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Reforms of Public Sector Enterprises

Dr. Pushpendra Kumar

Lecturer (Economics), K.V. Inter College, Mahalwala
Meerut, Uttar Pradesh, India

Abstract:
The term 'liberalism' firstly developed inthe 19th century in the west. In the present day, liberalism is the widely regarded as one of the most influential modern political ideologies. The term was first used by in foreign countries with a negative connection. It was aggressively used to refer to people with radical opinion. It soon lost its negative meaning and became a respectable political label. Most people would now like to called "liberal", which implies, "to be open minded; generous, tolerant and prepared to sacrifice self-interest for the public good. Beginning with the basic ideology of liberalism and the extent of power intervention of state in terms of economic, political control and development in recent times has made a major come back in the form of neo-liberalism to influence the future course of human development over the past two hundred years.

Keywords: liberalization, privatization, globalization and disinvestment.

1. INTRODUCTION

This paper is intended to acquaint with a major development of privatization with globalization and how the policy of liberalization in integrally bound with. After going through this you will beable to:
Know the basic rationale of privatization behind economic reforms introduced in 1991,

- State the three basic elements of economic reforms: liberalization, privatization and globalization,
- Explain the policy changes introduced to promote liberalization, Privatization and globalization.
- The evolution of public sector and role of public sector reforms.
- Identify the implements of disinvestment of public sector undertakings in India.

Economic liberalization has rather started a new economics in the economy of our country. The economic liberalization means removal of control and not of regulation in fact, needs further tightening in a control free regime. It further incorporates economic liberalization means and includes mainly, reduction in restrictions on imports/rate of import duties, reduction in control on foreign exchange (Current/Capital Account), reduction in restriction on foreign investment.

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Reforms of financial system, softening of MRTP regulations and finally to make various sectors of Indian economy on global scale by making them produce quality goods in a cost-effective manner. It is clear that free market does not mean free for all.

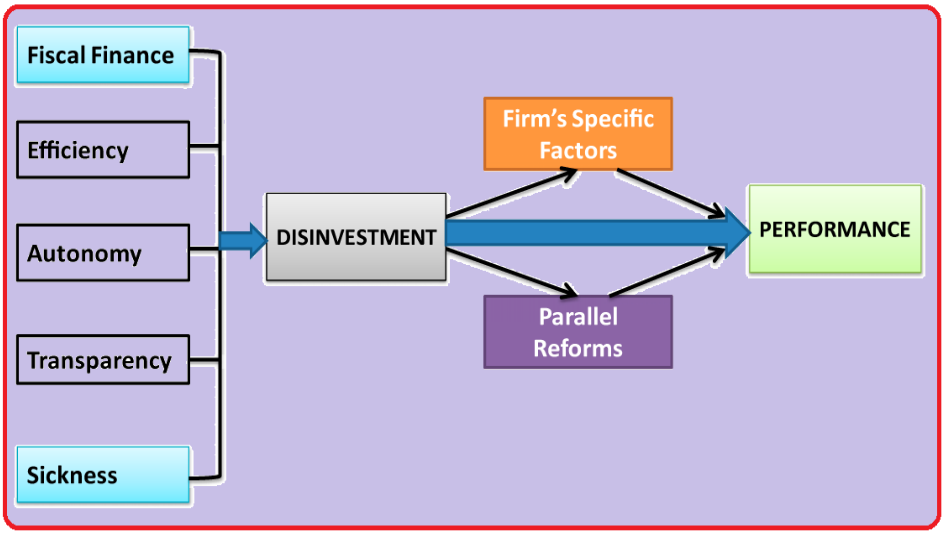

Fig 1. RESEARCH MODEL

Liberalization leads market forces to determine its course and direction. It favors a competitive market solution to economic issue and a reduced role for the government in economic management. Liberalization proclaims freedom of trade and investment; creation of free trade areas; elimination of government controls on allocation of resources in the domestic economy; progressive removal of restrictions on external trade and payments; expansion of foreign investment, loans and aid and rapid technological progress.

The big business houses were unable to start a new enterprise because the monopolies and restrictive trade practices (MRTP) act had prescribed a ceiling on asset ownership to the extent of Rs.100cr. It prevented big industrial houses investing in heavy industry and infrastructure. Which required lump sum investment, inorder that the big business could be enthused to enter the core sectors- heavy industry, infrastructure, petrochemicals, electronics etc.

The major purpose of liberalization was to free the large private corporate sector from bureaucratic controls. It, therefore started dismantling the regime of industrial licensing and controls.

2. LIBERALIZATION SHIFT FROM STATE TOMARKET

In 1970's an argument gained momentum the economic problems confronting societies were due to sprawling public policies of full employment, high rates of taxation, generous social welfare benefits and growing state intervention.

It was further argued that these policies led to excessive wage demands, introduced rigidity in the market, encouraged parasitism and blunted to incentives to save, work, invest and take risks. In 1980's there was a strong shift away from the state to the market in the allocation of resources in large parts of the world. Primacy of the market upheld by liberalization came to support by global capital with open arms. Transitional enterprises and multilateral agencies such as IMF and World Bank too brought enormous pressures on country to pursue a policy of liberalization.

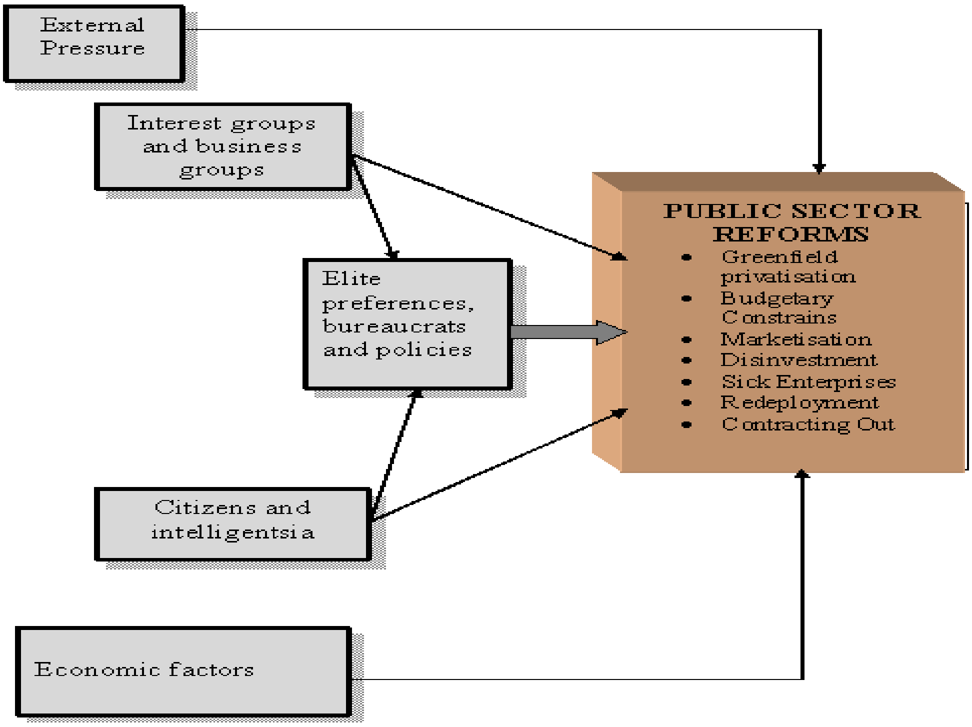

Fig 2. REFORM OF PUBLIC SECTOR ENTERPRISES

Although not given much attention, reform of the economy was attempted several times in the years fol1owing independence, but was abandoned due to various po1itical constraints. It was not until 1991 that radical reform measures were espoused by the ruling Congress party headed by Narsimha Rao. In 1991 in addition to other reforms~ substantial efforts were taken to reform the public sector. The main reformwas the opening of 11 of the 18 sectors reserved for the public sector to private sector ownership. The areas that were opened to private sector ownership included aircraft and airlines, shipbuilding, telecommunications, electric power, iron and steel, heavy electrical equipment, and heavy castings and forgings. Other reforms of PSEs included adoption of other reform measures such as disinvestment, marketization, adoption of budgetary constraints, and reforms of sick enterprises. In addition, reforms in other areas such as the adoption of a new industrial policy and reforms in trade were undertaken.

3.EXTERNAL POLITICAL AND ECONOMIC FACTORS

The impetus for the reforms begun in 1991 were in large part due to external political and economic factors such as the demise of the Soviet Union, the end of Cold War politics, the ideological shift towards the right. Moreover, "debt-weariness' in Western countries led to international aid becoming increasingly contingent on the adoption of economic liberalization and trade reforms. In 1991 the Indian economic situation was grim: India was running a current account deficit of around $10 billion and reserves were down to about a fortnight's worth of imports, despite an IMF loan of $1.8 billion in January 1991. Inflation was running at an average rate of 13 percent. Faced with the possibility of bankruptcy, India had almost no choice butto adopt economic reforms as prescribed by the IMF and World Bank.

The need for IMF and World Bank aid that precipitated the reforms also constrained the nature of the 1991 reforms. Part of the structural reform conditions laid down by the IMF included economic liberalization. This policy led very naturally to opening up the economy in the form of allowing multinational corporations (MNCs) to enter markets and compete for the right to produce in areas hitherto reserved for the private sector. Hence, the emphasis on Greenfield privatization appears to be a necessary consequence of the policy of liberalization andof fiscal crises. Externally, however, there has not been much pressure exerted by the IMF and the World Bank on India to undertake reforms such as denationalization, which are perceived to be a matter of domestic policy.

4. REGULATION AND REGULATORS

Also significantly altered are the methods of regulation and control. It has become challenging to define a specific product or service as a result of technological advancements, rapid product obsolescence, and diverse consumer tastes that have led to a multitude of products. Regulation consequently becomes a more difficult legal and administrative issue. In any instance, the regulated units provide the regulator with the majority of the information that is required, a phenomenon known as "information asymmetry." As a result, the nature of the information provided by the regulated units affects the regulation's quality. There is some empirical support for this "regulatory capture," showing that the regulated often take advantage of the regulatory system. From a behavioural perspective, there is potential for "clientasis," or frequent exposure to the client's issues, which causes the principle or his agent to identify more strongly with the interests of the clients, or regulation units, than with the general welfare. Last but not least, evaluating the costs and benefits of regulation has recently received more attention. The costs of regulation are calculated to include both the state's administrative costs and the costs of compliance incurred by the entities that must comply with the law.

5. TECHNOLOGY AND RESPONSE

Rapid obsolescence is the most significant effect of technology. It is rumoured that the publicly owned government institutions have a limited ability to adapt quickly to technological changes. Additionally, the need for quick adaptation to shifting consumption patterns arises from globalisation of consumption patterns, an area where the private sector appears to have an advantage. In addition, technological advancements are reducing the significance of the material component in industry relative to the knowledge component and service component. Instead of inspiring people to innovate or act quickly in response to them, the public systems seem to be better suited for mobilising material resources. Consequently, the overall effect of technological development has been to reduce public and bureaucratic systems' efficiency relative to private systems in some areas. Although it is possible to make the case that bureaucratic systems can be made equally adaptable to technological changes by granting the required autonomy, experience has shown that institutions run by the government are typically less adaptable.

6. INTERNATIONAL ENVIRONMENT: RECENT DEVELOPMENTS

We must also acknowledge some recent developments in the global economic and trading landscape that affect emerging nations. Official flows, or multilateral and bilateral flows that typically supported the government and public sector, have a smaller role now. Even at their current decreased levels, these flows are now shifting support away from the public sector and toward the private sector. The massive privatization of global financial flows is caused by the number 4. The potential and demand for trade or investment flows on state sector accounts, such as through Indo-USSR accords, also decreases with the collapse of a significant communist block. The public-private balance is also influenced by a country's commitments under the World Trade Organization (WTO). The particular or privileged role for the public sector is lessened by WTO principles that favour non-discriminatory treatment even for Government purchases. Additionally, the WTO agreement broadens the scope of coverage to include services, recognizing that this sector of global commerce is rapidly expanding. There is a significant bias in favour of the private sector in international commerce in services, whether it be in tourism, banking, or insurance. Even though some of the multinational corporations (MNCs) may not be industry giants, we should also take note of the growing significance of commerce within and between MNCs in international trade. Any attempt to increase one's share in international trade may need a larger role for the private sector given that MNCs are mostly in the private sector In the past, it was widely held that MNCs frequently have a negative influence on the objectives of economic and social justice in developing countries. According to empirical data for the majority of nations, MNCs have not harmed the causes of social justice or economic progress as long as suitable domestic intervention policies were impacted.

7. CONCLUSION

Statistics clearly show that investment in the public sector has yielded poor returns. For instance,the public sector represented close to 50 percent of investment in the manufacturing but only 15 percent of value-added. Further inefficiencies of the public sector have been well documented and emphasized by many institutions and committees. For the most part, PSEs have suffered from low-capacity utilization, low contributions to national savings, low rates of return to capital and perpetual losses.

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