen from 2.3% in 1990 to less than 1% in 2000. The per capita availability of food grains has reduced from 505.5 grams per day in 1998 to 458.6 grams in 2000. The real economic growth has slowed down to 5.2% in 2000. The rate of growth of unemployment in 1993-94 was 5.99%, which increased to 7.34% in 1999- 2000. In 1991 an agriculture worker could get 100 man days work in a year, which is reduced to 72 man-days in a year in 2003. According to Human Development Report (2003) the poorest 20% earn 8.1% of total income whereas the richest 20% earn 46.1% of total income creating a wider gap between the rich and the poor. Index of development after globalization shows that India's ranking is 61 in 2003 among the 62 countries, which together have 84% of global population. According to the Human Development Report (2002 and 2004), among 173 countries, India's ranking as per the Human Development Index has come down from 115 in 2001 to 127 in 2003.

India clearly lags in globalisation in terms of Global Integration (China, large part of east and Far East Asia and Eastern Europe). Over the past decade FDI flows into India have averaged around 0.5% of GDP against 5% for China and 5.5% for Brazil; FDI inflows into China now exceeds US $50 billion annually whereas it is only US $4 billion in the case of India. Considering the global trade, India's share of world merchandise exports increased from 0.05% to 0.07% over the past 20 years. Over the same period China's share has tripled to almost 4%. India's share of global trade is similar to that of the Philippines, an economy 6 times smaller according to IMF estimates. India under trades by 70-80% given its size, proximity to markets and labour cost advantages. Thus, even after following the liberalization (marketisation) path for a decade, the results are not encouraging.

Rapid growth of Telecom and IT-enabled services

There has been a rapid growth in certain sectors such as telecom and IT-enabled services. However, such growth is not sufficient to counteract the effects of deceleration and stagnation in certain other important industries in agriculture and many other services.

Increase in Foreign Exchange Reserves

Foreign exchange reserves increased from the level of US $ 2.2 billion in early nineties to US $20.8 billion in the mid nineties and to US $121 billion in mid 2004. The existence of the reserves, which can finance imports for nearly six months, is considered the sign of health of the economy. However, it may be noted that during the entire period of reform, the balance of payments on current account was negative. The accumulation of foreign exchange reserves was the consequence of loans and borrowings from international financial institutions. They cannot be treated as an indicator of the strength of the economy. Normally increase in foreign exchange in a country is a positive indicator for the growth of that nation provided it is earned through export because the gains through international free trade will give incentive for the local producers to produce more which will result in increase in employment, purchasing power and well being of the people. The FDI, which has an annual net growth of $3.85 billion, has not gone to any major industry like oil, exploration and productive sector in which the government wanted investments to be made. Similarly, a sizeable portion of the foreign investment has not gone into the creation of new productive avenues in advanced electronics aircrafts, advanced industrial materials, capital goods and model tools and equipments. A major part of the foreign capital has been used for investments into three select sectors viz., consumer goods, automobiles and computer software and particularly the investments are used to take over the existing Indian enterprises. This has resulted in lop sided industrial development in India.

Sectoral imbalances

During the post reform period, the agricultural and the industrial growth rates were 1.4% and 4.9% whereas the average growth rate in the service sector was 8.8%. Such a high growth rate of service sector without corresponding growth in the agricultural and industrial sector is not conducive to a healthy economic growth.

The myth of equitable gains from open trade

WTO has succeeded in increasing the volume of world trade by 25% in the last four years but the benefits of the increased trade are not shared equally between advanced and developing economies. For instance, the less developed countries representing 70% of the world's population generate a meager percentage of trade flows i.e. 0.03%. India's trade deficit of $1,885 crores is the highest in Asian countries (Asian Development outlook – 2003). The fifth of the world's people living in the highest income countries had:

- 86% of world GDP – the bottom fifth just 1%
- 82% of world export markets - the bottom fifth just 1%
- 68% of foreign direct investment - the bottom fifth just 1%
- 74% of world telephone lines, today's basic means of communication - the bottom fifth just 1.5%

Loss of freedom

Today, financial and trade related institutions like the WTO, IMF and WB, and related treaties like North American Free Trade Agreement (NAFTA) and Free Trade Agreement of the Americas (FTAA) play a dominant role in shaping the national policies of member countries not only in trade, industry and agriculture, but also in education, health care and in virtually every aspect of the economy. More consequential, these organizations have powers to overrule and force changes in national laws. The net impact of this is that even democratically elected peoples governments in third world countries including India have decreased control over their economies and great majorities of their people are enduring increased poverty and decreased access to basic services (education, health care, sanitation, etc.)

Diverting resources from essential services to debt servicing

The Structural Adjustment Policies (SAP) of the IMF (as assisted by WTO) require countries to cut down budgetary allocation on education and all other social sectors to minimum levels so that government spending is reduced and debt can be serviced. India, which is currently implementing IMF imposed SAPs spends Rs.3729 crores on elementary education and literacy whereas it spends Rs.1, 01,266 crores towards interest payments on debt. The interest payments alone are 27 times more than the entire amount spent on elementary education and literacy. This seems to be the order of the day.

Neglect of HRD

India is a home to 16.8 percent of global population. 34 percent of adults are illiterate. Among 94 developing countries, India's position is 76th in the educational index. The enrolment ratio of tertiary education for the world is 23 percent while it is only 10.5 percent for India (UNESCO, Education for All Report- 2003-04). The Indian constitution places a special responsibility on the government for the educational advancement of all its citizens. But today education, especially higher education, is largely in the hands of the private sector, which is highly disorganized and exploitative. Education reforms are meaningless if not matched or backed by adequate resource allocation and would cause deterioration in academic standards. The expenditure on higher education is less than 0.6% of the national income. In order to reduce the burden, the government has given freedom to the private sector to open colleges/institutions, thus creating a market price for education, which reduces education to a business racket. Thus, instead of trying to provide good education to all children, or at least to all the able children from every stratum of society, it is available for a small minority, which is usually selected not on the basis of talent but on the basis of paying capacity. This position is thus undemocratic and inconsistent with the ideal of an egalitarian society. The introduction of self-financing colleges has nullified the policy of reservation followed by the government to uplift the socially suppressed classes and we have gone back to the old system of educating only a group – the so-called elite society. Traditional casteism is replaced by an economic classification of caste – the haves and the have-nots.

Aggravation of the labour problem

Since liberalization trends, several public sector undertakings have stopped recruiting new hands. The ban on new recruitments by the Government also exists. The new appointments made in 1997-98 were 2,75,000, which came down to 99,000 in 2001-02. Total number of employees in the organised sector also came down from 2.82 crores in 1997 to 2.77 crores in 2001. The fear of losing jobs has also created a tremendous pressure on the minds of workers and created a sense of insecurity, which is not conducive to healthy human growth, which in turn will definitely retard the economic growth.

Jobless growth

India's growth performance during the reform period has ranked among the top-six countries in the world, others being China, Korea, Thailand, Singapore and Vietnam. At the same time, unemployment rate in the economy has shown a rising trend. Lack of employment will make the people fall back on agriculture for their minimal subsistence leading to increased rate of disguised unemployment and underemployment. In the context of falling agricultural growth rate, withdrawal of education for the development of skills will aggravate the pressure on land for subsistence causing a vicious circle and resulting in an increase in the number of people below poverty line.

Focus on luxury items for few than on mass consumption goods

Globalisation has resulted in bringing world brand names in consumer items like soft drinks, wafers, potato chips, breakfast cereals, tinned food and chocolates, cosmetics designer cloths and genetically modified goods. Similarly for manufacture of non-durable goods (soaps, detergents, toothpaste etc.)

foreign companies have successfully encroached upon the Indian boundaries. There is a substantial increase in conspicuous consumption of colour TVs, more channels on cable, imported cars, etc. The wave of capitalistic culture has brought only a focus on luxury items for few rather than on mass consumption goods. The main reason is that elite oriented goods yield higher profit margins. The markets are expected to bring about equilibrium between '***demand backed by purchasing power*** and '***supply***' but it will not ensure a balance between ***'need'*** and ***'supply'***.

Trade liberalization has led to a period of classic **creative destruction** (as mentioned by Austrian Economist – Joseph Schumpeter) – a period of structural technological change that has global reach but which also implies extraordinary economic environmental and social dislocation.

Cultural distortion

The demonstration effect reflected in movies, TV serials and advertisements has resulted in giving up the traditional family values of the Indian system. More and more casinos and nightclubs are allowed in major cities, which are much against the ethos of this country.

Thus, even after following the liberalization (marketisation) path for a decade, the results are not encouraging. The gap between the rich and the poor has increased. The general economic condition has worsened. Availability of essential goods and services has moved further out of reach of the underprivileged. Unemployment still is rampant. As a result terrorism and violence have increased. Not only are the shares of public sector units being sold, their true market worth is not being realized. Funds raised from the disinvestment of public sector units have been used to finance the budgetary deficit. The causes for the disappointing results of liberalisation, privatisation and globalisation in developing countries like India can be summed up as follows:

- A wasteful consumption culture
- Diversion of profits for personal gains
- Neglect of environmental concern
- Creation of a non-egalitarian society
- Conversion of necessities into luxuries
- Black out of labour flows
- Faulty prioritization in the industrial sector

The development record of the last five decades show that there can be both "Government failure" and "market failure" and therefore it would be incorrect to think that the working of the private sector is definitely superior to that of the public sector.

WHAT IS BEST FOR A DEVELOPING ECONOMY LIKE INDIA?

Globalisation is the order of the day. It is a natural outcome of huge strides made in science and technology. Hence, whether an economy is rich or poor, developed or developing, agriculture based or industrialized, it forms a part of the globalised economy. In such a situation, globalization will definitely have a positive effect on an economy if it is followed in the real sense of Ricardo's Comparative Cost Theory, which implies a country specializing in a commodity, stands to gain through trade because of cost efficiency in production. All over the world, consumers will have access to a wider choice of quality products at relatively cheaper prices and producers will enjoy higher levels of profit, which would result in increasing the size of the market and improvement in the quality of life of people all over the world. Is Globalization a Reality in this sense in India? The experience of India after the 90's answers positively to this question as far as 10% of Indians owning 90% of the property are concerned whereas a contra situation lies for the rest of the 90% of the people in India. The rich segment of the nation enjoys a variety of imported consumer durables like imported cars and even the higher middle class enjoys a variety of colour Televisions and washing machines, which give them a satisfaction of belonging to "upper class". A minority enjoys the high salaries paid by the MNCs but it is the lower and fixed income groups that are worst affected.

Within the economy economic growth with social justice is the true sign of well-being and prosperity of a state. This implies that the gap between the rich and the poor, and the different social groups like the producers and the consumers, rural and urban societies, employers and the employees, men and women, so on and so forth should be bridged. Whenever there is gap, the government should play a crucial role to bridge it by its social security measures. In the era of globalization there is faster growth in certain sectors and a very slow growth in certain other sectors. This leads to unbalanced growth in the economy. In the case of India, agriculture constitutes around 69% of the workforce in the Indian economy and contributes around 24% of the GDP. For such an economy, not only, is the performance of the agricultural sector important from the point of view of the economic growth but also for the well being of the majority of people. But, unfortunately, the reality is that the Indian economy is still heavily dependent upon the monsoon, which can still create major changes not only in agricultural output but also in aggregate economic activity. Therefore at the times of a deceleration of growth because of the poor monsoon the interest of the farmers must be protected through social security measures by the State like subsidized electricity, fertilizers etc and high procurement prices. State must intervene to control inflation and also ensure public distribution of essential goods at affordable price.

In the present context, WTO should give top priority to be the development needs of its members and the decision-making must be democratic. The decisions of the WTO must accommodate the realities of the developing countries and the criteria to apply the rules must be fair rather than uniform as the situation varies from country to country.

RETHINKING THE ROLE OF PUBLIC SECTOR IN A DEVELOPING ECONOMY LIKE INDIA IN THE GLOBAL INTEGRATION SCENARIO

The challenge of globalisation, today, is not to stop the expansion of global markets but to find the rules and institutions for stronger governance – local, national, regional and global – to preserve the advantage of global markets and competition and also to provide enough space for human, community and environmental resources to ensure that globalisation works for people – not just for profits. As rightly pointed out in the Human Development Report (1999), Globalisation must be with ethics (less violation of human rights), equity (less disparity within and between nations), inclusion (less marginalisation of people and countries), human security (less instability of societies and less vulnerability), sustainability (less environmental destruction), and development (less poverty and deprivation).

In India public sector industries were located in areas, which were economically backward. The public sector, thus, played an important role in creating to an extent economically balanced development in the country. The tendency of private capital is always to concentrate in those pockets where infrastructural facilities exist to enable them to make greater profits. Islands of prosperity in vast oceans of backwardness would be a source of constant and serious instability. Moreover, the public sector also performed a social role. It was not only the largest employment provider in the country but also advanced the goal of social justice by implementing the constitutionally guaranteed reservations for the scheduled castes and tribes. The private sector currently refuses to do this and would be loath to do so in the future as well. Thus the role of Public sector cannot be underestimated in developing countries like India.

The need of the hour is not a reduction in the role of the public sector but a reorientation. The question that is relevant today is 'not to use the ***public sector or private sector***', but 'to *use the public sector and private sector' and strike a balance*, which brings about economic efficiency and social justice. If such a balance is not struck, economic development in the true sense will only be a myth. Reforms must be driven by 'concern for people and not for capital'.

The state can be a *"facilitator"* by withdrawing its role as a controller where there is an appropriate environment for decisions on investment and technology but should be a "*provider*" of the essential services by actively involving in the area of social development especially in rural areas in countries like India. In the provision of basic services such as health care, education, safe drinking water, state has a major role to play. These services are a precondition for achieving higher rates of growth.

Development processes can be sustained only when there is improvement in the quality of life. Growth process demands that the economically and socially disadvantaged groups should not be passive beneficiaries but active partners in the development process. For this to become reality, the individual capabilities of the people have to be enhanced through education, information and access to appropriate technology. Market forces left to themselves will have the tendency to exploit the weak and the disadvantaged but may not be in a position to correct these disparities. Unless the state acts as a *'provider'*, development will only be a myth.

Government as a Facilitator

- The Government should provide an economic environment favourable for the conduct of different kinds of business – both internal and international. At the same time, the state has to play a very strong role to protect the national interest so that the national wealth is protected. In short, *the state should think locally and act globally*.
- Foreign investments may be permitted in '*Special Economic Zones*' (Free Trade Zones) instead of opening up all sectors indiscriminately. These special economic zones should be established in such a way so as to accelerate the development of export-oriented enterprises while simultaneously increasing local employment and foreign exchange earnings. These zones can act as catalysts and initiate the development process in the other zones of the country without affecting the local environment and interests of the people.
- The government should adopt programmes of **economic and social reforms that provide a human face** and should strive to remove the disparities that exist between the rich and the poor, urban and rural societies and men and women.
- The basic rights of all the classes of people especially the socially weaker and disadvantaged sections have to be ensured by the government by actively intervening and implementing the existing laws or formulating new policies to protect their rights.
- The retrenchment and Voluntary retirements of the Government employees could be avoided by **retraining them** in the needy and suitable areas of employment. This would help in optimum utilization of human resources.
- State should also focus on providing congenial atmosphere for upholding the dignity of human labour and creating conditions whereby employment opportunities lead to significantly better living and working conditions of the workers.
- The Government should **encourage the traditional rural industries**, which need less capital but at the same time capable of absorbing the less skilled labour. Growth of such rural units would reduce the gap between the rich and the technologically advanced urban sectors and the poor backward rural sectors.
- With progressive deregulation of the economy, the state should concentrate on **sector level planning** and give broad directions for crucial sectors (where a greater percentage of the population is engaged) like agriculture in India. The inter-sectoral constraints have to be identified and State's action should be directed to remove these constraints without leaving it to automatic adjustment of market forces.
- Development of infrastructure and R & D are the two eyes of the sustained development process. Hence, the State should encourage and facilitate joint R&D ventures between Indian institutions and those abroad that are mutually beneficial.

Government as a Provider

- From the past experience it can be very emphatically stated that **public investment in infrastructure stimulates private investment**. The task of the government is to raise productivity of investment in the public as well as in private sector. Market failure has also been noticed in areas of economic infrastructure like irrigation, roads, railways, telecommunications, etc. The private sector prefers to use available infrastructure but would not like to invest in infrastructure, more especially in remote areas, where the rate of return may be very small. Thus, it is generally expected that the public sector should create infrastructures and thus create an environment, which facilitates direct investment.
- In a developing country like India, where there is an unequal distribution of income and wealth, public interests need to be protected. Public sectors alone can safeguard equity and distributional justice. Therefore, education, health, water, roads, communication, transport and other infrastructure services are to be completely under the control of the state.
- A welfare State can alone **provide social security measures to the needy sectors** at difficult times. The main issue is the finance involved. With already heavy debt burden, the funds available through budget allotment are dwindling. The additional finance required which is so crucial to bridge the gap and bringing in growth with distributive justice can be obtained only by creating a "**Social Security Fund**" to which contributions could be made by all those capitalists who stand to gain through globalization. The economic and the social justice involved in this process is that "All those who enjoy the fruits of the economic progress of a nation could contribute to the social progress of that nation" Thus the "***Profiteers Pay Principle***" **(PPP)** would internalize the process of converting the private profit into social wealth. It is by such collaboration with foreign partners that the State can achieve the desired development with social justice, sustainability and equality.
- A similar fund can be created at the international level to help all needy developing countries implement social security measures. This would foster healthy international relations built on the foundations of giving peace and prosperity.

REQUIREMENTS OF AN EFFICIENT PUBLIC SECTOR

Economic reform is not a simple process. It requires general foresight, courage and perseverance. If the **public sector** is truly to play its role, it **needs to improve its efficiency and productivity** and generate the necessary surpluses as were originally envisaged. It is only an efficient public enterprise system that can enable the Government to meet its social obligations. The important considerations for the efficient functioning of the public sector are **stabilization policies and de-bureaucratization**. De-bureaucratization is more important than marketisation. De-bureaucratization implies simplifying rules and procedures and speeding up approvals and wherever controls are not essential, they should be done away with. In the new environment free of bureaucratization, the public sector would definitely be able to improve its economic performance and in turn the economic performance of the private sector too.

The task of financial and economic structural adjustment needs a **strong government with high integrity**. Such features of Governments are rare in most countries, especially in developing countries. There must be 'a conscience-stricken Government' and people must be the conscience keepers of the Government and correct the Government that tries to deviate. **Education** that develops civic sense among the mass is essential to create awareness among people to safeguard their basic rights in a democratic country like India.

A **strong and stable Government with** accountability, efficiency and transparency, freedom from corruption giving greater priority to basic needs like education, nutrition, health, water, roads, communication, transport and other social infrastructure services, sustainable livelihoods and social equity in the economic reforms, can alone achieve a human centred sustainable economic development in developing countries like India.

CONCLUSION

With technology increasing in leaps and bounds, it is difficult to limit one's world to political boundaries. It appears as if there is no way of reversing globalisation. However, in the present context, globalisation does not ensure free and fair relationships between countries. The relationship should be one of co-operation and not competition. Optimal growth and development of economies can take place only if, according to the fundamental equi-marginal principle of Economics, more resources and favourable terms are given to those economies which are still lagging behind in terms of development.

Sound international trade relations between nations are very important to enjoy comparative cost advantage of production, to make a variety of goods available and to enjoy consumer sovereignty. We also need multinational trade rules, which need to be fair and more balanced to protect the interest of all the countries in varying situations. WTO should strive to maintain healthy trade relations between the nations.

WTO should be a democratic body and should work towards creating an environment to increase the volume of trade to increases the employment and real income of the people by protecting their basic interests and rights. The global market needs global equity for its success and stability, as poverty anywhere is a hindrance to prosperity everywhere. Building human capital rather than material capital must be the primary objective of any expansion of the global market. The weaker sections of any country should not be denied opportunities and deprived of human rights. In such cases, developing countries like India will be able to achieve the warranted economic growth and will equip themselves to face the healthy competition of an international market, which in its turn will go a long way in making our world a better place to live in. In such a situation, the globalisation and liberalization policy will succeed to the fullest extent.

Within India, it is the mixed economy that offers bright prospects for sustainable development. Private ownership may be retained in many areas such as agriculture and certain categories of industries. The Public sector should have an important role in sectors like education, nutrition, health, water, roads, communication, transport and infrastructure. The public sector should provide the strong base on which the private sector functions. In other words, the private sector is expected to be a complementary (and not substitute) venture to the public sector. This kind of relationship will create an environment conducive to face the competition in the international market – the need of the hour and the order of the day!

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