Appoint a separate ministry of privatisation if serious about Strategic Disinvestment Policy 2021

Learning to Let Things Go

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The New Industrial Policy (NIP) 1991 took the first step towards rescuing the Indian economy from the clutches of socialism. The Strategic Disinvestment Policy (SDP) 2021, detailed in Annexure III of February budget speech, promises to be the final step towards achieving this goal.

To fully appreciate the significance of SDP 2021, we must go into the post-Independence economic history of India. Jawaharlal Nehru was an avowed socialist. Led by him, Parliament had adopted a resolution to establish 'a Socialistic Pattern of Society' in December 1954. A key policy instrument to achieve this objective was to bring a progressively larger share of production activity in the public sector. Being pragmatic rather than ideological, Nehru chose to increase the share of the public sector by increasing its share in investment over time and eschewed nationalisation of private enterprises.

In Public Domain

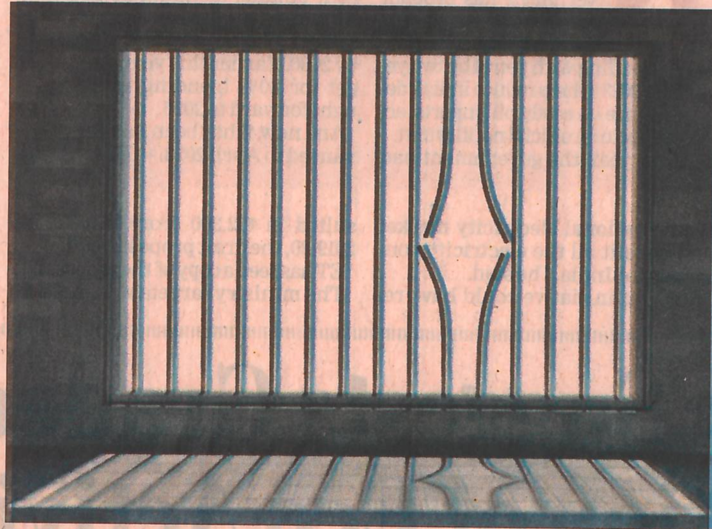
This changed under his daughter Indira Gandhi. Early in her prime ministership, she turned into a hard socialist and went on to nationalise all major banks, the entire insurance sector, all coal mines, and some of the larger enterprises in oil refining, steel, copper and textile sectors. Moreover, while Nehru had confined the public sector to heavy industry, she turned every conceivable sector a fair game for its entry.

Though the big wave of nationalisation ended by the 1980s, the addiction to creating public sector enterprises (PSEs) did not. Even the landmark NIP 1991, which eventually ended public sector monopoly in all sectors except railways and atomic energy, failed to restrain enterprising bureaucrats and politicians from adding ever more enterprises to public sector kitty.

Though Atal Bihari Vajpayee took the bold step of privatising a number of central PSEs (CPSEs), he too was unable to put a lid on their expansion. The total stock of financial investment in the enterprises, which stood at ₹2.3 trillion on March 31, 1998, rose to ₹3.5 trillion on March 31, 2004. This trend continued under the successor UPA government with the total financial investment in CPSEs rising to ₹9.9 trillion by March 31, 2014. According to the latest available estimate, the investment had reached ₹16.4 trillion on March 31, 2019.

It is this history that SDP 2021 proposes to reverse. By putting two nationalised banks and an insurance company on the privatisation list, for the first time, it strikes at the heart of Indira Gandhi-era nationalisations. More importantly, it proposes to privatise all CPSEs in all sectors other than four: (1) atomic energy, space and defence; (2) transport and telecommunications; (3) power, petroleum, coal and minerals; (4) banking, insurance and financial services. Even in these four sectors, SDP 2021 promises to limit the presence of CPSEs to a 'bare minimum', meaning that some of them would be privatised.

Bit by bit, CPSEs have acquired presence in all three broad sectors of the economy in the last seven decades: agriculture, industry and services. If SDP were implemented in earnest, the government would exit the agricultural sector entirely. In industry, it would quit the manufacturing of steel, chemicals and pharmaceuticals, engineering goods, transportation vehicles and equipment, industrial and consumer goods and textiles. In services, the exit list would include trading and marketing, consultancy services of various kinds, and hotels and tourism.



Escape from this Alcatraz

Prove Your Purpose

Production activity in these sectors serves no public purpose. As such, there has never been a good rationale for devoting precious taxpayer money to it. Now that GoI has announced its decision to exit these sectors, it must disallow future allocations of taxpayer money to CPSEs in them. Units needing financial resources for restructuring or other purposes must be required to raise them in the market at commercial terms.

Sometimes, CPSEs sell their excess land to raise financial resources. This, too, should be off limits, since such land is public property and proceeds from its sale are no different from taxpayer money. The policy should be to hive off excess land and auction it for housing or other productive use.

In 1991, implementation of the decision to end investment and import licensing under NIP only required dismantling of the bureaucratic machinery tasked with issuing licences. In contrast, implementation of SDP 2021 is a complex long-term project.

Going by the experience during the past four years, it stands to reason that the Department of Investment and Public Asset Management (DIPAM) is not up to the task. Beginning in October 2016, the Cabinet has given approval for privatisation to multiple lists of CPSEs. But DIPAM is yet to open its account on this score.

It has not been able to privatise even listed CPSEs in which the government stake is less than 60%. This failure can hardly be explained by appeal to fears of future investigation by vigilance agencies, since the task involves merely offloading 10 percentage points or fewer shares at the listed price in a transparent manner.

Given the importance of implementing SDP 2021 and the magnitude of the task, GoI cannot leave the task to DIPAM officials. Instead, it must appoint a separate ministry of privatisation with a technocrat of unimpeachable integrity to head it.

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