Relook at privatisation

(Mains GS 3 : Effects of Liberalization on the Economy, Changes in Industrial Policy and their Effects on Industrial Growth.)

Context:

India’s fiscal deficit (for the Centre) in FY22 is expected to be 6.8% of the GDP and when considering the debts of States as well, this jumps to about 12.7% of the GDP (as of FY21).

Privatisation is panacea:

- Policymakers often cite the private sector’s ability to grow faster;however this may not always be true as studies indicate that the gap in growth between public sector undertakings (PSUs) with autonomy and private firms is not significant.
- One study highlighted that the famed British privatisation initiative of British Airways, British Gas, and the Railways led to no systemic difference in performance; even now, private British trains can be significantly delayed by “leaves on the line”.
- Thus, growth post-privatisation is often due to multiple factors for example, better funding under a private promoter versus a starved government budget, a better business cycle.
- Sometimes, the difference in a PSU’s performance (and ability to generate tax revenue) is simply due to government apathy.

Not raising enough funds:

- Privatisation as a policy has also singularly failed to raise significant funds as actual receipts from disinvestment have always fallen significantly short of targets.
- For example, in FY11, ₹22,846 crore was raised against a target of ₹40,000 crore; by FY20, ₹50,304 crore was raised against a target of ₹1 lakh crore (PRS India, 2021).
- In total, between FY11 and FY21, about ₹5 lakh crore was raised, that is, about 33% of just FY22's projected fiscal deficit and some of this, notably through stake sale to other PSUs.
- Given social and institutional constraints, India's ability to privatise firms will continue to be slow in the future which clearly shows that this is a lever that is unlikely to raise significant revenue.

Viable options:

- Outright privatisation may not necessarily make sense, as reflected from a recently held auction of about 21 oil and gas blocks that had only three firms participating, of which two were PSUs; 18 blocks ended up with just a single bid.
- There is also the challenge of valuation for example, about 65% of about 300 national highway projects have been recording significant toll collection growth; any valuations of such assets will need to ensure they capture potential growth in toll revenue.
- Empirical evidence highlights that stake sales are considered a preferred route as it gives time to ensure price discovery, allowing improved performance to raise valuations over time,
- There are also serious social consequences with privatisation as PSUs have been significant generators of employment in the past with multiplier effects; thus, the push for privatisation is a push for mass layoffs, in a period of low job creation.

Concentration in few hands:

- Greater concentration of public assets in select private hands is also a medium-term concern as in India, about 70% of all profits generated in the corporate sector in FY20 were with just 20 firms.
- Across sectors, a whiff of oligopoly is emerging – cigarettes continue to be dominated by a single player, paints has one entity with ~40% in FY21, airports now has a new operator with about six airports plus a 74% stake in Mumbai's international airport, while telecom has just three players left.
- Such concentration, mixed with privatisation of public assets, is likely to lead to higher usage fees and inflation, coupled with a loss of strategic control.

Global take:

- Policy makers need to think about another avenue of selective PSU reform as privatisation is not the only remedy of PSU's rather PSU's are a remedy of privatisation.
- In China, for the past few decades, growth has been led by corporatised PSUs, all of them held under a holding company (SASAC), which promotes better governance, appoints leadership and executes mergers and acquisitions.
- In Singapore, the Ministry of Finance focuses on policy making, while Temasek is focused on corporatising and expanding its PSUs (for example, Singtel, PSA, Singapore Power, Singapore Airlines) towards a global scale.
- A PSU with greater autonomy, with the government retaining control via a holding firm, can also be subject to the right incentives; thus, Indian PSUs could aspire to be as large and efficient as the Chinese ones.

Conclusion:

A hunt for immediate revenue should not overshadow the long-term interest of the ordinary Indian; thus the time has come to take a relook at privatisation.