PRIVATIZATION OF PUBLIC SECTOR UNDERTAKINGS
LOGIC AND POLICY SINCE 1996

Dissertation Submitted to the Centre for the Study of Law and Governance, Jawaharlal Nehru University in partial fulfillment of the requirements for the award of the degree of

MASTER OF PHILOSOPHY

SHIPRA BHATIA

Centre for the Study of Law and Governance
Jawaharlal Nehru University
New Delhi
INDIA

2006

To

My Parents

Jawaharlal Nehru University
Centre for the study of Law and Governance
New Delhi 110067

Date: 27 July 2006.

DECLARATION

This is to certify that the dissertation entitled **"Privatization of Public Sector Undertakings – The Logic And Policy Since 1996"** submitted by me in partial fulfillment of the requirements for the award of the degree of **Master of Philosophy**, is my own work and has not been previously submitted for any other degree of this or any other university.

Shipra Bhatia
Shipra Bhatia

CERTIFICATE

We recommend that this dissertation be placed before the examiners for evaluation.

Amit Prakash
Dr.Amit Prakash
(Chairperson)

Amita Singh
Dr.Amita Singh
(Supervisor)

Tel (off) : 2670 4021 ☐ Telefax (off) : 2671 7506 ☐ Email : dir_cslg@mail.jnu.ac.in

ACKNOWLEDGEMENTS

It is a pleasure to thank those who have helped me in the writings of this dissertation .I have gained greatly from discussions with Dr. Amita Singh, Associate Professor, Centre for the Study of Law and Governance, Jawaharlal Nehru University. Without her invaluable help and timely guidance, this dissertation would not have come about .I am also grateful to the intellectually charged environment at Centre for the Study of Law and Governance at Jawaharlal Nehru University, New Delhi for giving me the opportunity to undertake this research.

I am also grateful to number of personnel at Indian Institute of Public Administration, who helped me with vital information for this work.

Last but not the least my thanks to my family members and my friends who cooperated fully.

LIST OF ABBREVIATIONS

BALCO	Bharat Aluminium Company Limited
BHEL	Bharat Heavy Electricals Limited
BIFR	Board for Industrial & Financial Reconstruction
BPE	Bureau of Public Enterprises
CAG	Comptroller & Auditor General
CARG	Compound Annual Growth Rate
CMIE	Centre for Monitoring the Indian Economy
CVC	Chief Vigilance Commissioner
GSDP	Gross State Domestic Product
GVA	Gross Value-added
HPCL	Hindustan Petroleum Corporation
IISCO	Indian Iron and Steel Company
IPCL	Indian Petro –Chemical Corporation Limited
MNCs	Multinational Companies
MOU	Memorandum of Understanding
NTPC	National Thermal Power Corporation
OECD	Organisation for Economic Co-operation and Development
ONGC	Oil and Natural Gas Corporation Limited
PBDIT	Profit before depreciation, interest & taxes
PBIT	Profit before interest & taxes
PBT	Profit before taxes
PSUs	Public Sector Undertakings
SAIL	Steel Authority of India
SEBI	Securities and Exchange Board of India
TFC	Tenth Finance Commission
VRS	Voluntary Retirement Scheme
VSNL	Videsh Sanchar Nigam Limited
WTO	World Trade Corporation

LIST OF TABLES

1.1	Summary of Incentives for reforms in Developed and Developing Countries.	6
1.2	Conceptions of New Public Management by different authors.	15
2.1	Sale / Turnover of PSUs	37
2.2	Value of Production of PSUs	38
2.3	Performance on Manpower Related Parameters	39
3.1	Statistics of Central PSUs	42
3.2	Share of PSU in Industry	43
3.3	Financial Performance of PSU	46
3.4	Mode of Disinvestment	54
3.5	Disinvestment from 1991-92 to 1999-2000	58
4.1	Production Performance of BALCO	71
4.2	Financial Performance of BALCO	71
4.3	Employment at BALCO	74
4.4	Employee Cost Summary of NTPC	82
4.5	Revenue Expenditure on Social Overheads at NTPC	83

CONTENTS

		Acknowledgements	i
		List of Abbreviations	ii
		List of Tables	iii
1.		Introduction	1-28
	1.1	The Wider Debate in Public Sector Reform	1
	1.2	Paradigm Shift in Public Sector	3
	1.3	Comparative Study of Global Reform Movement	8
	1.4	Three Dominant Models of Reform	13
	1.5	Imperatives of Reform	18
	1.6	Privatization or Public Sector Reform	22
	1.7	Summary of Chapters	27
2.		Theoretical Underpinnings of Reform	29-39
	2.1	Introduction	29
	2.2	Rationale of Privatization	29
	2.3	Assessment of Theories	44
	2.4	Continuing Debate on 'Production Efficiency' of PSUs	45
	2.5	Conclusion	39
3.		Public Sector: Structure, Goals and Policies	40-63
	3.1	Structure	40
	3.2	Goals of PSUs	43
	3.3	Economic Contributions	45
	3.4	Policy Review	47
	3.5	Disinvestment and Beyond	52
	3.6	Assessment	59

4.	Socio-Economic Cost of Privatisation: Case Study of BALCO	64-85
4.1	Introduction	64
4.2	BALCO- An Analysis	64
4.3	Distributional Issues of Privatization	68
4.4	BALCO - Then and now	70
4.5	Implication of Disinvestment of BALCO	77
4.6	Case Study of NTPC	79
4.7	Assessment of Privatization Policy	83
5.	Politics of Privatization	86-93
5.1	Introduction	86
5.2	Reasons for Radical Reform	87
5.3	Scope of Reform	87
5.4	Consolidation of Reform Process	88
5.5	Conclusion	93
6.	Role of Judiciary	94-103
6.1	Introduction	94
6.2	Review of Constitutional Provision	95
6.3	Independent Judicial Review	97
6.4	Court Judgment on Privatization	99
6.5	Implications and Conclusion	102
7.	Conclusion	104-117
7.1	Privatization: Is It the Only Option	106
	Bibliography	118-133

CHAPTER 1
INTRODUCTION

1.1 THE WIDER DEBATE ON PUBLIC SECTOR REFORMS:

Reforms in public sector have always been peripheral and soft. There is little evidence available in the history of Public Sector Reforms that could substantiate the fact that government has seriously aspired for change. From the Keynesian State to Beveridge State[1] the debate has always been on the issue of transfer of power to the state, as a result public sector has grown to an obese, high consumption and non-performer status. Not only the key socio –economic policies were hostages to the steel frame mighty pyramid of Weber but even charities and businesses found themselves trapped in it. Studies on state and administration failed to focus effectively on feasibility and legitimacy of implementation and evaluation processes thereby labeling it as one unintentional 'missing link' of policy research.

The subsequent failure of the developmental decades of sixties and seventies and the eighties [2], multiplying debts, underperformance Official Development Assistance (ODA) for developing countries and deteriorating condition of environment and natural resources led to rethinking on the way public sector function. Keynes state and Beveridge programs only added to a 'state on subsidies' in which 'entrepreneurship' ironically was a major causality. Margaret Thatcher struck the chord by privatizing the domain of public sector, followed by R.Reagon, whose uncompromising economic pull of public sector characterized his period with a popular title of 'Reaganomics'. Economic was all set to define public sector.

The present chapter will highlight the changing role of government and the direction, which is most likely to be taken by it. It provides an overview of the evolution of the idea of privatization including rationality of approach, the combination of factors driving change, and the potentials and limitations of privatization. It may also examine methodologies of reform which are emerging as variants of new public management

---

[1] Sir Beveridge (1942) prepared a report titled 'Social Insurance and Allied Services' to provide social insurance to all citizens in Britain. It was anti-laissez faire in nature.
[2] Also called the missed decade by United Nations Development Program.

approach being introduced in some states, following popular trends in advanced market economies

Interestingly Public Sector Reform story is about the broad shifts over the last 50 years in practical understanding of the role of the Government. From here the analysis advances into the direction in which public sector is fast turning to i.e. privatization. For over two decades a wave of public sector reforms have swept through countries in varying state of development like developed countries like UK, Australia, USA, transitional countries like Malaysia, Brazil, India, Philippines and developing countries like Bangladesh, Pakistan and Chile. The role and institutional character of the state and of the public sector have been under pressure to be more competitive, market-oriented and open to partnership with private sector-oriented. It initially started in developed countries as part of New Public Management program but later reached in some developing countries in the context of International Monetary Fund and World Bank-supported Structural Adjustment Programs (SAPs).

This trend seems to be a reaction to its predecessor state model, which emerged out of sweeping nationalization movement, which took place during World War I in Europe. There has been a public demand for greater control over markets so that socio-economic objectives of state could be achieved. But this followed a series of devastating financial crises (hyperinflation, the 1929 stock market crash, banking crises) and the Great Depression. Nevertheless, taking cue of the 'missing link' the process continued in some countries after World War II. In addition, decolonization created many new independent states eager to engage in nation building and promote development. Yet the post-war experience led to a drastic rethinking over time. The motives of politicians in establishing direct control for regulatory purposes were questioned. The social equity of favoring specific constituencies at high public costs was challenged.[3]

The last two decades have seen a massive privatization process of productive and other activities previously considered public services. This has been a product of a number of factors, including the economic and fiscal crises of the state that called the post-war consensus on the active role of the state in the economy into serious question.

---

[3] The debt crisis in the eighties was a catalyst, which forced governments to divest loss-making operations to generate revenues.

In developed economies such as the United Kingdom, Canada and Australia, the crisis in the Keynesian welfare state led to the search for alternative ways of organizing and managing public services and redefining the role of the state to give more prominence to markets and competition, and to the private and voluntary sectors. In a similar vein, the economic and fiscal crisis that engulfed most developing countries in the 1970s and 1980s led to a rethinking of state-led development, which had increased the size, functions, and power of the state and its bureaucracy.

A survey by the Organization for Economic Co-operation and Development concluded that new management techniques and practices involving market-type mechanisms associated with the private sector are being used to bring about changes in the management of public services in countries that have widely varying governance, economic and institutional environments (OECD, 1993).

A major process of reforming public management has been occurring in the liberal democratic State jurisdiction (Yeatman, 1994:287). Even though it started ambitiously with Osborne and Gabler (1992), Evans (1987) and Gore's Report (1993)[4]. It is not yet over, but it has lately been undergoing a transmigration into civil society led framework. Some scholars like Pollit declared that it's dead[5].

1.2 A PARADIGM SHIFT IN PUBLIC SECTOR REFORMS:

Traditional public administration was largely based on Weberian notion of bureaucracy and hierarchy as pursued through the works of Fayol, Gullick and Urvick. The new reform movement engulfing Public Sector represents a 'paradigm shift' (Kettel1997). Osborne and Plastrik (1997:15) perceived it as ushering in a 'new world order' even though there is no consensus on it's content and practice.

It's consistent decisions making and efficient practices based on the narrow specialization of tasks within a framework of the division of labor increased it's predictability even though traditional public administration was diagnosed as suffering from 'bureaupathologies' (Caiden, 1991). Most of these 'bureaupathologies' included

[4] Gore, Al (1993) 'Creating a Government that Works Better and Cost Less: The Report of the National Performance Review', in US Government Printing Press, New York: Plume.

[5] 'New Public Management is dead' observed by Patrick Dunleavy , Helen Mergetts, Simon Baston and Jane Tinkler in 'New Public Management is dead- Long live Digital –Era Governance ,in *Journal of Public Administration Research and Theory* 2006,16(3):467-494.

extensive ill effects of it's closed frontiers. The field of studies on 'bureaupathologies' was almost saturated and complete by the time New Public Management arrived. Robert Merton in 1940 had elaborated it's dysfunction in which rules took precedence over objectives, resulting into goal displacement .Red tapism and bureaucracy resisted to change marred public sector. Victor Thompson highlighted the fact that the 'absence of feedback loop' led to one of the most symptomatic characteristic of modern bureaucracy ie rigidity leading to a growing unbalance between ability and authority .The most powerful revelation came from C. Northcote Parkinson in the embedded feature of bureaucracy to expand in his famous 'Law of Rising Pyramid'. Ludwig Ven Misses(1994) shed off the 'specialized personnel' rationale of bureaucracy by exposing its tendency to put 'rank over talent'. Thus with the beginning of 1980's it was fairly evident that this articulately chiseled structure of bureaucracy would soon become a target of 'bashing by civil society', even though one was not too sure of the outcomes whether it would lead to rightist model of state or anarchist model of left. Traditional public administration was perceived or not working and not able to deliver in the rapidly changing world.

On a directed quest for efficiency and effectiveness, the adoption of private sector management techniques and practice was advocated to deal with the problem of the old public administration by replacing hierarchy with market in the hope that this would minimize the dysfunctions of the traditional public administration. The very term 'management' instead of 'administration' emphasizes that efficiency is more important than adherence to rules.[6]

Effectiveness and results take precedence over legality, flexibility and adaptation are more vital from predictability and responsibility and competition with private sector delivery is preferred to delivery by government monopoly and bureaucracy (Larbi, 2004). Public sector bureaucrats are eventually perceived as administrators inferior to

---

[6] Pollit(1993:2-3), "The first principle of New Public Management is managerialism defined as involving:

- Continous increases in efficiency
- The use of more sophisticated technologies
- A labour force disciplined to productivity
- Clear implementation of professional management role
- Manager being given the right to manage".

their private sectors equivalent who manage their organizations more efficiently. (Aucoin, 1990:115-137). Olson (1988) calls this form of political administrative control 'sovereign, nationality bounded state', meaning a neutralized state with a large public sector in which standardization and equality are prominent features. Thus Jacobson. D, as quoted in Christenson and Laegrid (2003) sees the role of civil service in such a state a complex, having to take into consideration many decision stimuli and premises that are ambiguous and inconsistent.

Olson (1988:241-242) labels, the alternative model of political administrative control as ' the super market state'. This model presumes that the Government and the state have a service-providing role, with an emphasis on efficiency and good quality and view people as consumers, users or clients (Hood, 1998:98). In this model rather than the state controlling society on the basis of a democratic mandate from the people, society controls the state through market mechanisms. If Government units do not produce satisfactorily, they should be abolished. Administrative reforms appear to be apolitical in nature (Frederickson, 1996:268).

The change towards market reforms and political pluralism that was swept across most of the Western world in 1980s combined with the collapse of communism, sent reform messages to most developing countries in acute fiscal crisis. The radical market-oriented reform of the Thatcher era in the United Kingdom had not gone unnoticed in other countries .For most adjusting economies, the process of learning from the developed countries experiences was facilitated by the use of international management consultants under donor-sponsored technical assistance loans.[7]

Table 1 summarizes different incentives for change in both developed and developing countries. It is apparent that economic and fiscal crises were common driving forces for reform in both developed and developing countries, but the depth and nature of crises differed in the context of adjusting economies.

[7] Examples of international management consultancy firms with worldwide operations include Price water house Coopers (United Kingdom-based), and Public Administration Service (United States-based)

TABLE 1.1

Summary of incentives for public management reforms in developed and developing countries

DEVELOPED MARKET ECONOMIES	CRISIS AND ADJUSTING ECONOMIES
Economic and fiscal crises in the 70s and 80s	Economic and fiscal crises of greater magnitude, plus increasing debt burden in the 70s and 80s
Quest for efficiency and effectiveness in public services	IMF/World Bank-supported structural adjustment lending conditions; efforts to reduce public deficits and redress balance of payments problems
Ascendancy of .New Right./neoliberal ideas in policy making in the 70s and 80s; belief in markets and competition and minimal role for the state	Structural adjustment and economic liberalization policies in the 80s and 90s; efforts to reduce size and role of government
Change in political context . coming into power of Conservative governments, e.g., in the United Kingdom and United States in the late 70s through the 80s	Political and policy instability; failure of public administration institutions and the need to reform them and build their capacity; collapse of communism and central planning Good governance requirements and its link to public administration and management reform; donor pressures
Development of information technology to facilitate and support change	Learning from the experiences of developed countries; the demonstration effects of reforms in the United Kingdom and other developed market economies; policy transfer
Growth and role of a network of international management consultants who believe in the tenets of NPM	Technical assistance and the influence of international management consultants as advisors on reforms

Source: Larbi, (1998)

As previously mentioned the scope of public sector reform has been equated to a paradigm shift (Ketel, 2000). Paradigm contains both ideological and intellectual dimensions. Osborne and Gabler (1992) claimed that 'a new global paradigm' has emerged in public administration[8]. Yeatman (1994:287-297) argues that global environmental factor affect the change and cites the changes in industrial organization to a post–Fordist flexible specialization model to a post bureaucratic model of public service. Scope of reform and restructuring has changed the character, operation and ideological underpinning of public sector to such an extent that the model of change has been termed as transformational.

The 'Single Paradigm' has been questioned by various authors like Hood (1996)[9]. This meant that all the countries have the same strong environmental pressures to attend to whether the pressure comes from technical or institutional parts of the environment. (Christensen & Laegreid 2000).

In contrast, the divergence thesis, suggests that, external and internal conditions point cumulatively and systematically in different directions. (Hood,1998). Environmental pressure, the context of reforms, the polity factor and the cultural constraints are different and this in turn influence the shape and size of reforms. Welch & Wong (1998:40-49) argue that reforms occur when global pressure acts upon domestic system.

The political discourse on public sector reforms is determined to evaluate the fact whether change is part of a 'national action' that shapes reform or 'international diffusion' whereby management, policy and political trends influence the reform process treating local and global features. (Lynn 2001198-208).

Lynn (2001) drew on the works of system theorists such as Thompson (1967) and Parsons (1960)[10]. He along with Carolyn Heinrich and Carolyn Hill developed a theory based research model to understand the process of reforms[11]. They developed an analytic framework that identifies different levels of governance, and how change affects at different levels. The framework indicates how broad changes filter through the different

---

[8] In the similar vein, Peter Aucoin, argues that there is an "internalization of public managers" For details see Aucoin, P. Administration Reforms in Public Management, *Governance*, (3) pp115-137

[9] For details see, Hood. C(1996), "Beyond Progressivism". A new global paradigm in public management? *International Journal of Public Administration*, 19(2) pp 157-177.

[10] For details see: 1) Thomson, J.D (1967) Organisation in Action: Social Science Bases and Administrative Theory, New York: MC Graw Hill. 2) Panons T (1960) Structure and Process in Modern Societies, New York Free Press

[11] *A Logic of Governance :A Framework for Studying the Effectiveness of Public Policy and Programs Research Paper* .Harris School of Public Policy .University of Chicago.

sites to shape the character and features of public sector organisations. In this model, governance arrangements are organized into a set of layer. The first layer is environmental; second, institutional; third, managerial; fourth, technical; fifth, political assessment. The framework serves to illustrate that change creates a dynamic set of relationship that operates not only internally within each level, but also between the different layers. He proposed that national welfare and public service institutions mediated the type of change that occurred within a governance framework. Investigators can explore the determinants of policy and program impacts without becoming distracted by the alleged split between policy level (top down) or street level (bottom up)explanations of outcomes .The authors propose to incorporate the multiple levels of variables[12]

Kersteen Sahlin (2003:44-45) has identified three trends in the spread of reforms. The first type of trend is nationally based, when a number of countries pursue similar reforms, independent of each other. The national context of each country explains the choice and extent of reform. The second type of trend is internationally formed. Countries are not isolated, but learn from each other. They imitate and react to each other. The third type of trend is transnationally formed. There are number of reform organizations, consultants etc. which observe countries, then compare and publish reforms.

1.3 COMPARATIVE STUDY OF GLOBAL REFORM MOVEMENT:

This part of chapter examines the dynamics of comprehensive public sector reforms in United Kingdom and New Zealand. The rationale for their selection is the understanding of United Kingdom Reforms as a primer on Public Sector Reform movement and New Zealand as an aggressive adapter. It challenges the globalization thesis, which leads to the convergence and homogenization of reforms. It is argued that

[12] 0 = f (E, C,T,S,M) Where
0 = Outputs /Outcomes
E = environmental factors (political structures, degree of competition, macro economic, target population, legal practices)
C = client characteristics (behavior of clients that affect outcomes)
T = treatments (core processes and technology)
S = structures (organizational types, delegation, decentralization, administrative rules, budget, Institutional culture)
M = Managerial roles (leadership practices, staff management, professionalism and accountability mechanism)

reforms are transformed by mixture of environmental pressure, polity features and institutional contexts and to look too narrowly would produce partial accounting of reasons for outcomes and may lead to a biased account.

1.3.1 THE UNITED KINGDOM EXPERIENCE:

The primary turf of public sector reform is UK beginning Thatcher's regime. In 1979, Margaret Thatcher and her Conservative Party came to power in the UK, on a wave of assurances for reducing the size of government and improving the performance of civil servants[13]. The government was viewed as being too big, inefficient and wasteful. It owned huge proportions of the economy- utilities, auto companies, and dozens of other nationalized industries- representing 44% of the country's Gross Domestic Product. Management and provision of government goods and services were also widely perceived to be eroding in quality, public revenues had been stagnating, and public spending was on the rise.

Thatcher's Party commenced with a classic exercise to purge waste and inefficiencies from publicly financed and provided services. An "Efficiency Unit" conducted more than 200 departmental scrutinies within three years, leading to the elimination of 12,000 positions and recurrent annual savings of about $400 US million. This purging exercise paid big dividends, where a high degree of professionalism and meritocracy were generally praised within the civil service.[14]The reform process perceived reinvention as not just 'reform' nor simply 'downsizing or privatization or cutting waste and fraud' .It is as deep as changing the DNA of privatization.

A fundamental problem with Thatcher's purging exercise, however, is that it was typical of a "one time house cleaning", and lacked a built in mechanisms that would lead to continuous improvements in management and performance. The repeated failures by the reformers made them realize that while many valuable performance objectives had been created but without changing the internal dynamics of government organizations there would be no effect on the overall behavior and performance of the public sector. The Efficiency Unit in 1988 documented that there was a shortage of good managers, a

[13] For details see: R.Paul Shaw(1999) 'New Trends in Public Sector Management in Health Application in Developing Countries' World Bank Working Paper.

[14] This overview of the UK reform process borrows heavily from David Osborne and Peter Plastrik, 1997, Banishing Bureaucracy: The Five Strategies of Reinventing Government ,New York: Addison Wesley.

budget and finance system that was focused more on controlling spending than on making it effective, and few external pressures on government managers and organizations to improve performance. To overcome these management shortcomings, the Efficiency Unit recommended an "uncoupling" of government functions that had fundamentally different purposes into different organizations. A fundamental goal of this "uncoupling" was to allow government to centralize and coordinate its policy functions while decentralizing and devolving service-delivery functions to a different group of managers charged with the responsibility of "doing the right things the right way". Thatcher accepted the Efficiency Unit's recommendations and adopted a "Next Steps" program that revamped the British public service.

It made use of several new public sector management practices[15] to guarantee continuous improvement. One of those practices involves shift towards the creation of operationally decentralized units so that each organization could focus on its primary mission, and emphasize the kinds of skills needed to carry out that primary mission. This freed the policy makers from traditional bureaucracy and political influence to innovate and make the necessary business-like changes to improve the operations. A second notable management practice in the UK reforms lies in having incentives to improve service delivery and compliance functions along with monitoring. Thus F.W.Taylor's 'One Best Way[16]'of Scientific Management finds a very strong protagonist in UK reform agenda. A third management practice is to anchor accountability for service delivery in a client- based strategy that emphasizes choice and quality of service.

1.3.2 THE NEW ZEALAND EXPERIENCE.

New Zealand[17] has been oft quoted example of aggressive where intense yet balanced reforms restructuring of public sector within wider macro economic has taken place. It has been considered as a perfect example of internally pushed or nationally based reforms. A watershed in public sector occurred in 1984. A chaotic disintegration of the foreign exchange market in New Zealand resulted into a decade of fundamental

[15] For details see: Hoggett. P (1996)'New Modes of Control in the Public Service' in *Public Administration* Vol.74.Spring pp 9-32.
[16] For a more detailed understanding of F.W.Taylor's 'One Best Way' see Robert Kanigel, Viking, 'The One Best Way :Fredrick Winston Taylor and the Enigma of Efficiency'(2000)
[17] For details see: Donald T(1996),5th Annual Memorial Lecture, Institute of Economic Affairs,4th June.

reform and change that not only transformed it's economy, but also it's public sector. This became a comprehensive reform program with setting a perfect example of a `big bang' approach to reform as opposed to gradual and piecemeal action.

The rigid, hierarchal bureaucratic form of public administration, which has predominated for most of the twentieth century, changed to a flexible market, based form of public management. It was not simply a matter of reform or a minor change in management style, but a change in the role of the Government in society and the relationship between Government and the citizens. When the reform process began in the mid-eighties, the New Zealand government held a monopoly over a very large range of goods and services. For example, government owned the largest bank, several quasi-banks, the only domestic airline, an international shipping line, the only railway, all electricity generation and distribution facilities, the dominant producer of coal, the largest forest resource, and the only telecommunications company.[18] Many of these operations were extremely inefficient by international standards, and provided poor levels of services. Despite their monopoly positions, many organizations were a drain on the public purse: the state coal operations, for example, had, by 1986, made a loss in all of the previous 20 years. (Donald.T1996). After 1980's, these operations underwent sweeping change, which improved their performance.

One of the major pieces of legislation effecting this change was the State-Owned Enterprises Act 1986, which provided the basis for converting state commercial entities into state-owned enterprises (SOEs) operating under the same conditions as private sector enterprises, which included the freedom to generate capital through open market without government guarantee.[19] The new competitive regime for SOEs entailed separating there commercial from their non-commercial activities, with the latter being delivered by government departments or purchased directly from the SOEs. The 14 SOEs corporatised in 1987 achieved some spectacular gains in productivity and profitability. Between 1987 and 1990, Telecom reduced staffing levels by 47 percent,

[18] In 1980,s government owned half of the total assets

[19]. The Government made it clear that it would not support the Shipping Corporation, even if this meant failure, which prompted its directors to reflag their vessels in Hong Kong and warn New Zealand crew that they had four hours in which to accept an internationally-competitive level of manning or be replaced by the Filipinos they could see on the wharf. The resolution of substantial over-manning in this draconian way enabled the Corporation to recover its profitability and, shortly thereafter, it was sold to a British shipping company(Donald T1996).

increased productivity by 85 percent, and increased profits by 300 percent. Railways cut its freight rates by 50 percent in real terms between 1983 and 1990, reduced its staff by 60 percent, and made an operating profit in 1989/90, the first for six years. New Zealand Post reduced its workforce by 30 percent, and increased the rate of next-day delivery within the country from 80 percent to 98 percent. Coal Corporation increased productivity by 60 percent and cut its real prices by 20 percent. (Donald T 1996). New Zealand's ports were also `corporatised' and relevant local governments were given commercially oriented boards, encouraging competition between the ports. The cultural change, which followed reform drives, was extraordinary. In Tauranga, for example, it used to take 12 or 13 days, working only `normal working hours', to load a 27,000 cubic metre cargo of logs onto a vessel, and it took 44 men to do the job. But after the reform, it takes about 30 hours, working around the clock, and takes only four men. (Donald T.1996)

The corporatisation suggested that even better results might be obtained from privatisation, which would remove the residual scope for political interference, expose the SOEs to the disciplines of private-sector monitoring, and make control contestable. Privatisation began in 1987 and by mid-1995 a total of 27 privatisations had raised NZ$13.2 billion in asset sales. Walker.B (1996:356) lists few features of New Zealand reforms. The first one is the strong political will to make it happen. Success of any major change depends on clear political determination. Secondly there was a broad community acceptance through active participation. Thirdly reforms were driven by a clear set of principles, which were set above practical or implementational reservations.

Countries like UK, New Zealand, and Australia and to an extent USA, are considered as original reformer. While Malaysia, Latin America and Caribbean countries have made major strides as lead followers in effecting the transition to market economies. Reform can be divided into two stages, first driven by fiscal crisis centers on macro-economic and balance of payments adjustments, the restructuring of incentives, and privatization. The second stage addresses the longer term institutional adjustment needed to consolidate and sustain the earlier reform (Rowat.M1996). It is largely at the second level that sustainability of these practices can be effectively assessed.

Apart from various national and international factors, organizations like PUMA (Public Management Service and Committee 1990) and OECD Committee influence reform process. There are other organizations such as Asian Development Bank, Department of Economic and Social Affairs, United Nations (UNDESA), which engage themselves in similar activities.

1.4 THREE DOMONANT MODELS OF REFORM MOVEMENT:

Ocampo (1998)[20], in his article, surveys and compares three well-known "models" of reform in public administration and management. These models are "reinventing Government' (Osborne and Gabler, 1992), "business process re-engineering" (Hammer and Champy, 1993) and the New Public Management (Hood, 1995:104-117).

REINVENTING GOVERNMENT is "a radically new way of doing business in the public sector" (Orborne and Gabler 1992:xviii). This model presents a 'paradigm shift' from the New Deal paradigm of 1930s to 1960s towards the 'Entrepreneurial Government'. Entrepreneurial governments promote competition between service providers. Citizens are empowered by pushing out bureaucracy into the community. Clients are redefined as customers and choices are offered to them. Authority is decentralized by embracing participatory management. Market mechanism is preferred to bureaucratic mechanism. The focus is not on providing public services, but on catalyzing all sectors – public, private and voluntary into action to solve their community problems. Osborne and Gabler, (1992:19-20) believed that "government cannot run like a business" due to the basic differences between the two sectors even though governments are made more market friendly.

BUSINESS PROCESS REENGINEERING is the fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical contemporary measures of performance such as cost, quality, service and speed (Hammer and Champy, 1993:32). Reengineering is more inward looking and gives greater attention to the role of the information technology. Business Process Reengineering has been intensively used in the private business sector, but only to a limited extent in the public sector.[21] Re-engineering offers an opportunity to policy

---

[20] See: Ocampo, R (1998), 'Model of Public Administrative Reforms', *Asian Review of Public Administration*, Vol. X, Nos.1-2 (Jan. – Dec.) pp248-250

[21] Eg. Bidding procedures in Oregan, automated tracking of probationers in New York, 24 hour public service kiosks in California.

maker to take another fresh look at the logic and rationale of the rules and safeguards, opening possibilities of discarding and rewriting them. It promotes an essential idea of (re) engineering paradigm that the outcome of a process is directed towards a customer be it an external customer or a customer within the firm because reform processes should be designed to fit the requirements of those who finally pay for the outcome. This model also suggests applications of information and communications Technology as an important enabler (Hammer and Champy 1993:12-15). Malaysian public service is a good example of reengineering that took off in early 1990s.The thrust of the movement was to inculcate a culture of excellence in public sector agencies, based on the core values of quality, productivity innovation, integrity, discipline, accountability and professionalism.[22]

NEW PUBLIC MANAGEMENT (NPM) is a group of administrative reforms in the agenda of several OECD countries starting in the last phase of 1970s. According to the OECD (Kickert, 1997), "a new paradigm for public management" had emerged, with light characteristic "trends":

a) Strengthening steering functions at the center;
b) Devolving authority, providing flexibility.
c) Ensuring performance, control, and accountability.
d) Improving the management of human resources;
e) Optimizing information technology
f) Developing competition and choice
g) Improving the quality of regulation.
h) Providing responsive services.

NPM as a reform strategy can be viewed as pro-pubic sector, because it seems to reform bureaucracy instead of dismantling bureaucracy altogether (as in outright privatization). NPM in action is capable of helping preserve the bureaucracy though in different wrappings. (Cheung, 1997). New Public Management was smoothly adopted in most post –colonial countries of Commonwealth including India (Fifth Pay Commission Report, 1997) for the predominance of bureaucratic centered reforms. It captures most of

---

[22] For details see: Muhammad Rais Bin Abdul Karim(1998), 'Reengineering the Malaysian Public Service and the use of Informational Technology in Promoting Efficiency' in *Asian Review of Public Administration*,Vol.x.1-2 Jan-Dec. pp 57-69.

the structural, organizational and managerial changes taking place in the public services of countries. Pollitt has defined NPM as an ideology or a bundle of particular management approaches and techniques (many of them borrowed from the private for-profit sector). (1994:1). NPM is thus seen as a body of managerial thought (Ferlie et al., 1996:9) or as an ideological thought system based on ideas generated in the private sector and imported into the public sector (Hood, 1991, 1995).

New Public Management is associated with five organizational strategies: (i) increased accountability in personnel performance management, (ii) performance-related budgeting. (iii) autonomous agencification, (iv) competition and contracting out (v) corporatization. None of these organizational strategies are likely to work in complete isolation of the other. Nor these five strategies represent an exhaustive list of all tools available to the policy-maker. Rather, they incorporate business-like practices that have been observed to increase the effectiveness and efficiency of employees, line managers and senior managers.

Table 2 summarizes the conceptions of New Public Management held by some of the key writers on the subject having different views on New Public Management.

Table 1. 2
Conceptions of new public management by different authors

HOOD, 1991; DUNLEAVY AND HOOD, 1994	POLLITT, 1993 AND 1994	FERLIE ET AL., 1996	BORINS, 1994; COMMONWEALTH, 1996	OSBORNE AND GAEBLER, 1992
hands-on professional management	decentralizing management authority within public services	decentralization; organizational unbundling; new forms of corporate governance; move to board of directors mode	increased autonomy, particularly from central agency controls	decentralized government: promoting more flexible, less layered forms of organization
shift to disaggregation of units into quasi-contractual or quasi-market forms	breaking up traditional monolithic bureaucracies into separate agencies	split between strategic core and large operational periphery		catalytic government: steering not rowing

shift to greater competition and mixed provision, contracting relationship in the public sector; opening up provider roles to competition	introducing market and quasi-market type mechanisms to foster competition	elaborate and develop quasi-markets as mechanisms for allocating resources within the public sector	receptiveness to competition and an open-minded attitude about which public activities should be performed by the public sector as opposed to the private sector	competition within public services: may be intra-public or with a variety of alternative providers
stress on private sector styles of management practice	clearer separation between purchaser and provider function	split between public funding and independent service provision	creating synergy between the public and private sectors	driven by mission not rules
greater emphasis on output controls	stress on quality, responsiveness to customers	stress on provider responsiveness to consumers; major concern with service quality	providing high-quality services that citizens value; service users as customers	customer-driven
explicit standards and measures of performance	performance targets for managers	more transparent methods to review performance	organizations and individuals measured and rewarded on the performance targets met	result-oriented government: funding outputs not inputs
stress on greater discipline and parsimony in resource use; reworking budgets to be transparent in accounting terms	capping/fixed budgets	strong concern with value-for-money and efficiency gains	provision of human and technological resources that managers need to meet their performance targets	enterprising government: earning not spending
	changing employment relations	downsizing		market-oriented government: leveraging change through the market
		deregulation of the labour market		anticipatory government: prevention rather than cure

Source:Larbi1998

Hede. A (1992:23-29) has characterized public sector by three separate periods of reform. The three reform movements influencing the character of the contemporary public sector are identified as the merit reforms, equity reforms and the managerial reforms. Since the introduction of managerial reforms, two other reforms i.e. Market reforms (Hood, 2001, Rhodes 2000) and bringing community back into the process of government has also been added. (Vigoda 2002:527-530).[23]

Hede (1992:23-29) argues that the first set of reforms began in the mid-eighteen century and involved a focus on abolishing political patronage. The second major area of reform was the equity reforms[24] that were contended to have begun in the 1950s and gained prominence in the 1970s. Equity reforms were formulated on the basis of removing barriers to employment opportunities, career progression, and the full range of job categories with regard to person's race, gender or ethnic origin. These reforms were achieved within the prevailing paradigm of public administration. He contended that third area of reform; the managerial reforms moved public service activity away from a traditional emphasis on administration to management.

Government failure was attributed to the general malaise of administration, bureaucracy and organization in public services. Hence, the role of public sector was reconceptualized as 'Steering' rather than 'Rowing' (Osborne and Gabler). Denhardt and Denhardt (2000:549-559) further shifted the focus to 'serving' from steering, keeping in mind the community. They have contrasted the concept of 'steering', with what they call "New Public Service" in which managers are advised to focus on empowering citizens. This implies that democracy; collaboration, trust and respect should be the main attributes of civil service reform. They say that in the rush to steer the boat, who owns the boat is forgotten. They focus on responsibility of public administrators to serve and empower citizens and on building public institutions marked by integrity and responsiveness

Kooiman (1993: 2)[25] says that since public sector is embedded in social and physical environment of the society, public sector should also be brought in more harmony with the variety of changes that surround local and state government. He defines socio-political forms of governing as ' forms in which public or private actors do not separately but in conjunction, engage in problem solving together, in combination,

---

[23] Policy managers often use collaboration as a strategy to improve the governance of interorganizational networks. For details see: Imperial, M (2005, 'Using Collaboration as Network Strategy' *Administration & Society*, V, 37, No.3 July pp 281-320

[24] World Bank Report (2006) reshifts the focus again to role of equity in process of development. It urges for equal opportunities and by avoiding deprivation in outcome. This is in tune with post Washington consensus.

[25] Kooiman, Jan (1993) Modern Governance: New Government-Society Relations London, Sage.

that is to say co-arrangements'. He views governance as forms of multi-organizational action rather than involving only state institutions. He has given an important model in this context.

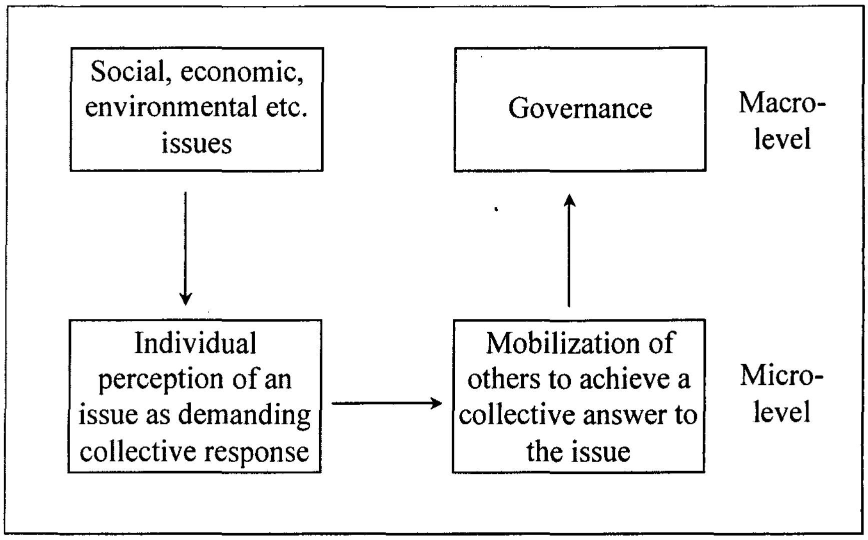

Figure 1: Governance as the result of individuals seeking collective action

1.5 IMPERATIVES FOR REFORM:

In reviewing the factors driving public sector reforms, there is need to look beyond developing countries to market economies where the new public management revolution started. This provides useful insights to understand better the pressures for, and influences on, public sector management reform in command and developing economies. Public sector management reforms in developing states cannot be disassociated from the international context and influences, particularly the involvement of international financial institutions, donor agencies.

The changes in the public sector have occurred as a response to several interrelated changes. Osborne and Brown (2005:30-67) have developed the PEST Analysis (Political, economic, social and technological changes) to study the logic of public sector reform. The large and growing literature on public sector management reforms in Western countries (e.g., Australia, Canada, New Zealand and the United Kingdom) has emphasized that changes in the economic, social, political, technological and administrative environments combined to prompt and drive radical changes in public administration and management systems (Lane, 1997:1-16; Kettl, 1997:446-462). The central objective of change was improvement in the ways in which government is managed and services delivered, with emphasis on efficiency, economy and effectiveness (Metcalfe and Richards, 1990). These factors will now be discussed briefly in turn.

1.5.1 Political Imperatives:

The rise of anti-government parties in the US and UK let to the attacks on the size and capability of the public sector. There were reforms to the public sector that followed the elections of Ronald Reagon in 1980 and Margaret Thatcher in 1979 (Flynn, 1997). Instead of simply being reforms, the whole conception of the role of the state and public sector began to be questioned. The debate over the public sector became contentious as new right parties attacked socialistic policies of government. Bureaucrats became effective scapegoats for governmental problems and a movement started to dismantle them.

1.5.2 Economic Imperative:

The initial impulse to public sector reforms in developing countries has been the economic crises that became transparent in the early 1980s. The oil crisis of the early 1970, falling commodity prices and recession in the West led to increasing balance of payments difficulties not only for the advanced countries but also for those countries which were dependent on them for export markets. Countries like India, Sri Lanka, Ghana, etc. opened up their economies, through the liberalization and deregulation of trade and investment, the program included macro-economic stabilization, privatization of public enterprises and a social element to protect those affected by transitional hardships.

Cornia (1987) demonstrated a general increase in levels of poverty in most countries of Latin America and Africa during the 1980s. Moser (1993) showed that the impact of structural adjustment on prices, wages and employment structures. Whether it was due to pre-existing failure of economic policy or structural adjustments is a matter of debate. The entry of multinational corporations aggravated the problems of the host country. Change in the private sector, gave a boost to the change in the public sector. Increased competition, both national and international, changes in management, changes in personnel have all occurred in private firms. Government's credibility had been defied, if it did not change the public sector in the same direction.

Poster (1990) lists out four factors that will accelerate the trend towards improving the organization. All the four factors namely, diversification of core functions like contracting out, shedding etc., improved performance, technological change, better communication, competition and partnerships with other firms, apply not just to the private sector but public sector as well. This heralded an era for change in both private as well as public sector.

1.5.3 Role of Multinational Financial Bodies:

World Bank and International Monetary Fund support the physical infrastructure of member countries including financial and economic. The primary responsibility of the World Bank, when it was founded was to finance the economic development of its members' nations. The World Bank leading programs have shown some measures to improve performance of public sector enterprises.

Paul Mosley (1988), suggests that, "The Bank is trying to resolve the problem by widespread program of privatization of public sector enterprises in the developing countries. Cook and Kirkpatrick (1995) state that bilateral agencies such as USAIAD and international financial institutions, like World Bank and the IMF, have exerted pressure on developing countries to undergo privatization.

Common (1998:440-450) also contends that supranational institutions, initiate and encourage global policy transfer through coercive means by tying developing funds, aid and resources to particular prescriptive policy foundations. Policy prescription and management reforms are characteristic of these financial institutions in their aid strategies. World's Bank concept of 'good governance' suggests that the administrative capacity is not associated to the politics of the concerned state. World Bank has consistently used technical and apolitical strategy, of improving governance. It has single mindedly focused on managerial capacity of the government and blamed it for the poor governance and thus advocated less government to lure the efficiency experts.

Berg Report on Sub-Saharan Africa (World Bank 1981:5) concluded that:

'It is now widely evident that the public sector is overextended, given the present scarcities of financial resources, skilled manpower, and organizational capacity. This has resulted in slower growth than might have been achieved with available resources . . .'

In the same rein, World Development Report (1987:66-7) observed, 'The Performance of State Owned Enterprises, varies widely between countries but their has frequently been poor... They have failed to play strategic role.... They have often put large burden on public budget and external debt'.

This approach of World Bank was the manifestation of the withering away of state on justification offered by both productive efficiency and allocative efficiency theorists (Cook and Kirkpatrick 1995)

The Washington Consensus was a term unintentionally coined by Williamson in 1980, as a lowest common denominator of policy advice being addressed by the Washington based institutions to Latin American countries as of 1989. It was a neo liberal counterpart for the Reaganism and Thatcherism that had been prescribed for developed economies – an ideology or reliance upon market forces, and of the reduction of state interference and expenditure to minimum.

Stiglitz (1998)[26] argues that world is moving towards post Washington consensus, where privatization is not an end but means where privatization should be accompanied by, or even subservient to, competition policy. But both Washington and post Washington consensus are couched in similar epistemological issues. They are specific to weighing up the relative strength of public and private sectors, but they do not look at the role of state historically, and draw distinction between state and society and whether capitalism is socially embedded.

1.5.4 Social Imperatives:

Governments are faced with greater pressure to respond to the citizen demands for more economical, timely and effective services. Political constituency issues have led to a concerted effort to include citizens in the process. It asks for more vibrant and frequent interaction and connection between governments and society. With the

[26]For details see: Bayliss.K and Cramer C(2001) 'Privatization and the Post Washington Consensus' in Development Policy in Twenty First Century(ed)by Ben Fine ,Routledge, London.

changing expectations, citizens have become clients and consumer. With the rise of new social movements, various deprived groups like women, ethnic minorities and disabled have started claiming their rights, and the trend away from bureaucracy has emerged.

1.5.5 Technological Imperatives:

Technological change affects management of government. Technological changes can be of two kinds (Osborne and Brown2005). The first, hard, which relates to structure and equipment and the second relates to the soft changes, i.e. process and skills of delivery services. With the spread of information technology, information and data of all kinds can be gathered and transmitted inexpensively and also transformed into performance information, which allows management to be decentralized. This leads to substantial management changes in Government, compared to the primitive technological ban of traditional model of administration. Information technology changes management and the hierarchy[27] and relationship between citizens and Government. Apart from the use of information and communication technology (ICT), new organizational forms are introduced. New service delivery techniques like public – private partnership or use or quasi market are used to take care of the new emerging issues.

Coming to the soft change, new professional skills have to be imparted keeping in mind the changing nature of the society. In India, various reforms related to ICT are being carried on. Both at the national and state level, Government is trying to adapt more user and citizen friendly technologies to make governance more accountable and transparent. Mahiti – Shakti in Gujarat, Tarahaat in Madhya Pradesh are few examples of cross cutting of civil society initiatives with programs of reform.

1.6 PRIVATISATION OR PUBLIC SECTOR REFORMS? THE UNRESOLVED DEBATE.

Reviewing the state of public administration Kettl (1993) has identified two types of attack on pubic sector. From the right, advocates of privatization (Savas, 1987) were pushing for the replacement of Governmental power with market competition

[27] For details see: Thomas, J & G.Streib (2005) 'E–Democracy, E-Commerce & E-Research, *Administration & Society*, Vol.37 no.3, July pp 259-280

through privatization. From the left people like Osborne and Gabler (1993) called for beefing up Government by making it more entrepreneurial. There is a clear distinction between the privatization and public sector reform. While the former focuses on the disposal of assets, the latter focuses on permitting enterprises some independence, while retaining the benefits of public ownership. In Savas (1987:288) words, "privatization is the key to.. better Government; . in that society's needs are satisfied more efficiently, effectively and equitably". It is fervently believed by the believers of the privatization that, less Government is better Government, private sector is more efficient than the public sector, and Governments are ineffective in providing services. Provisions of services by the private sector are more economical and public sector would improve in efficiency, effectiveness and economy by adopting private sector values. Public sector reform is a strategy to save the Government and to repackage it through reinvention. It is a kind of managerial solution to deal with political question. Public service workers and recipients are becoming more worried about the negative impact of outright privatization on their interest and welfare, public sector reform would present more acceptable alternative. (Cheung, 1997:435-458).

Privatisation is one of the many approaches to the conduct of the public business. Yet the experience of privatization applied to certain sectors or countries has ultimately raised objections and resistance even among early and committed proponents, who find that privatization in some contests creates serious risks (Nellis, 1999), which is interpreted as the result of public capture of the process. Even the strongest proponents of privatization admit the negative consequences of privatization such as loss of quality in service delivery, potential abuse, lack of incentives for private firms to take on unprofitable functions of the Government, and loss of social equity (Savas, 1987).

David Osborne, and Ted Gabler (1992) note that privatization is just one answer to the problems of government. "Privatization is one arrow in Government's quiver. Privatization is simply the wrong starting point for discussion of the role of the Government. Peter Drucker (1973) argued that we need more governance, not less. Privatization is not necessarily a key to better government. Privatization cannot replace government functions; indeed it cannot even replace a portion of these functions in society. There are areas in which government does better and even the best, such as in policy making and management, regulation, control, social equity, prevention of discrimination and exploitation, protection of individual rights and citizenship, provision of security and stability in governance and administration, social control and cohesion. (Rosenbloom 1993). On the other hand, private businesses can do better in certain other tasks related to the market, such as production and sale of foods, shoes, clothing and material supplies for consumer. (Osborne and Gabler 1992).

Wortzel (1989:633-638) says that by changing the ownership or privatization is not the only answer to problems created by public enterprises. The real problem arises from a lack of clear goals and objectives, coupled with inappropriate control, motivation and reward systems. Farazmand (2001) suggests that, reforming and developing public enterprise management and other areas of public administration is the best, alternative to privatization. He argues that sweeping privatization leads to some negative consequences namely, loss of government control over enterprises if the enterprise fails, rise in corruption, shrinking of public sphere in favour of private sector, and benefiting upper incomes peoples as opposed to broad base of citizens.

Lane (1996:1-16) has questioned the Deregulation, Privatization and Marketization framework (DPM) of Chicago School of Economics (George Stigler and Friedman Milton). He argues that this framework focuses more on efficiency rather than need for better accountability in terms of human rights, due process of law and transparency of rules and to the promotion of individual and or group justice. He says that accountability and issue of justice is not just confined to public sector but also to private sector. Heald (1998), says that, privatization is not a blanket panacea. He argues that real commitment to reform has been lacking in many developing countries. The social costs of privatization are too high, and ability to deal with multi nationals is too low in developing countries.

With the rise of business like and market model of governance, there is an emerging challenge to publicness of the services. The business like changes in the objective, structures functions, norms and uses of public tend to diminish its publicness in terms of its current trend towards eroding public – private distinction, shrinking socio economic role, narrowing composition of service recipients, worsening condition of accountability, and declining level of public trust (Haque, 2001:65).

Walsh K (1995) has also criticized the use of market-based approaches in the use of public services. Though, he agrees with the financial or quality gains derived from the market, he is worried about the distancing of political from the public realm. He argues that market mechanism provides justification for the thin state, concerned with procedural rather than substantive justice. Market based assumption might give us the option to choose, but in a democracy, people just don't want to choose, but also to get what they want. The resort to moral concepts such as social justice justifies public policies. And the ethical interpretation of the notion of justice may be employed in the understanding of ongoing policy making (Lane, 2000:267-303).

This raises the question of suitability of private sector values to public sector. Both public sector and private sector values have merits. Public sector can incorporate some of the private values but should safeguard its overall role as the guardian of public interest. Public sector is engaged in providing services whose scope and variety are determined not by the direct wishes of the consumer, but by the decision of the representatives of citizens. Role of politics in the state should be to protect the interest of weaker from the interests of the privileged. The government has a distributive role and should ask the question about the basic purpose of public policies; to what extent they promote social justice. Public policy marginal or comprehensive – has distributive implications, which need to be evaluated in terms of justice and equity. If government is looked upon as tool for social reforms, then what is the overall objective behind disinvesting public bodies? Each policy promotes certain interests at the expense of owners but the question remains – what is just public policy? How is the state to act if it wishes to enhance social justice?

Is there any set model for reform? Can New Public Management be transferred from developed countries to developing countries? As suggested by Fifth Pay Commission, (1997) reforms in India were inspired by New Zealand, Malaysia and UK but theoretically implanted reforms are not successful.

Riggs (2000) says that there is lack of local understanding about the structure of power amongst foreign change agents. Williamson (2000:258) says that, the impact of privatization depends on how it is done. Schick (1998:123-131) suggests reasons why most developing countries should stay away from New Public Management type reforms as practiced in New Zealand. Lack of political consensus, no mass based electoral support, and lethargic bureaucracy, has often come in as an obstacle to reforms.

It is apparent from the factors driving change that the context or conditions for introducing privatization-type reforms in developing countries may be different from those of developed countries. Public sector reforms in states tend to be driven by donor conditions. The comprehensive nature of reforms and fixation for quick results usually fail to take account of existing institutional and management capacities. This may overstretch and overload the administrative and management capacities, both of reforming and implementing agencies and of their political supporters. Countries differ widely in terms of their institutional conditions and their capacity to implement public sector management reforms based on market principles and practices.

While the new public management approach may not be a panacea for the problems of public sector management in developing countries, a careful and selective adaptation of some elements to selected sectors may be beneficial. Implementation needs to be sensitive to operational reality (Larbi 1999).

The disinvestments policy of Government of India shows how imperative it is to reexamine the market based reform, and to readdress the adverse impact on the under privileged or low income citizens who have suffered economic losses and have became victims of social exclusion. Chapters included in this dissertation, strive to provide answer to those contingencies arising out of the following situations, which directly affect the public sector undertakings in India:

1) Privatization as a reform process: Privatization as a reform process and its implications for state, democratic process, social justice, equity and judiciary.
2) Comprehensive reform strategy: A comprehensive reform strategy extending to other, areas of public sector such as accountability, right to information, information technology.

Any optimal policy of restructuring Public Sector Undertakings must consider following questions; what does good performance mean? Is good performance solely based on economic efficiency? But Public Sector Undertakings are accredited with social welfare objective.

So should social objectives of Public Sector Undertakings should be sacrificed to make the Public Sector Undertakings economically viable. The following chapters look into the above questions. Privatization policy followed by Government of India tends to overlook questions of social justice. The relentless privatization has ignored the adverse social implications of PSU. When the profit making state enterprises are privatized, the income usually shifts from public ex-chequer to few corporate house. Experience of privatization shows that it increases inequality, labor displacement, loss of accountability and corruption. Indian state has to find a balance between neo liberal tendency and constitutional nature of socialist state. The Indian state has to come out of this and clear its position.

The chapters included in this dissertation look into the following questions:

1. What was the initial impetus to privatize PSU,s?
2. What is socio-economic impact of privatization of BALCO?
3. What has been the role of judiciary in contestable areas of privatization?
4. What were the political reasons behind privatization?
5. Is privatization the only option?

1.7 SUMMARY OF THE CHAPTERS

To start with chapter 1 deals with the changing role of the state and the direction, which is most likely to be taken by it. An overview of the evolution of the idea of privatization process including the combination of factors driving change is discussed. It is argued that public sector is fast turning to privatization, which is only one reform option, ignoring other alternatives. This raises the question whether present ills of the public sector can be corrected by change of ownership i.e by privatization. This is addressed in the next chapter.

In chapter 2 theoretical aspects of public sector reform are discussed .It is argued that the impact of ownership is not important as public sector can also work efficiently and profitably by undertaking series of reforms. This is followed by a review of literature on comparative performance of public and private sector.

Chapter 3 reviews the disinvestments policy of PSUs in India till March 2003.This chapter also deals with genesis of PSUs, their performance and the changing policy of government towards them.

Next in chapter 4, a study is done to study the socio-economic impact of privatization on BALCO. To study the effect of 'strategic sale' pre and post – disinvestments scenario is discussed on three indicators namely: economic, social and labour policies.

The politics of privatization of public sector undertaking is the main subject of the 5th chapter. The focus is on the political shaping of reforms i.e. privatization and how it came about. The main emphasis is on the political expediency and public choice elements. Therefore a study of these elements in politics is important for understanding reforms that transform the country's growth process.

Chapter 6 reviews judicial decisions concerning the scope and applicability of constitutional provisions towards furthering social justice and equity in Indian society to facilitate understanding of the impact of privatization on Constitutional rights. It examines recent court decisions in BALCO, Right to Strike and recent decision the government's power to abolish posts to streamline government machinery. Through these decisions one may understand the role that judiciary has managed to play in the process of reforms leading to a capitalist transformation of society.

Finally in Chapter 7 the various deductions from the previous chapters are brought together to arrive at findings and summary of recommendations.

CHAPTER 2

THEORETICAL UNDERPINNINGS OF PUBLIC SECTOR REFORMS

2.1 INTRODUCTION

This chapter sets out to examine theories, which explain how public sector reforms are conceived and developed. They try to find answers to perplexing questions such as whether reforms are driven by ideology, conviction, inspiration or by deliberate and thoughtful analysis? Looking at reform from this theoretical perspective will enhance understanding about the national and international experience about reform, conditions for reform, and about their process of implementation. Several theories provide the theoretical underpinnings and justification for the changing role of government in general and for the new approaches in public management in particular. Neo-classical economics theories have particularly influenced market –oriented reforms and thus provide explanations to issues of choice, intention and competition. The fundamental idea is to provide a rationale on how can the task of government be made more efficient and effective? The chapter makes an attempt to answer the above question.

2.2 THE RATIONALE FOR PRIVATIZATION

This part of the chapter reviews the arguments that underpin the belief in the superiority of privatization as a mechanism for asset control. This is all the more necessary as there is apparently no strong foundation for the superiority of private ownership as a precondition for a firm's efficiency.

The theories discussed below are influenced by Market driven management, which is influenced by two fundamental ideas (Terry D.1998: 195). The first of these is competition guided by the neo classical belief in the efficiency of markets (B.Guy Peters, 1996). Advocates of the market driven approach, refer it to 'creation of internal markets in an attempt to reform the public sector' (B.Guy Peters, 1996). Competition is seen as a viable strategy for improving the performance of public sector because it lowers cost and increases efficiency. (Hood1995). Champions of the market driven approach believe that public managers will increase their performance if exposed to market. (Boston, Martin, Pallot, and Walsh, 1996). The second idea relates to the belief that private sector practices are superior to those used in public sector (B.Guy Peters, 1996). The perceived superiority of private sector practices has led to the inescapable conclusion that the distinction between public and private management is imaginary. According to this argument, 'management is management'. B.Guy Peters, 1996:28) Public Sector Management approaches are influenced by 'managerialism'. Politt (1990:2-3) asserts that managerialism is set of belief, values and ideas about the state of the world and how it should be. He focuses on better management to avoid wastage and improved performance. He considers private sector values as good business practices which should be implemented in public sector as well. This neo-Managerialism[1] draws on – public choice theory, agency theory and transaction cost economics, which is displayed in New Public Management. It is grounded on idea: people act in their self-interest (Buchanan, 1978). It extends the study of self-interested behavior beyond market transactions to situations where values - loyalty, duty and contracts –are supreme. It argues that members of a firm are bound together by self-interest, as are the parties to a contract. Self-interest also is a vital motivating force in the public service and is present in the relationship between principals and agents. All economic relations are explicit contracts between parties that have different interests but cooperate for their own purposes. But the very self-interest that motivates parties to contract means that contracts rarely are self-enforcing: one or both parties may seek to implement the bargain in ways that disadvantage the other. That is, they may behave opportunistically. Opportunistic agents may disregard obligations to principals and take self-serving actions at the expense of those they are obligated to serve (Donaldson, 1990).

1. The Public Choice Theory:

Public choice theory is an influential section of new approaches to public management reform. It is sometimes referred to as social choice theory, rational choice theory. Most seminal works in this field are by James Buchanan and Gordon Tullock(1962),Anthony Downs(1967), William Niskansen(1971).

Public Choice Theory is based on four principles: problem of aggregating individual preference, studies of formal social choice theory, individual as rational actors

[1] Terry D. (1998) describes new form of managerialism as '*Neo – managerialism*'

and the analysis of collective action problem (Mclean1986). Public choice takes the same principles that economists use to analyze people's actions in the marketplace and applies them to people's actions in collective decision-making. Economists who study behavior in the private marketplace assume that people are motivated mainly by self-interest. Although most people base some of their actions on their concern for others, the dominant motive in people's actions in the marketplace—whether they are employers, employees, or consumers—is a concern for themselves. Public choice economists make the same assumption—that although people acting in the political marketplace have some concern for others, their main motive, whether they are voters, politicians, lobbyists, or bureaucrats, is self-interest. Any concept of 'public spirit 'is rejected. In the past many economists have argued that the way to rein in "market failures" such as monopolies is to introduce government action. But public choice economists point out that there also is such a thing as "government failure." That is, there are reasons why government intervention does not achieve the desired effect. Public Choice provides inspirations for reforms such as contracting –out, privatization and performance management as cures for the ills of government.

Kenneth Arrow and Duncan Black proved that democracy, interpreted as majority rule, could not work to promote any general or public interest and that majoritarian democracy is inherently unstable. The economist Knut Wicksell was concerned about both the injustice and the inefficiency resulting from unfettered majority rule in parliamentary assemblies. Majority rule seemed likely to impose net costs or damages on large segments of the citizen or taxpayer group These considerations led Wicksell to question the efficacy of majority rule itself. His solution to the problem was to propose that majority rule be modified in the direction of unanimity. If the agreement of all persons in the voting group were required to implement collective action, it would guarantee that all persons secure net gains and, further, that the approved actions would yield benefits in excess of costs. Gordon Tullock wrote a seminal paper in 1959 using the example of farmer voters, each of who wants to have his local road repaired with costs borne by the whole community. Tullock showed that majority rule allows for coalitions of such farmers to generate election results that impose unjust costs on the whole community while producing inefficiently large outlays on local roads.

This theory arises in a business management context associated with behavioral studies of employer-contractor or employer-employee interactions but it can be applied to public and non-profit settings as well The central dilemma investigated by principal agent theorists is how to get the employee or contractor (agent) to act in the best interests of the principal (the employer) when the employee or contractor has an informational advantage over the principal and has different interests from the principal.

Moe(1984) observes that the whole of politics can be observed as a chain of principal-agent relationships, from citizens to bureaucracy and down the hierarchy of government to the lowest –level bureaucrats who actually deliver services to citizens. Williamson (1985) says individuals are opportunistic; they are prone to self-interest. So, the interest of agents and principals is bound to clash. Agency theory focuses on finding the most satisfactory way of negotiating contracts so that violations resulting from opportunism are minimized. Adverse selection and moral hazard are the two effects of agency problem, which happen due to pre-contract situation, and unobservability of agent's behavior (Moe1984). Though there is no complete solution to this problem apart from the use of performance criteria and range of monitoring devices.

The principal –agent problem is particularly severe in the classical bureaucratic form of administration were there are hierarchical and monopolistic agents. This new approach to public management aims to clarify the relationship between policy makers and service providers by making performance contracts more transparent. This is to make the demand of principal's clearer and the agent an incentive to perform.

3. Transaction –Cost

This theory recognizes the importance of authority relations. Williamson O.E. (1975) is the chief exponent of the transaction –cost approach. This approach is based on five main concepts: uncertainty (inability of economic agents to control their environment), small number bargaining (privileges that some firms enjoy due to their long term contract), asset specificity (specific skill that employee may have), bounded rationality (limited information and cognitive capacity of individual) and opportunism (ability of individuals to pursue their self interest) (Boston1996).

Williamson says firms aim to minimize the costs of transacting since there lays the key to their efficiency and profitability. It is particularly useful for evaluating the efficiency of alternating governance structures or institutional arrangements. Firms will integrate forward and backward to reduce uncertainty. This reduces their uncertainty and the possibility that they will be taken advantage of suppliers and distributors. Thus profitability and efficiency lies in minimizing the costs. An associated theory of Alchian and Demsetz's residual claimant theory (Rowthorn and Chang, 1993) which argues that if modern production is organized as team production, there is an interdependence of efforts. In order to avoid the problem of moral hazard, of team production systems a firm must hire a monitor to ensure that each individual member of the team is putting in his /her best. However this leads to the obvious question of who monitors the monitor. If the monitor has no claim to the residual, then the monitor is unlikely to put in the maximum monitoring effort. Ownership comes into the picture, because in a private firm, the monitor is the residual claimant to the profit of the firm and will thus have an incentive to maximize profits and hence the efforts of all team members. Public sector employees are not residual claimants and therefore do not face the same incentive. While the residual claimant theory provides justification for the owner-managed firm, it does not automatically provide support for private ownership in the form of a modern corporation. Informational asymmetries mean that shareholders are at a disadvantage compared with the managers whom they are supposed to monitor. Where no such informational asymmetries exist, individual shareholders of a large corporation may not have an incentive to monitor the managers, as the monitoring acquires the characteristics of a public good and there would be "free rider" problems. The problem of "shareholder collective action" (Chang and Singh, 1992) casts doubts on the validity of the residual claimant theory. Against such criticisms, it can be argued that the stock market can function as a monitor. If profits fall, shareholders will sell their shares and share prices will decline and will thus expose the firm to takeover. This provides the necessary disciplinary mechanism to ensure that the managers' objectives are in line with those of the shareholders. It is possible to argue that PSUs are more likely to be inefficient because there is no mechanism to sanction bad performance. Public enterprises are usually not under the threat of takeover and are free from the danger of bankruptcy. Thus, the absence of these two monitoring devices can affect bargaining over wages, employment and long-term investments. The absence of punishment for bad performance means that there is less incentive than in the private sector to remain efficient.

4. Dispersed Knowledge Theory

Dispersed knowledge theory uses the idea of informational asymmetries to explain the superior performance of privately owned firms (Rowthorn and Chang, 1993). Given the difficulties in transmitting information, the State is less knowledgeable than private managers or private owners with regard to the everyday functioning of firm. For this reason, decision-making will be more efficient when left to private owners and managers. The key argument is that the State can never replicate the market's ability to process information in a decentralized manner and will fail particularly when there are rapid changes in objective conditions surrounding the firm.

Under competitive market conditions, private and social objectives are more closely aligned and externalities are smaller, so that private ownership is likely to have an advantage and this is the main argument that aligns neo – classical theories promoting privatization.

2.3 ASSESSMENT OF THEORIES

The above theories suffer from various flaws.

Public choice theory is based on competitive self-interest, which dominates the human nature. An individual responds to variety of other impulses and is not always that opportunistic as suggested by the theory. Human beings are not just economic beings and but also cultural and social beings. Their environment influences them in variety of ways. This theory ignores all normative and contextual factors and is therefore incomplete (Dore 1983).

Agency theory fails to recognize the unequal distribution of power in the society. It treats various stakeholders as equal ignoring the fundamental difference between labor and management who have different bargaining power. Moreover it treats only agent as opportunistic and not the principal. It is a parochial, culturally fixed and a one-sided theory. It ignores the exploitative nature of principal. It does not answer the practical question as to how incentives should be used? The theory ignores the social and constitutional constraints. As Heyman (1988:34) says that bureaucracy has other objectives other than government policies, hence principal-agent model breaks down at public policy level.

Transaction Cost theory provides an incomplete explanation for the development of large firms. The theory does not give sufficient attention to social and moral constraints. Williamson (1975) acknowledges that internal cost of transaction might be higher than the external costs. Perrow (1986:245) also suggests that integration forward and backward is not possible in every situation as internal costs may be higher in some situations and may fail in setting a perceived equilibrium.

2.4 CONTINUING DEBATE ON 'PRODUCTION EFFICIENCY' OF PSUs

This part of the chapter addresses questions on what defines efficiency parameters of enterprises.

Pescartice and Trapani (1980) tried to provide a precise comparison of the production efficiency of public and private utilities to assess whether significant cost differential arises from different behavioral objectives under different modes of ownership. They concluded that the public enterprises were indeed more efficient than private utilities.

Bhaya (1990) uses Annual Survey of Industries (ASI) data for the year 1981-1982 to 1985-1986.He believes that it is safe to conclude that public sector management efficiency is in no way inferior to that of private sector.

Jha and Sahni (1992) use ASI data for the years 1969-1971 to 1982 –1983 for four industries: cement, cotton, electricity and iron and steel. The latter two industries were from public sector and first two from private sector .The authors find no evidence of allocative inefficiencies in general and each of them were relatively as efficient as one another.

Sudhir Naib's Study (2004)[2] attempts to assess the impact of ownership and competition on efficiency[3] of Indian firms. The selection of enterprises was based on product profile and closest possible market share. The group consists of 12 enterprises in public sector and 12 in private sector. The sample consists of a number of sectors, such

---

[2] For details See: Naib S (2004), : Ownership, Competition and efficiency: New evidence, *Economic and Political Weekly*, May 15-21, Vol XXXIX No.20

[3] Efficiency is usually defined as the deviation of the actual cost, from the minimum achievable cost of production.

as Steel, Aluminum, Zinc, Copper, Fertilizers, Paper and Engineering. The result shows that PSUs firms experienced an annual average growth rate of 0.47% during 1988-89 to 1999-2000, against an average annual growth rate of 0.03% for private firms. It is surmised that better performance of the public sector may be due to the difference in protection rates between the public and the private sector. Thereafter, from 1992-93 to 1999-2000, i.e. in the post liberalization period, PSU experienced a negative growth rate of 0.53% whereas private firms had a modest positive growth rate of 0.12%. The fall in the growth rate of PSUs in the post liberalization, period shows that with the earlier protection not available, they would not adjust to the new environment and cope with increasing competition. Prior to 1991-92, PSU, although operating in competitive environment, were protected or favored. However, after 1991-92, this favour was removed, and in many cases, competition emerged, not only from domestic private players, but from MNCs too.

The policy implication, of this analysis, is that PSU might not be an inefficient form of ownership. PSU have contributed to several key sector of the economy and are crucial to fulfilling of social objectives, desirable in a welfare state. The PSUs selected in the study have performed equally well, in terms of productivity vis- a -vis, their private counterparts in several areas. They might not have generated expected financial returns due to a number of constraints, viz, locational disadvantages, faulty investment decisions, over manning, burden of taking on sick private sector units to protect employment and social welfare expenditure etc..

The allegation that PSUs have invariably performed badly cannot survive even an elementary examination of facts. Consider the following. POSCO (Pohang Steel Company) is state owned; is the giant Korean enterprise producing 467 tons of crude steel per person in 1986 compared with an average of 327 tons for Japan's five biggest steel producers. (The Economists, 21 May1988). POSCO is not an exception. In Sub Saharan Africa, notable examples of successful PSUs include the following: the Kenyan Tea Development Authority, Ethiopian Telecommunication Authority, Tanzanian Electricity Supply Company Limited (World Bank 1983). Also, the claim that PSUs are the loss makers and bloat on the economy is not true. The private sector accounts for the maximum cases of industrial sickness and closure, according to Economic Survey 2006 of the total 6,775 references received by Board for Industrial & Financial

Reconstruction, 6480 are from companies in the private sector. Among the sick PSUs, the State Governments owns 107 and Central Government owned 188. The ET Survey[4] of Public Sector Units shows that sales of 276 PSUsgrew 19% to Rs.742,249 crore and their profit after tax increased by 18% to Rs.66,630 crore

Table 2.1

	2002-03	2003-04	2004-05
Sales/ Turnover	556,437	623,697	742,249
Profit (Loss) Before depreciation, Interest Prior Period Adjustment, Provision for Tax		134,877	147,430
Depreciation	28,900	31,133	33,750
Interest	23,858	23,858	22,338
Prior Period Adjustments/ Extraordinary Items	(1,119)	774	(1,573)
Provision for Tax	18,690	23,533	23,138
Profit/(Loss) As per Account	32,898	23,533	23,138
Dividend	14,157	15,685	20,710
Equity	127, 176	138, 624	146,077
Equity Held by Goi	103, 634	109, 165	113,548
Accumulated Losses	82,896	83,170	86,592
Net Worth	277, 125	277, 173	327, 959
No of Employees	2,016, 766	1,918, 036	1,856,101

The survey is based primarily upon data available from the Comptroller and Auditor General of India. The public sector's dependence on business from the Government is not much: only a quarter of sales of all PSUs are from the Government, with the rest coming from the private sector.Of the 276 PSUs that were studied by the CAG, only 164 companies made profits and 101 companies made losses (the remaining are in pre-operative stages). The main sectors contributing to profits are petroleum, telecommunications, power, steel, coal and lignite. Of these 164 PSUs, only 105 PSUs declared dividends during '05.

[4] For Detail see: ET PSU Survey,May,2006 The Economic Times.

The Government provides support to PSUs in various forms. However, over the years, their dependence on government declined progressively. The total annual outgo by the government on PSUs declined 5% to Rs.34, 971 crore in 2005. Of this contribution to equity capital went down 22% to Rs.4, 311 crore, loans also declined 18% to Rs.2,886 crore and subsidies have come down marginally to Rs.26,738 crore.

Non-departmental enterprises were the leading contributors towards savings in the public sector. They have contributed close to 4.4% towards gross domestic savings in FY'05 – an increase of 124% from'00-01. Higher profitability is the key reason for the higher contribution to savings made by PSU firms.

The total value of production rose by 20% in 2004-05 and 22% in 2003-04. In contrast, total assets have grown at 12.4% and 11.6%, while capital employed has been contained to an even greater extent, growing by only 7.6% and 4.6%(Table 2).

Table2.2

	2002-03	2004-05	2003-04
Value of Production	509,280	620,972	744,400
Total Assets	849, 104	947,594	1,064,641
Capital Employed	435,729	455,780	490,514
Ratio of VoP to Total Assets	0.6	0.66	0.7
Ratio of VoP to Capital Employed	1.17	1.36	1.52

Source: ET PSU Survey, May 2006 The Economic Times

Another indicator of operating performance is improved capacity utilization. The percentage of companies with capacity utilization of more than 100% has gone up from 40.3% to 45.8% whereas the percentage has gone down on lower capacity utilization, as per the latest data published by CAG. However, there is wide variation among the sectors in terms of utilization. The best performing sectors are chemicals and petrochemicals, coal and lignite, mines and minerals, petroleum and natural gas, power and steel. Total dividends declared by PSUs jumped 35% in 2004-05, with oil cos contributing to nearly half the dividends declared in 2005. There has been an improvement in terms of sales, profitability, and productivity – both in capital and labour(Table 3). The end result is reduced dependence on the Government, which anyway gains from higher dividend payments on its investments. In addition, PSUs have become much more efficient in utilizing their manpower and in optimal utilization of their assets

Table 2. 3

	2002-03	2003-04	2004-05
No. of employees	2,106,766	1,918,036	1,856,101
Sales Per employee	27.6	32.5	40.0
Profit per employee	1.6	2.9	3.6

Source: ET PSU Survey, May 2006 The Economic Times

2.4 CONCLUSION

The theoretical prediction of private rights theory suggests that PSUs perform less efficiently and less profitably than their private counterparts. Empirical evidence on public and private ownership shows that reverse is true. This is not to suggest that all PSUs are as efficient as private sector and all efforts devoted to privatize them are waste. There are white elephants amongst them, which are incurring huge losses and are less efficient[5]. But the question is, whether privatization is the only solution to make public sector units more efficient and if there is place for any other alternative model which includes the broad normative values which leads to the change in political and economic system towards making it less coercive, unjust, and inequitable. The theories of new economics have blinded the policy makers to the insights of the earlier administrative traditions, which were embedded in culture and history of the nation. As next chapter shows, the disinvestments policy in India was premised on one conceptual framework i.e on new economics of organization and privatization. Other approaches to public sector were easily forgotten in the excitement to make public sector more efficient, profitable and a bad copy of private sector.

[5] See: Majumdar,S ' Assessing comparative efficiency of the state –owned mixed and private sectors in Indian industry 'in *Public Choce*,96 pp1-24.

CHAPTER –3

PUBLIC SECTOR: STRUCTURE, GROWTH AND POLICY REVIEW

3.1 STRUCTURE

The sustained growth of Public Sector Undertakings (PSU) in India dates back to the early years of planning following national independence. An organizational phenomenon borne out of the concept of mixed economy came to establish it's dominance in basic and strategic industries such as steel, minerals, metals, coal, power, petroleum, chemicals, fertilizers, pharmaceuticals, heavy engineering, and a major shareholder in industries such as transportation services, agricultural-based products, trading, marketing, food processing and financial services.

These PSUs, as instruments of national development, supplemented government efforts to promote the social and economic objectives laid down in the national plans. They provide greater flexibility as compared to government departments in implementing program such as self-reliance, social justice, expansion of employment opportunities, balanced regional development, acceleration of the rate of growth of agricultural and industrial production, prevention of concentration of economic power and technological self-sufficiency. PSUs have thus become principal instruments of planning in India, occupying commanding heights of economy, and controlling and directing in a large measure the entire course of national development. They are established as government companies or statutory corporations under specific statues of Parliament. This however excludes commercial banks and financial institutions. .

In India, there are four categories of PSUs, as listed below:

i. Departmental undertakings (e.g. railways, posts and telecommunications) are an integral part of government departments. They operate both at the central and state government levels. They are service-oriented hence perform trading and manufacturing functions profitably. The operating results of these business-type undertakings are kept separately in accordance with normal commercial principles, but are integrated with the accounts of their parent departments for government accounting purposes.

ii. Statutory corporations both at the central government level (e.g. Oil and Natural Gas Commission, Indian Oil Corporation, and Food Corporation of India) and state government levels are established by the statutes of the respective legislatures.

iii. Autonomous bodies, which are set up as, registered societies (e.g. Council of Scientific and Industrial Research, Indian Council of Agricultural Research) under government resolutions. They are both at the central and state government levels and are substantially or partly funded by the respective governments.

iv. Government owned or controlled companies are established under the Companies Act in common with companies in the private sector, and comprise companies in which not less than 51 per cent of the paid up share capital is held by the central government or by any state government - or partly or wholly by both. Included in this fourth category are holding companies (e.g. State Trading Corporation of India, Minerals and Metals Trading Corporation of India) which own more than 50 per cent of the share capital of their subsidiaries

According to Public Sector Enterprises Survey 2003-04, by the Department of Public Enterprises, Ministry of Heavy Industries and Public Enterprises, there were 242 Central public sector enterprises as on 31st March, 2004 (excluding 6 insurance companies and two financial institutions) as compared to just 5 in 1950-51.In March 1997 there were 242 Central Public Sector Units with a work force of 20 lacs. The investment in the Public sector Enterprises grew from Rs.29 crore in 1951 to a whooping Rs.2, 30,140 crore in1999. In 1999 there were 129 profit making PSUs capable of fulfilling the socio-economic agenda of the government.

Their break-up is given below as:

- Enterprises under construction (12)
- Enterprises manufacturing/producing goods (147)
- Enterprises in the services sector (82).

Further, according to the above-mentioned survey, the total investment in the central public sector enterprises (CPSEs) operating at the end of 2003-04 was around Rs.34209 crore. Of this, over two-third was invested in the manufacturing sector and the remaining one-third went to the services sector.

Table 3.1 gives an indication of the size of public sector. There are 290 central government PSUs, including banks and insurance companies. These have an annual gross value added of Rs 2.8 trillion. Eighty-one companies out of the 290 have been partially privatised (listed). These 81 create Rs 1.8 trillion of gross value added per year, while the remaining 209 unlisted companies create Rs 0.9 trillion of value added per year. Thus the unlisted PSUs are roughly half the size of the listed PSUs

TABLE 3.1

Summary Statistics About Central PSUs, 2003-04

(Values in Rs Billion)

	Listed		*Unlisted*		*Total*	
	Number	*Value*	*Number*	*Value*	*Number*	*Value*
Sales	81	5,806	209	1,492	290	7,297
Total assets	81	16,877	209	7,559	290	24,436
Value added	81	1,863	209	936	290	2,799
Market cap.	81	4,257	209	–	–	–
Profit after tax	81	464	209	212	290	677

Source: CMIE.

Nearly 55% of the value added in the organized sector in India is in the public sector. The government controls 56% of parts of the finance industry such as banking and insurance, and 81% of oil production and distribution. A key element of infrastructure is electricity and telecom in which 79 and 83% of the value added is in the public sector respectively (Table3. 2). These facts suggest that even though there has been an attempt to encourage liberal economic policies for many years, public sector remains a dominant aspect of the Indian economy.

TABLE 3. 2

Share of Public Sector as a % of Total Industry

	Gross Value Added			*Profit After Tax*			*Gross Fixed Assets*		
Sector	*1993*	*1996*	*2004*	*1993*	*1996*	*2004*	*1993*	*1996*	*2004*
Banking	73	57	56	156	34	45	66	45	40
Infrastructure	80	76	81	82	71	94	89	81	82
Electricity	80	75	79	85	72	87	89	81	82
Telecom	80	80	83	66	68	107	86	81	82
Oil	85	86	81	85	76	76	88	84	73
Crude Oil	98	98	98	98	98	96	99	97	98
Petroleum	74	73	68	78	63	70	71	65	59
Others	31	24	19	-4	6	15	37	29	22
Total	57	51	55	33	31	55	55	49	48

Source: CMIE.

3.2 GOALS OF PSUs

The public sector acquired its dominant role since the early 1950s as a consequence of the need for planned and accelerated economic development. The private sector was found weak and ill equipped to face the challenges of the contemporary times especially the role in basic industries and infrastructure was not forthcoming for various reasons such as long gestation periods, lumpy investments and low returns. The private sector was also not willing to establish industries equitably in all the regions of the country.

Some of the major objectives of setting up PSUs as envisaged originally are summarized as under:

- To help in the rapid economic growth and industrialization of the country.
- To create the necessary infrastructure for economic development.
- To promote redistribution of income and wealth.
- To create employment opportunities.
- To promote balanced regional development.
- To assist the development of small scale and ancillary industries; and

- To promote import substitution, save and earn foreign exchange for the national economy.

In the establishment and functioning of PSUs profitability has never been given much importance. Rather, their existence is justified on grounds of social justice and equity.

The public sector undertakings (PSUs) can be divided broadly into three categories (Source: Ninth Five Year Plan, Vol; 2):

i. Profit-making PSUs which are able to finance their development and growth plans on their own;

ii. PSUs which are making only marginal profits or losses and are not in a position to finance their modernisation/growth/diversification plans without Government support; and

iii. PSUs incurring substantial losses.

The first set of PSUs i.e those making good profits are limited in number and include all companies in the oil sector, Steel Authority of India Ltd (SAIL), Bharat Heavy Electricals Ltd (BHEL), Indian Petrochemicals Corporation Ltd (IPCL), etc In pursuance of the policy objective to make the public sector more efficient and competitive. The Central Government has decided to grant enhance autonomy and delegation of powers to profit-making public sector enterprises in terms of incurring capital expenditure, establishing joint ventures and subsidiaries of strategic alliances and restructuring and implementation of schemes for HRD subject to meeting the eligibility criteria), Oil & Natural Gas Commission (ONGC), Gas Authority of India Ltd (GAIL), Indian Petrochemicals Corporation Ltd (IPCL), Steel Authority of India Ltd (SAIL), Bharat Heavy Electricals Ltd (BHEL), National Thermal Power Corporation (NTPC), Videsh Sanchar Nigam Ltd (VSNL) and Mahanagar Telephone Nigam Ltd (MTNL).

Another set of profit-making PSUs have been identified for grant of increased financial and managerial autonomy. These have been further divided into two categories - (Category-I) and (Category- II). Category-I covers those PSUs which had made profits in the last three years continuously, had pre-tax profit of Rs.30 crore or more in at least one of the three years and have a positive networth. Category-II covers those PSUs which have made profits in the last three years continuously and have a positive networth. The concerned administrative Ministry, however, will decide whether a public sector enterprise fulfils the requirements of category-I/category-II company before granting it enhanced powers.

The second set of PSUs i.e those making marginal profits/losses, would need to be provided limited budgetary support and other assistance to enable them to stand on their own feet i.e independent of budgetary support, in the shortest period. It needs to be borne in mind that the public sector has been created and nurtured over the last four and a half decades of planned development as an effective instrument for development and meeting the socio- economic imperatives. The public sector has played an important role in meeting the objectives of growth, modernisation and self-reliance. However, problems have arisen in a number of cases primarily because of insufficient autonomy and lack of operational freedom on the one hand and multiplicity of objectives on the other. The result is that many of the PSEs have become procedure-oriented rather than result-oriented and are not able to respond adequately to the opening up of the economy and challenge of market forces. Such undertakings would need to be provided limited support and assistance to enable them to graduate to the first type of PSE, and to stand on their own in the shortest possible time.

In the third group, there are a number of enterprises, which have been incurring huge losses for many years. Quite a few of these undertakings were originally in the private sector, became sick and were nationalised, primarily to protect the employment of their workers Many of these enterprises are not serving any socio-economic purpose. As a matter of fact, keeping them on huge doses of budgetary support - both Plan as well as non-Plan - is only resulting in sub-optimal usage of scarce resources. Such financial resources can be utilised much better in many other areas with much greater gains to the economy as a whole. In the case of units, which are not serving any socio- economic purpose and cannot be revived at reasonable cost and in limited time frame, hard decisions would need to be taken.

3.3 CONTRIBUTION TO INDIAN ECONOMY

3.3.1 Contribution to Central Exchequer

The public sector contributes to the exchequer in the form of dividend on equity, various forms of duties and Taxes. During 2003-04, the public sector contributed about

Rs89024 crore to the exchequer by way of dividend (Rs.9596.45 crore), interest (Rs.788.68crore), excise and custom duties and various taxes (78639.75 crore).

3.3.2 Contribution to the National Economy

Public sector occupies a key position in several sectors, especially in the production of fuel, basic metals, non-ferrous metals and fertilizers and also in employment. The share of public sector production (PSP) in the national production (NP) for the year 2003-04 is given below (in percentage) for some major products:

1. Coal (361.17), 2. Lignite (27.96), 3. Petroleum (187), 4. Finished Steel (39.25), 5. Aluminium (816.50), 6.Primary lead (33.70), 7.Zinc (254.55percent), 10. Fertilizers (14265). Besides, the public sector contributes significantly in employment generation in the country (Around 17.66 lakh people)

3.3.3 Financial Performance

Financial performance of central public sector enterprises (CPSEs) for the year 2003-04 in the manufacturing/producing goods sector and services sector is tabulated below:

Table 3.3

Production in manufacturing and service sector

S. No.	Particulars	Production Sector		Service Sector		Total	
		2003-04	2002-03	2003-04	2002-03	2003-04	2002-03
1.	No of operating Enterprises	147	145	83	82	230	227
2	Capital employed	232584.09	217839.39	219091.96	199320.48	451676.05	417159.87
3	Net worth	180910.00	141646.67	112217.99	100199.48	293128.99	241846.15
4	Turnover/ Operating Income	427659.60	396482.13	158779.99	138682.64	586139.59	535164.77
5	Cost of production/ services	396072.60	374997.16	142637.07	124575.31	538709.67	499572.47
6	Cost of goods sold	395501.38	369702.24	147187.36	133238.80	542688.76	502941.04
7	Value added	137972.66	129668.28	77508.83	68494.19	215481.49	198162.47
8	Profit before dep., int. and tax (PBDIT)	89560.21	68549.89	40748.68	32655.59	130308.89	101205.48
9	Depreciation	18591.13	15192.20	12842.47	12639.41	31433.60	27831.61

10	Profit before int. & tax (PBIT).	70969.08	53357.69	27906.21	20016.18	98875.29	73373.87
11	Interest	13066.20	12293.82	10518.59	11249.04	23584.79	73542.86
12	Profit before tax (PBT)	57902.88	41063.87	17387.62	8667.14	75290.50	4983.01
13	Tax provisions	17242.05	14798.47	7879.74	2633.29	22121.79	17431.76
14	Net profit	40660.83	26265.40	12507.88	6133.85	53168.71	32399.25
a	Profit of profit making PSES	48410.86	36005.25	13156.82	7221.40	61567.68	43226.65
b	Loss of Loss incurring PSEs	-7750.03	-9739.85	-648.94	-1087.55	-8398.97	-10827.40
c	No of Profit making PSES	81	63	59	57.	140	120
d	No of Loss incurring PSEs	65	81	23	24	88	105
e	No of profit/ loss PSES	1	1	1	1	2	2
15	Dividend	13076.68	12170.00	2205.86	1597.71	15282.54	13767.71
16	Dividend Tax	1676.21	1080.34	284.86	634.19	1960.69	1714.53
17	Retained profit	25907.94	13015.06	10017.54	3901.95	35925.48	16817.01
18	Financial profit						
a	Sales to Capital employed	183.74	182.01	72.47	69.58	129.77	128.29
b	PBDIT to Capital employed	38.51	31.47	18.60	16.38	28.85	24.26
c	PBIT to Capital employed	30.51	24.49	12.74	10.04	21.89	17.59
d	PBT to Net worth	32.01	28.99	15.49	8.75	25.69	20.60
e	PBDIT to Turnover	20.96	17.29	25.66	23.55	22.23	18.91
f	PBIT to Turnover	16.61	13.46	17.58	14.43	16.87	13.71
g	PBT to Turnover	13.55	10.36	10.95	6.32	12.85	9.31
h	Net Profit to Turnover	9.51	6.62	7.88	4.42	9.07	6.05
I	Dividend Payout	31.16	46.33	17.64	26.05	28.74	42.49

Source: Survey of Public Enterprises 2003 -04

3.4 POLICY REVIEW

The Industrial Policy Resolution dated April 6, 1948 envisaged an important role for the public sector. It laid down that besides arms and ammunition, atomic energy and Railway transport which would be the monopoly of Central Government, the State would be exclusively responsible for the development of six basic industries namely, iron & steel, coal, aircraft manufacture, ship building, mineral oils, manufacture of telephone, telegraph and wireless apparatus - except where, in the national interest, the State itself found it necessary to secure the cooperation of private sector. All the other areas in industry were left open to private enterprises

The vital role to be played by the public sector was enshrined with a much greater emphasis in the Industrial Policy Resolution of 1956 wherein industries were classified into three categories. The first category contained industries, the future development of which was to be the exclusive responsibility of the State. The second category consisted of industries that were to be progressively State-owned and in which the State was, therefore, to generally take the initiative in establishing new undertakings, but in which private enterprise was also expected to supplement the efforts of the State. The third category was to include all the remaining industries and their future development was in general left to the initiative and enterprise of the private sector. The Industrial Policy Statement of 1973 identified high priority industries where investment from large industrial houses and foreign companies was to be permitted. The Industrial Policy Statement of July, 1980 laid emphasis on the revival of the efficiency of public sector undertakings through a time bound programme of corrective action on a unit by unit basis. The Industrial Policy Statement of July 24, 1991 adopted a new approach towards public enterprises and laid down certain priority areas for the growth of these enterprises namely, essential infrastructure goods and services, exploration and exploitation of oil and mineral resources, technology development and building of manufacturing capabilities in areas which are crucial to the long-term development of the economy and where private sector investment is inadequate and manufacture of products where strategic considerations are predominant such as defence equipment.

The government appointed several committees to look into the problems of PSUs. The prominent among them being the Estimate Committee (1955), Administrative Reform Commission (1967), Mohd. Fazal Committee (1980), Economic Administration Reforms Commission (the L.K. Jha Commission) on Government & Public Enterprises which submitted four reports on top management and the Boards, autonomy and accountability, Government clearances and approvals and profitability of public enterprises respectively during November, 1983 - June, 1984 and the Committee to Review Policy for Public Enterprises headed by Dr. Arjun Sengupta which submitted its report on 31st December, 1984.

In 1951, a retired civil servant A.D. Gorawala was asked by the planning commission to assess the capability of existing public administration for undertaking the demands of development planning. He submitted two reports –one of which was on

'Efficient Conduct of State Enterprises', reflected on the increasing role of public enterprises in India.

The Estimates Committee (1955) suggested 'The public undertaking through their chairman should be directly responsibility to the minister in the matter of broad questions of policy which are within the sphere of responsibility to the minister in the matter of broad questions of policy which are within the sphere of responsibility of government'. This would lead to quick decision, lesser costs of production and efficiency.

The Administrative Reform Commission (1967) cautioned that 'excessive external control will inevitably lead to frustrating effect on the management, weaken it's initiative and restrain it from taking quick decisions.'

Chagla Commission and Mohd.Fazal Committee also talked of autonomous corporations with minimum government interference.

Some of the important recommendations of L.K. Jha Commission are listed below[1]:

1. To ensure selection of best men, the level of remuneration in public enterprises should be determined with greater attention to the conditions in private sector than those in Government service.
2. The functioning of the Board should be professional, managerial and decisive and part-time Directors should be people who can contribute with their knowledge and expertise to the efficient management of the enterprise.
3. While public sector undertakings, like in private sector, must be subjected to such statutory controls as exist, they should not be subjected to any other constraint on their autonomy except that when they seek finance from the Government, they must justify it fully. However, once an investment decision has been approved and necessary funding has been provided for, the management should be allowed to go ahead without seeking any further clearances.
4. Market forces should determine the pricing by a public enterprise in a competitive situation. The imposition of a non-commercial obligation by the Government on a public enterprise should be accompanied by a specific compensation for such an obligation.

[1] Source: State Group On Reforms In State PSUs Vol.1, Final Report .Planning Commission ,Government of India, Aug ,2002.

Some of the important recommendations of the Arjun Sengupta Committee report are given below[2]:

1. Careful detailing of all plans of public enterprises with the National Plan is required in only a few core sectors and plans of enterprises in the non-core sectors are to be integrated with the National Plan only in an indicative manner as for the private sector.
2. Chief executives and functional Directors of public enterprises should be given tenure of five years and may be removed at three months notice for unsatisfactory performance.
3. On the basis of agreed plans for investment, production, capacity utilization etc. for a period of five years, the administrative ministry and the holding company should enter into a MOU and the performance of the latter would be evaluated on this basis.
4. Accounting policies and standards should be evolved for public enterprises with the help of CAG, professionals in the field and Bureau of Public Enterprises (BPE).
5. Where a company has suffered cash losses for a number of years, Bureau of Public Enterprises should examine such cases for capital restructuring.

The overriding concern of the above Committees was based on 'Washington Consensus'

Economic Policy Changes and Challenges for the Public sector Undertakings (Post 1991)

The economic policy changes introduced by the Central Government since July, 1991 has covered various issues relating to the scope and administration of the public sector units. The different elements of the policy relating to public sector undertakings, as outlined in the policy statement of July 1991, have been set out by the Ministry of Industry (Department of Public Enterprises) in their document 'Public Enterprise Survey 1992-93'. Policy Statement covers the following decisions.

---

[2] Source: State Group On Reforms In State PSU,s Vol.1, Final Report .Planning Commission, Govt of India, Aug, 2002.

a) Portfolio of public sector investments will be reviewed with a view to focus the public sector on strategic, high-tech and essential infrastructure. Whereas some reservations for the public sector is being retained, there would be no bar for area of exclusivity to be opened up to the private sector selectively

b) Chronically sick Public Sector Units will be referred to the Board for Industrial and Financial Reconstruction (BIFR). A social security mechanism will be created to protect the interest of workers.

c) In order to raise resources and encourage wider public participation, a part of the government's share-holding in the public sector would be offered to mutual funds, financial institutions, general public and workers.

d) Boards of public sector companies would be made more professional.

e) There will be a greater thrust on performance improvement through the Memorandum of Understanding (MoU) system, through which managements would be granted greater autonomy and will be held accountable.

The reform program of the government aimed at increasing the efficiency of the public sector and reducing the drag on the government budget by the loss-making public sector undertakings. There is greater emphasis on profitability and resource generation in the public sector. Earlier the performance of public sector was judged by the range, variety and prices of services it rendered to the public and not much by their financial results. With liberalization, the philosophy and the fundamental principles of the public sector has undergone significant changes. Competition emerged in the public sector from within the country and outside world to bring more efficiency and productivity. Hence, the major challenges for public sector undertakings in India today include productivity growth through up-gradation of technology, boosting in-house research and development (R&D) activities, and to increase profits and efficiency of operations.(Aggarwal R.N.2001)

3.5 DISINVESTMENT AND BEYOND

One aspect to move on to more market friendly economy to improve productivity and efficiency was the effort to privatize public sector undertakings. Initially the emphasis of the disinvestments was on part of the equity to various private sector players both domestic and foreign. This was done through offering shares in bundles, to help government divest shares in loss making enterprises at reasonable prices. But the shares were sold at rock bottom prices. The failure of bundling experiment led the government in the direction of privatization. In other words Indian state had started drifting towards 'privatisation'. Privatisation can generally be described as involving the transfer of responsibility for part or all of a service from government to the private sector (Taylor and Pittman1992). Privatisation represents a conceptual continuum, ranging broadly over divesture and non-divesture options (Ramanadham 1995). Privatisation is based on the notion that through market more efficient services can be provided. It requires minimal intervention by state.

To make the privatization deal attractive government resorted to various concessions like under valuation of public assets, to put profitable PSUs for sale and handing over management control to private players. The policy of the Government on disinvestment[3] has evolved over a period and it can be briefly stated in the form of following policy statements made in the chronological order:

INITIAL PHASE (starting from the onset of reforms till the privatization had not become the norm)

The policy, as enunciated by the Chandrashekhar Government (Budget speech 1990-91) was to divest up to 20% of the Government equity in selected PSUs in favour of public sector institutional investors. The objective of the policy was stated to be to broad-base equity, improve management, enhance availability of resources for these PSUs and yield resources for the exchequer. The disinvestment was expected to yield Rs. 2,500 crores to the exchequer in 1991-92.

The Industrial Policy Statement of 24th July 1991 stated that the government would divest part of its holdings in selected PSUs, but did not place any cap on the extent of disinvestment. Nor did it restrict disinvestment in favour of any particular class

[3] For Disinvestment Policy check: Various Reports on Disinvestmrent on www.dic.nic.in

of investors. The objective for disinvestment was stated to be to provide further market discipline to the performance of public enterprises.

In the pronouncement of budget speech of 1991-92, the cap of 20% for disinvestment was reinstated and the eligible investors' universe was again modified to consist of mutual funds and investment institutions in the public sector and the workers in these firms. The objectives were also modified 'to raise resources, encourage wider public participation and promote greater accountability'.

The National Renewal Fund (NRF) was announced by the Government of India, as a part of the new Industrial Policy in1991 and was established on February 03, 1992 to protect the interests of the workers likely to be affected by technological up gradation and modernization in the Indian industry. The NRF aims to provide social safety net for labor. The major objectives of the Fund include providing assistance to cover the costs of re-training and re-deployment of employees arising out of industrial restructuring, providing funds, wherever necessary, for compensation of employees affected by restructuring or closure of industrial units both in the public and private sectors and providing funds for employment generation schemes both in the organized and unorganized sectors. There are two approved schemes under NRF, namely, implementation of Voluntary Retirement Scheme (VRS) for central public sector undertakings and re-training scheme for rationalized workers in organized sector. A total of 2,17,489 workers had availed of the VRS as on 31.08.1997. (Ninth Five-Year Plan, Vol.2)

The Rangarajan Committee recommendations emphasized the need for greater disinvestment. It stated that the percentage of equity to be divested could be up to 49% for industries explicitly reserved for the public sector. It recommended that in exceptional cases, enterprises, which had a dominant market, share or where separate identity had to be maintained for strategic reasons, the target public ownership level could be kept at 26%, that is, disinvestment could take place to the extent of 74%. In all other cases, it recommended 100% divestment of Government stake. Holding of 51% or more equity by the Government was recommended only for 6 Schedule industries, namely:

I. Coal and lignite

II. Mineral oils

III. Arms, ammunition and defence equipment

IV. Atomic energy

V. Radioactive minerals, &

VI. Railway transport

Second Phase (Starting from when actual privatization process started)

The highlights of the policy formulated by the United Front Government (1996) were, as follows:

- To carefully examine the public sector non-core strategic areas;
- To set up a Disinvestment Commission for advising on the disinvestment related matters;
- To take and implement decisions to disinvest in a transparent manner;
- Job security, opportunities for retraining and redeployment to be assured.

No disinvestment objective was, however, mentioned in the policy statement. Pursuant to the above policy of the United Front Government, a **Disinvestment Commission** was formed in 1996. It made recommendations on 58 PSEs. The recommendations indicated a shift from public offerings to strategic / trade sales, with transfer of management, as the following table shows:

Table 3.4

Mode of Disinvestment

Mode of Disinvestment recommended	No. of. PSU,S
A. Involving change in ownership / management	
1. Strategic sale	31
2. Trade sale	08
3. Employee buy out/strategic sales	02
B. Involving no change in ownership / management	
Offer of shares	05
C. No change	
1. Disinvestment deferred	08
D. Closure / sale of assets	04
GRAND TOTAL	58

Source: Ministry of Disinvestment

In its first budgetary pronouncement (1998-99), the NDA Government decided to bring down Government shareholding in the PSUs to 26%. It however, stated that the Government would retain majority holdings in PSUs involving strategic considerations and that the interests of the workers would be protected under all circumstances

MAJOR RECOMMENDATIONS OF THE DISINVESTMENT COMMISSION

- Disinvestment Commission constituted for preparing an overall long term disinvestment programme for PSUs referred to it and the modalities for disinvestment.
- Eight reports covering forty three PSUs submitted till August 1998. Three more PSUs have been referred to the Commission subsequently.
- The Commission has recommended disinvestment at varying levels for 11 PSEs.
- Strategic sales in various proportions have been recommended for 19 enterprises.
- Deferment of disinvestment has been recommended for eight enterprises.
- No disinvestment has been recommended for one enterprise.
- The Commission has also made a number of general recommendations regarding establishment of Disinvestment Fund, delinking the disinvestment process from the budgetary exercise, reduction of Government equity, Voluntary Retirement Scheme, delegation of autonomy to PSUs, etc.

(Source: Ninth Five Year Plan,Vol 2)

The policy for 1999 - 2000, as enunciated by the Government, was to strengthen strategic PSUs, privatise non-strategic PSUs through gradual disinvestment or strategic sale and devise viable rehabilitation strategies for weak units. *A highlight of the policy was that the expression 'privatisation' was used for the first time.*

On 16th March 1999, the Government classified the Public Sector Enterprises into strategic and non-strategic areas for the purpose of disinvestment. It was decided that the Strategic Public Sector Enterprises would be those in the areas of:

Arms and ammunitions and the allied items of defence equipment, defence air-crafts and warships and Atomic energy (except in the areas related to the generation of nuclear power and applications of radiation and radio-isotopes to agriculture medicine and non-strategic industries);

All other Public Sector Enterprises were to be considered non-strategic. For the non-strategic Public Sector Enterprises, it was decided that the reduction of Government stake to 26% would not be automatic and the manner and pace of doing so would be worked out on a case-to-case basis. A decision in regard to the percentage of disinvestment i.e., Government stake going down to less than 51% or to 26%, would be taken on the following considerations:

- Whether the industrial sector requires the presence of the public sector as a countervailing force to prevent concentration of power in private hands, and
- Whether the industrial sector requires a proper regulatory mechanism to protect the consumer interests before Public Sector Enterprises are privatised.

The highlights of the policy for the year 2000 - 01 were that the Government was prepared to reduce its stake in the non-strategic PSUs even below 26% if need be, that there would be increasing emphasis on strategic sales and that the entire proceeds from disinvestment / privatisation would be deployed in social sector, restructuring of PSUs and retirement of public debt. The main elements of the policy were as follows:

- To restructure and revive potentially viable PSUs;
- To close down PSUs which cannot be revived;
- To bring down Government equity in all non-strategic PSUs to 26% or lower, if necessary;
- To fully protect the interests of workers;
- To put in place mechanisms to raise resources from the market against the security of PSUs' assets for providing an adequate safety-net to workers and employees;
- To establish a systematic policy approach to disinvestment and privatisation and to give a fresh impetus to this programme, by setting up a new Department of Disinvestment;
- To emphasize increasingly on strategic sales of identified PSUs;
- To use the entire receipt from disinvestment and privatisation for meeting expenditure in social sectors, restructuring of PSUs and retiring public debt.

In line with this policy, the Government approved financial restructuring of 20 PSUs. As a result, many PSUs were restructured, to improve productivity and achieve a higher turnover in performance. Government approved a comprehensive package for restructuring of SAIL, one of the initially selected one of Navaratna PSUs. Government also established a new Department for Disinvestment to establish a systematic policy approach to disinvestment and privatisation and to give a fresh impetus to this programme, which will emphasize increasingly on strategic sales of identified PSUs. Government equity in all non-strategic PSUs got reduced to 26% or less.

Shri K.R Narayanan president during those times suggested "The public sector played a vital role in the development of the economy. However, the nature of this role cannot remain frozen to what it was conceived fifty years ago - a time when the technological landscape, and the national and international economic environment were so very different. The private sector in India has come of age, contributing substantially to our nation-building process. Therefore, both public sector and private sector need to be viewed as mutually complementary parts of the national sector. The private sector must assume greater public responsibilities just as the public sector needs to focus more on achieving results in a highly competitive market. While some public enterprises are making profits, quite a few have accumulated huge losses. With public finances under intense pressure, Governments are just not able to sustain them much longer. Accordingly, the Centre as well as several State Governments are compelled to embark on a programme of disinvestment." The Government disinvested a substantial part of its equity in enterprises such as Indian Airlines, Air India, ITDC, IPCL, VSNL, CMC, BALCO, Hindustan Zinc, and Maruti Udyog by selecting strategic partners.

In the Budget Speech of 2001-02, Shri Yashvant Sinha the then finance minister said, "Given the advanced stage of the process of disinvestment in many of these companies, I am emboldened to take credit for a receipt of Rs 12000 crore from disinvestment during the next year. An amount of Rs 7000 crore out of this will be used for providing restructuring assistance to PSUs, safety net to workers and reduction of debt burden. A sum of Rs 5000 crore will be used to provide additional budgetary support for the Plan primarily in the social and infrastructure sectors."

Other than the Lagan Jute Machinery Company Limited and Modern Food Industries (India) Limited; only minority stakes in different PSEs were sold till 2000.

The Government has now modified its policy to emphasise on strategic sales. During the last quarter of 2000-01, 51% shares of BALCO have been sold to a strategic investor.

On December 2002,Mr.Arun Shourie, Minister of Disinvestment said that disinvestment which does not result in alienation of national resources would be carried out. The following table indicates the actual disinvestment from 1991-92 to 1999-2000, the methodologies adopted for such disinvestment and the extent of disinvestment in different CPSUs (Source: Ministry of Disinvestment)

Table 3.5

Year	No. of PSEs in which equity sold	Target receipt for the year (Rs. In Crores)	Actual receipts (Rs. In Crores)	Methodology
1991-92	47 (31 in one tranche and 16 in other)	25.00	30.38	Minority shares sold by auction method in bundles of "very good", "good", and "average" companies.
1992-93	35 (in 3 tranches)	25.00	19.13	Bundling of shares abandoned. Shares sold separately for each company by auction method.
1993-94	.	35.00	Nil	Equity of 7 companies sold by open auction but proceeds received in 94-95.
1994-95	13	40.00	48.43	Sale through auction method, in which NRIs and other persons legally permitted to buy, hold or sell equity, allowed to participate.

1995-96	05	70.00	3.62	Equities of 4 companies auctioned and Government piggy-backed in the IDBI fixed price offering for the fifth company.
1996-97	01	50.00	3.80	VSNL in International Mkt

When the present UPA government came to power, it pledged itself to NCMP (National Common Minimum Programme) agreed upon by the parties supporting it. According to the NCMP, "The Government is committed to a strong and effective Public Sector whose social objectives are met by its commercial functioning. But for this, there is need for selectivity and a strategic focus. It is pledged to devolve full management and commercial autonomy to successful, profit-making Companies operating in a competitive environment. Generally, profit-making companies will not be privatized." Further, it was underlined that navratna (nine gems of the PSUs) will remain in the state sector. Violating this promising, the present government wants to sell of 10 per cent of the shares of the BHEL (Bharat Heavy Electricals) one of the navratna.

3.6 ASSESMENT OF THE PRIVATISATION POLICY

The following statement made by Shri Somnath Chaterjee member of the Parliament summarizes the debate[4] regarding the disinvestments policy in India "We are concerned about the manner and the objective with which this process of disinvestment is being carried on because what has happened so far in the name of disinvestment has caused havoc in this country. The country is losing its valuable assets. What is the policy, what is the principle and what is the objective and who have become or are going to be the beneficiaries of this process of disinvestment? There is a total vagueness and no attempt to justify what has been done or what is being done. The basic questions are who

[4] See Lok Sabha Debates Dec,18,2002.

are the owners of these assets and properties. Are they taken into confidence? Are the people told or consulted in any manner? We have great obligation to the people, and great duties to discharge, but we are not told anything. We are kept totally in dark. It is a calculated affront to the House and to the people of this country. We are never consulted, and nothing is being discussed. Who has given this authority to this Government to indulge in this loot? Why are profit making units are being sold and for whose benefit? The Ministers are fighting; NDA partners are opposing. Does it not disturb everybody's conscience that you are selling very valuable assets? Should not there be transparency? Should not this House, at least, be taken into confidence? How are the consultants selected, and how are the reserve prices fixed? How are the bidders selected? Everything is being done in secrecy. Why does the Government not come to the House or consult, at least, the Standing Committee?"

Mr. Mani Shankar Aiyer, member of the Parliament said "Back in the 1980s, SAIL was losing one crore rupees a day. Prime Minister Rajiv Gandhi put Shri V. Krishnamurthy in charge. He turned it around and, within a year, SAIL was making a profit of one crore rupees a day. The year of resurgence in steel started with SAIL, not with any of these private sector steel-making firms. Essar has bankrupted so many of our public sector institutions running into tens upon thousands of crores. IDBI has been looted to enable Essar to survive. Therefore, should we not be distinguishing between persistently profit-making and persistently loss-making and intermittently profit-making and intermittently loss-making companies, in order to work out a policy of disinvestment? Disinvestment proposals come from the Government or Boards of the PSUs concerned?

Shri B. D. Acharia challenged the government,s stand on objectives of disinvestments. One of the objectives of disinvestment is to revive the sick public sector undertakings and to spend on health, education and social welfare. The Government has, so far, received Rs.29,000 crore out of the proceeds of the disinvestment, sale of public sector undertakings. He wanted to know the break up of figures as to how much has been spent so far on health, education and social welfare.

He demanded that the MAMC, a very important public sector undertaking in West Bengal is to be revived. To revive this undertaking an amount of Rs.425 crore is required. But that fund was not provided. Even the BIFR recommended for its revival and asked the Government to provide funds for the revival of the National Instrumentation Limited.

Uptil now no funds have been provided for the revival of National Instrumentation Limited. Similar is the case with BOGL – Bharat Ophthalmic Glass Limited. What happened to the workers after the disinvestment of BALCO because after disinvestment of BALCO, the Sterlite Company has violated all the agreements?

Shri K.P. Singh Deo member of the Parliament said, "Today we are discussing disinvestments of Public Sector Undertakings which has taken us 50 years to build up by investing Rs. 2,40,000 crore in 240 public sector units. Public sector has been pivotal, has been substantial to our economic development as well as to our standing in the world as an industrialised nation. It has given jobs and employment to more than 20 lakh people. But we are trying to sell it off in the name of disinvestment. Where we are keeping 26 per cent share, we are not standing by the labour and the work force, which has brought it up to this, level. Where it is strategic, where the Government has more than 51 per cent share, it is only there that the worker is to be safeguarded. In NALCO an amount of Rs. 2,408 crore was invested in it, which came out of Euro-dollars and French loan, and the Government of India spent not a single penny. In the year 1981, Shrimati Indira Gandhi wanted to empower socially as well as economically the minerally enriched Orissa because Rs. 74,000 crore worth of ores are there. But, now the Government wants to decide policy as well as strategy and they are not equipped for deciding strategy. Out of 6,600 people who are employed, 30 per cent are Scheduled Castes and Scheduled Tribes whose land had been taken ostensibly for the establishment of public sector units. We have befooled the Government of Orissa and we have befooled the people of Orissa. They have given up their lands and about 1,700 families; have not been resettled as yet. Now, we are selling it off without enforcing the safety net for the workers"

Mr.Arun Shourie, Minister of Disinvestment, gave this reply, 'the objective of disinvestment is optimal use of national resources. It is probably a surprise to most of us to learn that eleven States are today in the process of disinvesting their enterprises. In this case no distinction is being made even in States like Punjab, Karnataka and Madhya Pradesh between profit-making and loss-making enterprises. The Madhya Pradesh Government has asked for a loan of Rs. 100 crore from the Asian Development Bank so as to start the process. The Chief Minister of Karnataka has stated his disinvestment policy by saying, "We will privatise all public sector units and those which we cannot privatise, we will close down."

The fundamental premise of the privatization in India has been that, for the production and delivery of goods and services in a competitive economy, the private sector in practice does better than the State or the public sector. Thus the motivation underpinning the policy of privatization is essentially the search for higher economic efficiency, i.e. better delivery of goods and services at lower prices and/or better quality by the privatized enterprises, thus increasing general welfare.

Economic theory does not differentiate between public and private ownership. But a number of benefits have been expected from privatization. New owners would bring modern management, technology and corporate governance with a sharper focus on profitability. Public enterprises often operated at loss, the burden put by their losses in the form of a "quasi-fiscal deficit" on public finance and budget would be removed. This would stabilize the economy by cutting inflation and would permit the state to reallocate public taxes and revenue on social programs benefiting the whole population (education, health, justice) and in particular the workers in public companies who would lose their jobs after privatisation.

In India, arguments supporting privatisation were vociferously proposed. State donor agencies and multinational banks have played major role. Privatisation has taken various forms. It began with partial divesture programmes, which was undertaken in piecemeal manner with the sole aim of raising revenue. In the second phase of privatization, publicly owned companies were sold to new owners and investors, domestic or foreign, through a mix of methods and procedures (tenders, auctions, management/employee buy-out,) with a varying degree of transparency and competition. However, the scope and distribution of welfare benefits to the population has depended largely on the degree of openness and transparency of the instruments and methods used for privatisation, as well as on the soundness and effectiveness of the institutions conceived to underpin and permit the smooth operation of a market economy. Strategic sale or privatisation has generally turned out to be an illusionary mode of redistribution of economic power[5], as real ownership and power gets concentrated into a few centres of influence and wealth. They are either national or international corporate houses.[6] This welfare backfiring was often aggravated by the use of non-transparent procedures for the

[5] Reliance holds the monopoly over petrochemicals in India after purchasing IPCL.
[6] Reliance in the case of sale of IPCL and Vedanta Group of Companies in case of BALCO.

privatisation methods (tender, auction, management buy-out). Hastily privatized PSUs, largely on revenue and under the pressure of business and ideological groups, despite the risks attached to the transfer of such monopolies to private hands and often lead to policy reversals.[7] An excessive focus on the fiscal aspects of disinvestment leads to undesirable social consequences. However, for chronically loss making PSUs, the public at large is neither interested in buying shares, nor is it able to effect a transformation of management. For these firms, strategic sales are the best option, where full control of the PSU is auctioned off to the highest bidder. Some of these firms are in such bad condition with chronic losses and requiring regular infusions of capital that the highest bid may be negative – the government should be willing to pay someone to take the PSU. But, as shown Indian Government after 1996 resorted to privatization of even profit making PSUs. The case study of Balco, in the next chapter assesses an overall impact and social consequences of privatisation, both positive and negative.

[7] Privatisation deals in India are often surrounded in controversy and often governments have backtracked. UPA Government has often put disinvestments of various PSUs on hold like BHEL, Neyveli Lignite etc. due to pressure from its own coalition partners.

CHAPTER 4

THE SOCIO-ECONOMIC COST OF PRIVATISATION – CASE STUDY OF BALCO

4.1 INTRODUCTION

There is a considerable corpus of literature documenting and analyzing the impact of privatization on the economy;[1]but there is a lack of micro-level inquiries aimed at assessing the consequences of privatization on equity and social justice. This chapter tries to fill this lacuna by exploring the manner in which government – owned Aluminium producing company, Bharat Aluminimum Company Limited (BALCO) was privatized. The present chapter looks at the social consequences of privatization, on employment scenario, poverty, women, backward areas, social services and socially backward classes. The first part of the chapter looks at the BALCO case; it's profile and controversy surrounding its disinvestment. The second section looks at the financial and social performance of BALCO, post and pre-privatization. The main argument of the chapter is that, economic efficiency is must for stable growth and development of the economy, but blatant privatization of the national resources is not a viable solution. NTPC, as one can find on preliminary investigation has a relatively better record on its social obligations. BALCO had its share of problems, which are discussed below.

4.2 BALCO – A PROFILE

BALCO, was incorporated in 1965, and was closely associated with the growth of the Indian Aluminium industry. It played an important role in making aluminium a leading metal with various uses ranging from household, industrial to strategic defence and aerospace applications. It contributed significantly as a primary aluminium producer, providing sustenance to vital industries and was a supplier of special aluminium alloys to the nation's intermediate range ballistic missile, Agni and surface-to-surface missile, Prithvi. The GOI held 100% stake in Balco. In 2000, the GOI announced to divest 51% stake in Balco to a long-term strategic partner Sterilite Industries owned by Vedanta Group of Companies.

---

[1] For details see: Majumdar, S.(1998) Assessing from comparative efficiency of the State owned mixed and Private Sector in Indian Industry, *Public choice* 96 pp 1-24

PRODUCTION FACILITIES

Korba Plan	Bidhanbag Plan
200,000 tonnes per annum capacity Alumina plan.	Hot and Cold Rolling Mills (3600 tonnes capacity)
10000 tonnes per annum capacity smelter	One Enterprise Press (1250 tonnes capacity)
Three wire rod mills for manufacture of aluminum redraw wire rods	Foil Plant (600 tonnes capacity)
Three Extrusion presses (3150 tonnes 2500 tonnes and 800 tonnes capacity)	Conductor Plant. Hot & cold rolling mills

4.2.1 REASONS FOR PRIVATISATION –

The company was on the verge of becoming a spent force in the domestic aluminum industry. From a market share of around 17% in 1995-96 in the primary aluminum business, its share dropped to 14% in 1998-99. With ambitious projects lined up in the private sector, its market share was expected to go down further. Competition from imports and other players in the domestic industry reduced Balco's market share and the profitability. The problems, which stunted the growth of the company and led to its privatization, are summarized by Kaur, S (2004:112-114) as follows :

Lack of economies of scale –Players like Hindalco consolidated their position in the industry and came up with growth strategies, Balco remained stagnant. Its manufacturing capacity of 100,000 tpa remained unchanged over the past seven years. The acquisition of Indal by Hindalco has put the latter in a formidable position in the domestic industry.

Old age technology – Most of the aluminum manufactured in BALCO used the Sodenberg process. This process is considered archaic in the aluminum industry. Other players use the pre-baked technique that uses less power. The old technology is labor-intensive as it is less mechanized.

Overstaffing – The merger with Aluminum Corporation of India and its units at Bidhanbag in West Bengal has created problems of overstaffing for Balco. A voluntary retirement scheme offered by the company found few takers.

Operational bottlenecks – Lack of in-house power generation capabilities and inadequate supply of bauxite were the other problems that Balco faced. Technically, the company had captive power generation capability. But this catered to only about 75% of the company's requirement. Similar is the case with its bauxite requirements. Most of the time, the critical raw material had to be hauled from other mines. This inflated costs.

Lack of managerial autonomy – Manager's did have some plans, but were crushed due to lack of autonomy. They could not make use of the rising metal prices in the international market, which led to losses.

4.2.2 BALCO – Disinvestment Controversy

The Government of India (GoI) struck its first disinvestments deal in the fiscal 2000-01. It approved the sale of its 51% stake in aluminum major, Bharat Aluminium Co. Ltd. (Balco) to Sterlite Industries Ltd. (SIL), for Rs.551.5 crores. Balco was a profit making public sector company under the Ministry of Mines (MoM). In 2000, it had a turnover of Rs.898 crores and a profit after tax of Rs.56 crores . Balco had two working units – an integrated Aluminium complex situated at Korba in Chhattisgarh and the second at Bidhanbag in West Bengal.

The Opposition launched a massive attack accusing the BJP government of 'selling out' to private interests. Chattisgarh Chief Minister, Ajit Jogi, alleged a Rs.100 crore kickback in the sale involving key officials. Mr. Jogi threatened to cancel the bauxite mining and land lease to Balco, which was granted as a Public Sector Undertaking (PSU) in case the GoI failed to review the proposal. Fierce opposition to the Balco-Sterlite deal forced the BJP Government to put off finalizing the sale agreement till the matter was discussed in the Parliament. Rational arguments on privatization succumbed to ideological and political belligerence. In March 2001, the Parliament approved the controversial deal with the opposition-sponsored motion being rejected in the Lok Sabha by 239 to 119 votes. The employees union launched an indefinite strike protesting against the Balco sell out (Sridhar.V, 2001).

After a protracted battle, an agreement was reached between the Balco management and the union. With this agreement, the Balco disinvestments saga was put to rest.

The government needed new technology and cash to modernize and expand BALCO but could not do so due to lack of resouces. However it is argued that the company has huge assets worth over Rs.4, 000 crores and cash surplus of over Rs.450 crores which is sufficient for upgrading the technology and capacity expansion. .Company could have gone in for capital restructuring to reduce its equity base. The large capital base is responsible for the Balco's low earnings per share (EPS) of 2.29. SBI Caps had proposed capital restructuring through conversion of 50% of Balco's existing equity base into a government loan, carrying an interest rate of 8.5%. The Disinvestment Commission had recommended that in order to improve the company's profitability, it would be necessary to take steps to shed the surplus labour force, particularly in the Bidhanbagh unit, with an acceptable VRS. Balco was a cash rich and profit making and could carry out its capex plans on its own and hence does not require a strategic partner to bring in funds. The land on which Balco stand is a tribal land that was brought or leased by the company, being a PSU, for public purposes. The land was acquired at a low price, (Rs.20 per acre). After the disinvestments of BALCO, ownership became a private transfer of land (Tribunal) and would be illegal as per the Land Act of Madhya Pradesh. (Kaur,S 2004:114-152)

Another important question arises from the fact that important industries like coal and steel were nationalized because government wanted to extend the public ownership and control over basic industries in the early 1970. When IISCO, (Indian Iron & Steel Co.), was nationalized, it was producing 0.81 million tones. The government took over the management of IISCO[2] from Martin Burn Company on the grounds of mismanagement. K.D. Malviya, said, "there was a rapidly deteriorating condition of plant, . . . which is the result of ineffectiveness,. . Capital was not there, nobody invented money . . . ." The business community disagreed and said that low production is due to labour situation.

Another argument given by the government for the takeover was the need for an , 'integrated development of the industry required avoiding the artificial lines of demarcation between public and private.' The takeover was carried out even though there was no evidence of any break through in the performance of PSUs. But, for the

[2] For details see: Nayyar, B (1989), India's Mixed Economy: Popular Role of Ideology .Bombay, Popular Prakash.

disinvestments of BALCO, the very same arguments were advanced as in the case of nationalization. Government clearly said that, it had no money for the expansion and modernization of BALCO, hence its sale was necessary. The disturbing question left unanswered was, how can now a profitable company with large deposits of aluminium (which had high price in the international market) sold in such a hurry?

The government said, that the bids were valued by four different methods. However the value arrived at by these bids was not disclosed. The reserve price, was not disclosed, nor the value of the bids by Hindalco and Alcoa and whether they were higher or lower than the reserve price. "It is entirely understandable, indeed even unnecessary that an element of secrecy is maintained when the bidding process is on. But once it is finished, and the government's decision has been communicated, it would have been better to disclose all the facts. Thus the government has lost an opportunity to lay down new norms of transparency for big disinvestments" (23 Feb, Hindu).

4.3 DISTRIBUTIONAL ISSUES OF PRIVATISATION

One of the most obvious reasons why the debate over the privatization is contentious has to do with distributional issues[3]. This question arises with respect to wealth distribution to employees and public in general. Any attempt to assess the impact of privatization on distributional objectives must consider the effects of disinvestment on different social groups. Irrespective of the success or failure of public enterprises in achieving social objectives such as employment creation or subsidies to specific consumer groups, the removal of public sector undertakings from public domain will mean that disinvestments will have an impact on social groups differentially. The most difficult and feared impact of privatization is employee layoffs. The fear is justified because many public sector undertakings are greatly overstaffed, as they are often used as instruments of job creation. The need to satisfy employee dissatisfaction is important for the social acceptability of any reform.

In most cases, disinvestment has increased ownership concentration due to technique chosen. These policies tend to work in favor of large investors and corporates and serve to exacerbate existing inequalities. Governments have been eager to attract

---

[3] For a detailed analysis on this see: Ramanadham.V (ed) (1995):'Privatization and Equity. Routledge, London.

foreign capital to show to its political constituency, tends to favor large foreign or national owners, which does little to improve income inequalities. The deals are often done in a secretive manner, which leads to loss of national resources. Governments can address distributional concerns through other policies without adversely affecting the disadvantaged and marginalized groups. But it is easy said than done. Each public policy has political connotation and will have to satisfy various interest and pressure groups.

In sum, privatization programs come into direct conflict with the distributional goals in a welfare state. In India, some sacrifice of the egalitarian objective was involved, while focusing exclusively on efficiency.

4.3.1 SOCIAL IMPACT OF PRIVATISATION

Social audit[4] is based on the principle that governance should be carried out, with the consent and understanding of all concerned. It is a way of measuring, understanding, reporting and ultimately improving an organization's social and ethical performance and helps in narrowing gaps between vision/goal and reality, between efficiency and effectiveness. It is a technique to understand, measure, verify, and report on to improve the social performance of the organization. It creates an impact upon governance by focusing on the neglected issue of social impacts of stakeholders, including marginalized/poor groups whose voices are rarely heard. Social auditing is taken up for the purpose of enhancing good governance, particularly for strengthening accountability and transparency

The scope[5] of the audit generally includes the following policies: The company should refrain from unacceptable activities exploitation of children, unethical treatment of animals, and damage to the environment. It should create a working environment allowing all employees to develop their potential. Policies include training, career planning, remunerations and advantages, rewards linked to merit, balance between work and family life, as well as mechanisms that ensure non-discrimination and non-harassment. The company should make sure that it does not violate human rights nor appears as supporting human rights violators. It should invest in local community. It should identify all legal obligations and the means to comply with them. Policies must

---

[4] See: Handbook For Trainers Participatory Local Development, FAO Document Repository.

[5] Source: Breton.J.R ,*Social Audit* at audit@world affairs .com

deal with changing rules related to its work force (Labor), its products (Health, Environment, Intellectual property, specific regulations), its administration (Business, Tax) and its dealings (supplier and customer liability, Criminal actions).

The importance of social audit becomes all the more important in assessing any policy regarding public sector undertaking, as its rationale is not merely economical. The Constitution of India, industrial policy resolutions and the five-year plans documents highlight the role of public sector in the national economy. The public sector is envisaged as the engine of growth accelerating planned economic development of the country .It has also been assigned a dominant role not only in industries of strategic importance but also in areas where private sector initiative is not commensurate with the requirements of the day. Encouragement of the public sector was not guided by any particular ideology but by the desire to create a socialist pattern of society and by pragmatic considerations about the need to build a mixed economy where the resources of the state could supplement private sector contribution and initiative.

The Committee on Social Responsibilities of Public Undertakings (1994)[6] observed that there had been neglect of the social objective, and it has not been assigned the importance it deserved. The committee was of the view that being part of the state every public sector unit had a moral responsibility to play an active role in discharging the social obligation endowed on a welfare state, subject to financial health of the enterprise.

4.5 BALCO –THEN AND NOW

Keeping this in mind, below pre and post –disinvestments scenario in case of BALCO is studied. The focus is on impact of ownership change on not just financial health of the enterprise but also on the social consequences.

[6]Committee of Public Undertakings 1994-95,38th Report 'Social Responsibility and Public Accountability of Public Undertakings' 10th Lok Sabha Feb.1995

4.5.1. PRE –DISINVESTMENT SCENARIO[7]

1. Production Performance

The actual production figures of Korba Complex and Bidhanbag Unit (BBU) for the year 1998-99 alongwith the target of 1999-2000 and actual production figures for April-December, 1999 are given below:

Table 4.1

Production Performance of Korba/BBU

(Figures in tonnes)

	1997-98 Actual	1998-99 Actual	1999-2000 Target	Actual (upto Dec. '99)
Kobra Complex	88198	91844	95500	70539
BBU	2425	2415	2500	2120

2. Financial Performance

Financial Performance of the company is given in the following table:

Table 4. 2

Financial performance of BALCO

Details	Actual for the Previous Years		Target for 1999-2000	1999-2000 Actuals (upto Dec. '99)
	1997-98	1998-99		
Income	859.99	923.72	976.07	715.37
Operating Cost	677.44	733.93	780.15	588.83
Interest & Transaction Loss	6.66	6.30	11.80	5.76
Depreciation & amortisation	42.11	48.73	42.15	37.35
Net Profit before Income Tax and Dividend	134.79	134.77	141.97	83.43

[7] Source: Annual Report 1999-2000, Ministry of Heavy Industry.

3. Sales performance

Aluminium sales during the period April-December 1999 were 68128 tonnes. The sales for the years 1997-98 and 1998-99 were 96546 tonnes and 93838 tonnes respectively.

4. Expansion & Diversification

The Sheet Rolling Shop of Korba Complex, commissioned in early 1980s was designed to produce 40000 tonnes per annum of sheets/coils up to 0.40 mm thickness. Since then the demand pattern changed for narrow and thinner gauge sheet/coils, the company installed a New Cold Rolling Mill at Korba to produce 36,240 tpa sheets/coils of minimum 0.12 mm thickness at a sanctioned cost of Rs. 157.50 crore. Balco's Captive Thermal Power Plant at Korba has an installed capacity of 270 MW (67.5 ž 4 units). While this plant met the bulk requirement of power for Korba Complex, expansion of BCPP was contemplated to reduce dependence on the State Electricity Board.

5. Energy Conservation

A number of energy conservation measures were taken in Alumina, Smelter & Fabrication Plants and engineering services. Saving of furnace oil for the year 1998-99 vis-a-vis 1997-98 was Rs. 68.19 lakhs.

6. Improvement of Technology

The application software, viz., marins was made Y2K compliant. Similarly all the computers purchased were Y2K compliant. Efforts were on to make company fully Y2K compliant by December 1999. Balco availed technical know-how and other related services from Jawaharlal Nehru Aluminium Research, Development & Design Centre (JNARDDC), National Environmental Engineering Research Institute (NEERI), Nagpur and Central Glass Ceramic Research Institute (CGCRI), Calcutta

7. Pollution Control & Environment Protection Measures

The Company took effective steps to control land degradation, water and air pollution both at mines and at the plants by way of afforestation. Company planted 75,350 Saplings in mines area and around Korba Plant. The Company made efforts to adopt environment management system to achieve Indian and international standards in environmental management.

8. Research & Development

The research & development activities in the Company were given due priority in the operations with active association of the Jawaharlal Nehru Aluminium Research, Development and Design Centre .The research & development related to the development of thermomechanically processed Aluminium-Alloy 2219 for space application was completed.

9. Industrial Relations

An interim relief at the rate of 10% was granted to the eligible Executives/Officers under the IDA pattern in accordance with the guidelines issued by DPE. A productivity linked monthly incentive scheme for Executives/Officers was introduced with a view to improves overall productivity. In recognition of the work done, the Company awarded long service awards to its Executives/workers who completed 25 years of service with the Company.

10 Plan for Women

Women employees of Balco were being given all the statutory and normal benefits including operation of Crèche for their children. Seminars and workshops were organised especially for participation of women employees and delegations were sent to outside seminars and programs.

11. Welfare of Tribals & Minorities

The Company has shown a serious concern for the welfare of tribals and minorities many of whom are land-oustees. Emphasis has been placed on their rehabilitation, induction into the Company, imparting of adult education to them, providing free medical check-up, helping them with medical treatment and providing medicines, organising family welfare activities and Eye Camps and Cultural Programmes. The Company has extended financial assistance and infrastructural facilities for construction of permanent roads. They provided handpumps, streetlights and approach road to the villages inhabited by tribal population. The year 1999-2000 was observed as year of 'Gramsabha'.

12. Employment in the Company of various marginalized groups as on 31 December 1999

The employment position in the Company as on 31 December 1999 is as under:

Table 4.3

Group	Total No.	SC	St	Ex-SM	PH	LDP	Minorities
Executives	1177	80	43	9	7	-	98
Non- Executives	5970	1048	927	72	11	-	455
Management Trainees	-	-	-	-	-	-	
Apprentice	25	2	4	-	-	-	3
Trainees	150	36	36	-	-	-	3
Total	7322	1166	1010	81	18	-	559

4.4.2 POST –DISINVESTMENT SCENARIO[8]

1. Production performance

The Group has made significant progress increasing and the share of profits from 46% in the prior year to 52% in the second half of the year. An option over the Government's 49% holding in BALCO is currently in progress (The Economic Times, April, 26,2006). Profits rose sharply, benefiting from rising metal prices. Considerable progress has been made on the major expansion at the Korba plant, BALCO with $562 million of the $900 million budget spent to date.

2. Financial Performance

The total production of finished aluminium in the financial year 2005 was 135,926 tonnes. The company sold around 35,000 tonnes of rolled products from. The

[8] Source: Vedanta Annual Report 2005.

introduction of a fifth boiler at BALCO allowed more stable power output with fewer interruptions in power supply, and better control of management processes also helped to increase Turnover in the aluminium business increased by 26% to $282 million. They have invested $431 million over the period as against a budget of $900million.

3. Diversification

Their strategy is to complete the two projects; the 250,000 tpa aluminium complex at BALCO, and the new 1 million tpa alumina plant at Orissa. The expansion project at Korba is on, taking aluminium capacity to around 400,000 tpa and the new 1.0 million tpa alumina refinery at Orissa. Aluminium is a significant user of power and the new facilities at Korba are being accompanied by a 540 MW power plant, to be powered with local coal. They have invested $350 m in Balco. The facilities at Korba are being expanded with a new 250,000 tpa aluminium smelter to take total production from 135,000 tpa to 385,000 tpa. This new plant uses the latest technology from GAMI in China. The completion of the smelter and power plant will transform aluminium business, increasing output and reducing costs. The expansion planned at BALCO will introduce more modern 320 KA pre-baked technology, giving the potential for a significant reduction in unit costs, mainly through lower power consumption and better heat rate from the new power plant.

Progress on the exercise of the option to acquire all or substantially most of the shares in BALCO held by the Government of India continues. The Group has confirmed to the government that it wishes to exercise its option and consequently a valuation of the shares by an independent valuer, in accordance with the shareholder agreement, is in progress. Discussions with the Government continue on the matter of offering shares not exceeding 5% of the total to the employees.

4. ENVIRONMENT

To oversee Health and Environment, a committee has been formed. It is the responsibility of operational managers throughout the Group to ensure implementation of the policies and systems, and to monitor operational performance against these policies. All individual units have qualified and specialists to assist management in implementing policies and management systems. They undertake compliance management, impact assessment, measurement and monitoring, and continuous improvement programs..

The Korba complex at BALCO obtained its certification in accordance with ISO: 14001 and OHSAS: 18001. Certifications for the Mainpat mine of BALCO are to be received yet. Plans for certification of the Bodai-Daldali deposit of BALCO are under review. Health and Environment management performance and systems compliance throughout the Group is internally and externally audited, including periodic reviews by regulatory authorities. The Group is focusing on environmental initiatives for effective water management, waste minimization and recycling, reducing air emissions, energy conservation and land stewardship. Fluoride emissions are also expected to increase following the commissioning of expanded smelter capacity at BALCO. However, plans have been made to reduce these emissions.

4.1 WATER USE

Water availability, consumption and contamination constitute important risks. BALCO recorded a reduction in specific water consumption during the year2005.

4.2 WASTE MANAGEMENT

The BALCO smelter reduced its effluent discharge by 3,500 cubic metres per day in the last two years by increased recycling at various places, including the main receiving step-down station, sheet rolling shop, alumina plant and anode paste plant. BALCO is moving towards the dry disposal of red mud. Opportunities to reuse and recycle waste are being explored. Research studies are being undertaken to reduce the hazardous characteristics of waste and to ensure the re-use of waste materials. Fly ash from coal-based power plants at BALCO is utilised for producing cement.

5. HEALTH

The company implements regular health surveillance and risk-based monitoring of employees. At BALCO, doctors visit adopted villages regularly, with consultation and primary medicines provided free of charge. Safety committees operate at various levels to ensure that employees are involved in decisions affecting their health and safety. There are programs for regular occupational health surveillance of all employees and contractors. This includes specific examinations such as tests for blood lead, audiometric, chest x-rays and pulmonary function tests.

6. EDUATION

BALCO has fully fund schools at their units, mainly catering for the children of employees. There are more than a dozen private schools operating in and around the townships of BALCO. BALCO provides these schools with land and building facilities, as well as providing grants-in-aid and subsidized school buses to encourage formal schooling amongst local children.

4.5 IMPLICATIONS OF DISINVESTMENT OF BALCO

1. **EFFICIENCY**: - Although post divestiture performance is available for a short period, one can conclude that post privatization BALCO has improved economic performance. Privatization has concentrated the managerial mind on commercial objectives and the new management is investing much-needed funds for bringing new technology. But this does not prove that change in ownership has resulted in better performance. BALCO when under state ownership had a very different role to perform and had very different objectives that often conflict with commercial profitability goals.

Secondly, Balco before privatization and after privatization faced very different external environment. Rising prices of alluminium, contribute majorly to the profitability of BALCO post privatization. Favourable government policies helped in augmenting their profit. There has been an exceptional period for metal prices driven by strong demand from China. This has also had an impact on several input prices, particularly energy related costs such as oil and coal. The government has maintained a policy of growth and liberalisation. Metal use in India continues to grow above global levels and the long-term attractions of the Indian economy remain considerable. India has become an attractive foreign investment destination, and the potential to become a major regional manufacturing hub. (Vedanta Annual Report, 2005). This has greatly benefited Vedanta in improving productivity and lowering costs.

By selling the controlling stake, to a strategic partner, the company has got a professional management with proven skills and expertise in the field of metal and has been injected with new funds. But the, role of PSU is not just economic but also social.

This approach of the government presents a trend towards market type economy. This contradicts the standard nature of a welfare state by substituting private ownership, competition and market incentives. This is also called 'Entrepreneurial Governance'. It is based on new organizational economics (Barney and Ouchi, 1986; Niskanen, 1979;Williamson, 1975;). Here competition and privatization are seen to save government decision makers some of the cost of public choice by allowing market to determine ends by whatever possible means to satisfy consumers.

2. **LABOUR**: Once in the private hands, managers are free to downsize and so excess labor was reduced. This was not possible when the PSU was state run. Though BALCO still comes under, the provision of Industrial Disputes Act 1947, its private owners indulged in mass transfers and manpower reduction. While government of India has 49% stakes, it is silent on the issue. Though, before privatization, wages had not been increased, after April 1, 1999, even though revision was due. In spite of loss of about Rs.200 crore due to the strike, an ex-gratia payment of Rs.5,000/- was made to all employees and a long term wage agreement for a period of 5 years extended into by the management within employees on October 7, 2001, which guaranteed benefits of 20% of basic pay to each employees.(Baijal,2002:1598)

To cut costs, the head office was shifted from Delhi to the plant site at Korba, which resulted in redundancies. The loss-making unit in Bidhanbag (West Bengal) has been closed. Contract labour is only one half of the level earlier. At the time of privatization Balco had 6,436 employees. The present strength is 5300. Thus there has been net reduction of 1,136 in its work force. After 67 days strike in balco, which was against privatization, new Balco, has seen 2 more strike on labour issues, which reflect the dissatisfaction of the employees (Naib, S, 2004:391-392).

3. **SOCIAL SECTORS**

After privatization, Balco has considerably reduced its social expenditure on items like health medical facilities and safety nets. Though it has some good policy plans, they are yet to be executed. Before privatiation, there was a 150-beded hospital with all facilities. After privatization majority of the doctors either resigned or have taken VRS. The medical support system includes staff of doctors and nurses who are appointed on adhoc basis. The entire system runs on the criterion of cost-benefit analysis. Appointment of women workers on compassionate ground has been stopped. The Vedanta Group of companies, the new owners of Balco, has no visibly clear policy on women, tribal and minorities and older people and no assessment into this area has been made obligatory on the private owner.

4.6 CASE STUDY OF NTPC

National Thermal Power Corporation demonstrates with sufficient arguments the effectives of public ownership over business and production. It clearly proves the point that public sector undertakings can become relatively more profitable and shoulder a wide range of social responsibility as well as community development initiative. This case study defies every logic of disinvestments carried out by Government of India that disinvestments/ privatization is necessary to make the Public Sector Undertaking, economically efficient.

NTPC Limited[9] is the largest thermal power generating company of India. it was incorporated in the year 1975 to accelerate power development in the country as a wholly owned company of the Government of India. At present, Government of India holds 89.5% of the total equity shares of the company. Public and others hold the balance 10.5%. Within a span of 30 years, it has emerged as a truly national power company, with power generating facilities in all the major regions of the country. Based on 1998 data, carried out by Data monitor UK, NTPC is the sixth largest in terms of thermal power general and the second most efficient in terms of capacity utilization amongst the thermal utilities in the world.

Its core business is engineering, construction and operation of power generating plants and also providing consultancy to power utilities in India and abroad. Its installed capacity is 23,749 MW through its 13 coal based (19,480 MW), 7 gas based (3,955 MW) and 3 Joint Venture Projects (314 MW). NTPC acquired 50% equity of the SAIL Power Supply Corporation Ltd. (SPSCL).

Its share on 31 March in the total installed capacity of the country was 20.4% and it contributed 27.1% of the total power general of the country during 2004-05. It is providing power at the cheapest average tariff in the country. It is committed to

[9] Source: NTPC, Annual Report 2004

environmental norms such as generating power at minimal environmental cost and preservation of ecology in the vicinity of the plants. It has undertaken massive forestation in the vicinity of its plants as a result forest area has increased and barren land has been reduced. In 1991, it set up Ash Utilization Division to manage efficient use of the ash produced at its coal stations. This quality of ash produced is deal for use in cement, concrete, cellular concrete, building material.

A 'Centre for Power Efficiency and Environment Protection (CENPEEP)' has been established with the assistance of United States Agency for International Development (USAID). It is an efficiency oriented, eco-friendly and eco-nurturing initiative – a symbol of NTPC's concern towards environmental protection and continued commitment to sustainable power development in India. As a responsible corporate citizen, it is making constant efforts to improve the socio-economic status of the people affected by its projects. Through its rehabilitation and resettlement programs, the company endeavors to improve the overall socio-economic status of Project Affected Persons.

It is the first PSU to enter into a Memorandum of Understanding (MOU) with the government in 1987-88. It has been placed under the 'Excellent category' (the best category) every year since the MOU system became operative. Recognizing its excellent performance and vast potential, Government of India has identified it as one of the jewels of Public Sector 'Navratnas' a potential global giant.

It believes in achieving organizational excellence through Human Resources (HR) and follows "People First" approach to leverage the potential of its 23,500 employees to fulfill its business plans. Human Resources Functions has formulated an integrated HR strategy which is rests on four building blocks of HR viz. Competence building, Commitment building, Culture building and Systems building. To induct talent and groom them into a dedicated cadre of power professionals 'Executive Trainee' Scheme was introduced in the year 1977 for recruitment in the disciplines of Mechanical, Electrical, Civil, Control & Instrumentation and now encompasses Computer Science, Chemistry, HR and Finance disciplines also. Besides a comprehensive one-year training comprising theoretical inputs as well as on the job training, the new recruits are attached with senior executives under a systematic and formal 'Mentoring System' of the company to integrate them into the culture of the company.

As part of post employment training and development opportunities, a systematic Training plan has been formulated for ensuring minimum seven man days training per employee per year and includes level-wise planned intervention designed to groom people for assuming positions of higher responsibility, as well as specific need-based interventions based on scientific Training Needs Analysis. It has created 15 project-training centers, 2 simulator training centers and an apex institute namely 'Power Management Institute' (PMI). While the project training centers (Employee Development Centres) have specialized in imparting technical skills and knowledge, PMI places emphasis on management development. Besides opportunities for long-term education are also provided through tie-ups with reputed Institutions like IIT, Delhi, (M. Tech in Power General Technology), MDI, Gurgaon (Executive MBA Programme), BITS, Pilani (B.Tech) etc.

NTPC has institutionalized 'Development Centres' in the company to systematically diagnose the current and potential competency requirements of the employees with the objective of enhancing their development in a planned manner. These centers give a good insight to the employees about their strengths and weaknesses, the gaps in their competencies, which they can bridge through suitable support from company. Due to innovative people management practices there is a high level of pride and commitment amongst employees as reflected in the 'Best Employers in India-2003' survey by Hewitt Associates in which NTPC bagged third rank. Further continuous efforts are being made to leverage the potential of its employees and become a strategic business partner. The company's average social expenditure per employee is shown in Table 4.4 and Table 4.5.

It formulated specific guidelines for the welfare of project affected persons (PAPs) and community development in the neighborhood villages around its power stations as early as 1980s. The concept of Corporate Social Responsibility (CSR) is deeply ingrained in NTPCs culture. Its mission in the area of CSR is to be a socially responsible corporate entity with thrust on environment protection, ash utilization, community development, and energy conservation. NTPC is committed to adhere to its ten principles in the areas of Human Rights, Labour, Environment and Anti-corruption.

NTPC foundation, with the purpose to create opportunities of sustainable self – employment for the Physically Challenged Persons, had invited creative ideas from individuals, organizations, and consultants/ professionals, individual PCPs or group cooperatives of PCPs in July 2005. In November 1995, NTPC became the first public utility to bring out a comprehensive document entitled "NTPC Environment Policy and Environment Management System." Amongst the guiding principles, adopted in the document, are the company's proactive approach to environment, optimum utilization of equipment, adoption of latest technologies and continual environment improvement. The policy also envisages efficient utilization of resources, thereby minimizing waste, maximizing ash utilization and providing green belt all around the plant for maintaining ecological balance.

Performance enhancement and up gradation measures are undertaken by the organization during the post-operational stage of the stations. These activities have greatly helped to minimize the impact on environment and preserve the ecology in and around its power projects.

Table 4.4

EMPLOYEES COST SUMMARY (Rs. Million)

Description	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05
A. Salaries, wages & Benefits * (incl. Provident Fund and other contributions)	2,315	2,618	3,411	4,383	5,789	,7082	7,494	7,500	8,180	8,248
B. Other Benefits										
1. Welfare expenses	403	531	783	733	772	1,044	1,359	1,352	1,430	1,723
2. Township	306	361	367	461	565	520	469	460	575	629
3. Educational & School	58	90	111	116	125	140	121	119	158	160
facilities	143	153	364	262	284	298	359	383	427	424
4. Medical facilities	18	19	21	28	39	28	39	35	45	47
5. Subsidised transport	47	54	60	87	67	133	79	79	109	108
6. Social & Cultural activities	72	93	104	112	130	142	114	139	159	160
7. Subsidised canteen.	1,047	1,301	1,810	1,799	1,982	2,305	2,540	2,567	2,903	3,251
Total (B)	3,362	3,919	5,221	6,162	7,771	9,387	10,034	10,157	11,083	11,499
Total (A + B)										
8. Year end number of employees**	21,233	21,407	20,710	20,798	21,265	21,289	21,383	21,408	20,971	21,420
9. Average number of employees	20,228	21,320	21,059	20,754	21,032	21,277	21,336	21,396	21,190	21,196
10. Average salary, wages & benefits per employee per annum (Rs.)	114,445	122,795	161,974	210,225	275,247	332,848	351,237	354,747	386,040	389,139
11. Average cost of other benefits per employee per annum (Rs)	51,760	61,023	85,949	86,682	94,237	108,333	119,048	119,979	137,002	153,382
12. Average cost of employees remuneration & benefits per annum (Rs.)	166,205	183,818	247,923	296,907	369,484	441,181	470,285	474,726	523,042	542,521

*Excluding payment to personnel employed for social amenities

**Excluding BTPS, BCPP and Joint Venture Companies

Table 4.5

REVENUE EXPENDITURE ON SOCIAL OVERHEADS FOR THE YEAR ENDED 31ST march 2005

Particulars	Township	Educational & School facilities	Medical facilities	Subsidised transport	Social & Cultural Activities	Subsidised canteen	Total	Land Scaping & wasteland development	Previous Year
1. Payment to employees	136	13	278	15	22	20	484	-	440
2. Material consumed	86	-	45	7	-	-	138	-	71
3. Rates and taxes	90	-	-	1	-	-	91	-	49
4. Welfare expenses	30	115	383	39	73	157	799	3	845
5. Others including repairs & maintenance	341	39	13	3	32	1	429	2	375
6. Depreciation	181	6	9	-	3	2	211	-	269
7. Sub-Total (1 to 6)	874	173	730	65	130	180	2,152	5	2,049
8. Less: Recoveries	109	-	28	3	-	-	140	-	136
9. Net Expenditure (7-8)	765	173	702	62	130	180	2,013	5	1,913
10. Previous Year	693	160	697	60	129	174	1,913	11	-

The case of NTPC, clearly shows that social justice can be achieved, without necessarily giving up efficiency. Sustainable social justice must have an efficient economic base, and not necessarily change of ownership from public to private hands. Social justice has to be achieved from below and not from above (by change of ownership). If the demand for and achievement of social justice is to come from below, the state should be accountable, to the people and responsible for its behavior.

4.7 ASSESSSMENT OF PRIVATISATION POLICY

Social justice is the primary goal of public sector units in India, and to be sustainable it has to be economically efficient. Productivity is extremely important from the point of view of social justice and equity. (Bardhan, 2001:472) It is therefore important that PSUs are more productive to be able to pursue, social justice on a sustained basis.

There are two views on equity and efficiency. One says that to pursue equality or social justice, efficiency has to be violated; equity, which is bound to be very costly, can be sacrificed to achieve efficiency for the sake of profitability. On the other hand, to fulfill social justice there are costs to be paid in terms of efficiency, which are secondary and can be sacrificed.[10] Bardhan (2001:472), challenges this, and says that there need not be a trade off. He says that extremes of both nationalization and privatization, causes enormous damages, to local people/ workers as they are left out of the commercialization process, regardless of the fact that for generation, they have been the traditional contributor, to these activities. He further says that, a labour union can combine both efficiency and equity. The equity part is obvious: unions are the main agent for improving labors condition, for ensuring them a decent work, work is humane, being watch dog for abuse of labour rights, being a watchdog for safety measures etc.

He cites that, in Japan, a very large part of the innovations have come from workers' own suggestions, workers find out that in the old methods, of production, there are timings they could improve on. In a more egalitarian and work friendly workplace, there is much more solidarity, much more interchange of information and tacit knowledge between employers and employees, in terms of improving productive methods. Inducing workers to acquire, firm, specific skills that ultimately help employers and the cause of efficiency. So, the balance between efficiency and equity should be maintained before privatization.

Corporates in India, and in the world are striving to improve the public image of their business. They see the value of giving back to the community, which contributed to their success. There is growing evidence that socially responsible investment brings in higher returns on a long-term basis. Large public sector companies investing up to 5% of their profits towards social uplift and community development companies in the energy sector – especially ONGC have committed resources by adopting a few villages. (The Economic Times, March, 17,2006). The contribution of companies, especially the public sector undertakings should be judged by triple bottom line: economic, environmental and social well-being.

The BALCO disinvestments shows that no-prior measures were initiated before disinvestments to make the firm economically efficient .The decision was taken by neo-liberal politicians and bureaucrats to indiscriminately expose it to market and selling national resources at throw away prices. These policy makers chose to consciously

[10] This Phenomenon is called efficiency – equity trade off.

disregard the fact the role of PSUs is not just economic efficiency but also social justice. The post - privatization scenario does not show any improvement in fulfilling welfare objectives whatever improvement was there in financial performance was due to rise in international prices of metal. Privatization had a very destabilizing effect on social justice and welfare objectives. If revived and restructured the company would have improved its chances to stake claim in the globally competitive world.

Traditionally, social obligations have been delivered through PSUs. There has been long standing relationship between government and welfare objectives. However this welfare obligation has changed. It is being subjected to an enforced identity change and the adoption of market values. The irony is that instead of making PSUs more accountable, effective and efficient, they are being subjected to a particular form of privatization. Government is shifting its responsibility to private sector through market-based strategy. A situation of shifted responsibilities and accountability is occurring, where government is shedding its social responsibility and private sector is going ahead with its different and incompatible values, solely based on profit. This approach, with its market values, is threatening, social justice and welfare by it's inability to place the dignity of people first, above the profit motive and to provide low cost services to the disadvantaged and weaker sections of the society. In a democracy special attention should be given to different section of society. Different voices have different strength and often voice of the loudest i.e. the strongest and influential is heard. The opening up of the economy creates lot of resentment and insecurity among the social groups. The role of the government is to foster economic growth along with catering to the basic needs of the common people. Any privatization deal should look into the aspect of caring for vulnerable along with economic growth.

The next chapter discusses the role of the role of politics in privatization of public sector undertakings. The focus is on the political shaping of reforms i.e. privatization and how it came about. The main emphasis is on the political expediency and public choice elements in formulation of the disinvestments policy.

CHAPTER 5
THE POLITICS OF PRIVATIZATION

5.1 INTRODUCTION

Politics is an activity universal to all societies at all levels and all times. Not only is politics inevitable but even its consequences are inescapable. The ambit of politics for one is related to state power and its distribution of Lasswell's famous dictum that politics is about 'who gets what, when and how'? Politics is unavoidable considering the fact that political decisions and embedded ideologies shape important decisions. Politics is generally considered as an aura of politicians, political parties, elections and institutions of government. But pressure groups, the socio economic and cultural institutions, political activists and media also play an important role. So, it is important to understand the nature of politics in any state.

The politics of privatization of public sector undertakings is the main subject of this chapter. The focus is on the political shaping of reforms i.e. privatization and how it came about. The main emphasis is on the domestic politics. This is not to suggest that privatization of Public Sector Undertakings is not being undertaken under the pressure of World Bank and International Monetary Fund – but the main focus remains on the political expediency and public choice elements. Therefore a study of these elements in politics is important for understanding reforms that transform the country's growth process.

According to Haggard and Kaufman (1992) analysis of the political dimensions of reforms should address at least three questions: The first concerns, the initiation of the process: what triggered the reform process? The second question concerns the scope and content of the process. The third concerns the sustainability of reforms over time[1].

This chapter focuses on finding answers to the above questions. The first part of the chapter looks at the reasons for privatization. The second part briefly discusses the

---

[1] Mooji (2005) uses the similar framework to understand the 'politics of economic reforms' in India.

scope and contents of reforms. The third part focuses on the consolidation of the privatization process in a democracy.

5.2 REASONS FOR RADICAL REFORMS

In July 1991, the Indian economy had to face many uncertainties. The effects of the political situation at home and the persistent fiscal imbalances were accentuated by the Gulf crisis, which intensified strains on a weak balance of payment crisis. This led to the fundamental transformation of Indian economic strategy under Finance Minister Manmohan Singh and Prime Minister N. Rao. Mr. Singh summarized the nature of the immediate crisis to the lower house of the parliament as follows:

"The deficit, which was inevitably financed by borrowings from abroad, has led to continuous increase in internal debt, which is estimated at 23% of GDP at the end of 1990-91. The debt, service burden is estimated at about 21% of the current account receipts in 1990-91. The balance of payments has lurched from one crisis to another since December 1990. The current level of foreign exchange reserves... would suffice to finance imports for a mere fortnight".[2]

In the past, India's strategy of import substitution used trade protection, largely directed public and private investment at an overvalued exchange rate to plan development by exploiting the home market. (Mukherji,R 2004). The financial crisis of 1991 enabled the policy maker to take advantage of an agreement with the IMF to significantly change India's policy orientation. The industrial de-licensing, devaluation and current account convertibility, tariff reduction, quota abolition, privatization and an invitation to investment, transformed India's strategy to one that would become more focused on international trade, private investment and efficiency (Mukherji R, 2004). Thus began a whole series of reform, introduced incrementally each year.

5.3 SCOPE OF REFORMS

The biggest changes have taken place in trade and industrial policy. The import tariffs have been brought down considerably from a weighted average rate of 87% in 1990-91 to 29% in 2001- O2. The import licensing system was virtually abolished in 1991. Industrial licensing was also abolished for all but 18 industries; and the number of

[2] Budget speech to the Lok Sabha, Manmohan Singh, Lok Sabha Debates, Series 10, 24 July 1991.

industries served for the public sector was reduced from 17 in 1991-92 to three in 2000-01 (Srinivasan, 2003). The controls on foreign capital inflow have been relaxed and foreign investment up to 51% equity holdings was approved for 34 high priority industries. The disinvestments policy was officially introduced from 1991, leading to large-scale privatization. The State governments also followed this trend. The Fifth pay commission Report (1998), attempted to change the culture of public organizations by focusing on corporatization, privatization, public – private sector participation and competition.

5.4 CONSOLIDATION OF REFORM PROCESS

All political parties, have accepted the fact that India's economy has changed or is changing from being more state led to a more market led and that reversal to earlier regime is unlikely. A notable pattern in the post reform political economy was the convergence of opinion among major parties; the Congress and the BJP that reforms were both inevitable and necessary (Mukherji, R, 2004:109). The Congress had initiated reforms in 1991 when BJP came to power it could not resist the temptation to privatize despite its early commitment towards, Swadeshi Economic.[3]

The dominant view within the BJP was that private but domestic investment needed encouragement in the context of protection from global establishments. It was this thinking that led the RSS to push Yashwant Sinha as the Finance Minster rather than more globalization friendly Jaswant Singh who was the first choice. Sinha's, 1998 budget escalated tariff and reduced incentives for foreign investment, while it encouraged NRI investment. The BJP then took the decision to abolish quantitative restrictions, and encouraged portfolio and foreign direct investment. It initiated the regulation of private players and introduced the patents bill and Investment Regulatory Authority bill. The BJP, support for economic reforms and privatization of Public Sector Undertakings, became the hallmark of India's economic policy in the 1990s and beyond.

[3] The term Swadeshi economics refers to a development policy that relies on domestic private investment and protection rather than foreign investment and trade

"We believe that the private sector both in agriculture and industry, will provide the needed thrust to economic growth... the private sector will perform its due role in many difficult tasks to achieve our target of seven percent growth"[4]

The above text delivered by Mr.Vajpayee, represents a new trend generated by India's political system. BJP turned into a moderate party and accepted the economic liberalization. It subsequently became the party of associated with privatization movement in India.

The BJP government was constantly under check because of its privatization program. The government could not convince, most people in India about efficacy of privatization as a means of reviving the country's bloated and inefficient public sector undertakings. The strategic sale of PSUs to private firms including BALCO, VSNL, IPCL, Modern Foods were all surrounded in controversy. The disinvestment strategy pursued by BJP, which provided no reasonable explanation in accordance into original disinvestments document of 1991, concentrated largely on sale of profitable PSUs. These companies were in monopoly positions and their shares were quoted at reasonably attractive rates. There are a number of problems with this strategy. While it is easy to sell the shares of profit making PSUs, such sales are short time affair and provide no solution to the problems of chronic loss making PSUs. Thus the whole process was embroiled in the whims and fancies of individual leaders or narrow ideological inclination.

The NDA government's privatization program was particularly controversial after Arun Shourie, took over as Disinvestment Minister in August 2000. Despite his amazing credentials, Shourie failed to forge a consensus about the need for privatization of PSU's. He found himself isolated, not just by his own colleagues but also by parties of all hues. Minister for Petroleum and National Gas Ram Naik, did not want his ministry to lose control over HPCL and BPCL, as they were profitable oil refining and distribution companies. Nor did the then Coal and Mines Minister Uma Bharti seem happy with the manner in which the Ministry of Disinvestment sought to privatize the Orissa based National Aluminum Company (NALCO). The privatization of NALCO, was opposed on the ground that timing for privatization was not appropriate, since

[4] Excerpts from the PM, Atal Behari Vajpayee's speech at National Development Council meeting, Feb, 19,1999.

international aluminum prices were at their lowest in 5 years. At the meeting of the national executive of the BJP Scheduled Castes Morcha in January 2003, it was pointed out new owners of privatized PSUs would no longer be obliged to fill up the posts reserved for SCs as well as STs.

Privatization became, the most contentious and divisive issue confronting NDA Government. Though few contended the policy of privatization in any organized manner in the Parliament but the methodology of privatization adopted and adhocism featuring in the process raised objections. The Rao Government initiated a policy on Disinvestment ,the Janta Dal Government constituted a Disinvestment Commission, and the NDA Government, (led by BJP) gave birth to a department of disinvestments and a cabinet committee on disinvestments(Mukherji 2004:110). Though, UPA government. is going slowly, on privatization and disinvestments, it has embraced global economic integration. Political opposition from within the left parties or regional parties could not reverse the policy back to import substitution, but has time-to-time succeeded in stalling the privatization of profit making undertakings.

5.4.1 PRIVATISATION AND DEMOCRACY

As Welfare State and Beveridge model of public production was being modified at the demand of new transformational markets, democracy and the 'socialist welfare state' brought in radical shift in democratic institutions. This brought issues of citizen vs customer, stakeholder's rights and issues of socialistic responsibilities in democratic deliberations.

After an initial successful start by Rajiv Gandhi to reform the economy, opposition started to develop from certain quarters – the Congress rank and file, the opposition on the left, rural groups, organized labor etc. As a result, Rajiv Gandhi started to worry about his electoral support and was forced to backtrack on reforms. At least 10 states were to face elections by the end of 2003 and national elections were due in 2004. The NDA government soft-peddled on tough economic reforms such as privatisation and labour-law reforms in the meantime. Kohli (1987) writes: 'it is indeed difficult for a democratic regime to undertake a major shift in development policy there are sharp limits on how far and how fast a liberalization program can be implemented'. The politically controversial issue of disinvestment was given a miss in the Economic Survey

2006. With Assembly elections due in several states, UPA did not want to take any electoral chances, so the disinvestment was given a timely burial. Vote bank politics plays a role in Indian politics. Political parties may openly denounce the vote bank politics but overtly or covertly they practice it nurturing their own constituencies for political survival. The existence of vote bank has come to become an Indian reality and democracy has become a fine art of balancing different vote banks by every political party. The CPI and CPI (M) are ideologically based political parties who have committed ideological cadre as their constituency. They are partners in the present coalition government. West Bengal, Kerala and Tripura are few states where left parties are strong were about to go for elections. Under such circumstances no harsh policy decision can be taken which affects the political prospects of these political parties. Varshney (1999:223) claims that, economic logic alone cannot explain the selectivity of reforms. Reforms that touch, directly or primarily have gone the farthest: a large devaluation of currency, restructuring of capital markets, liberalization of the trade regime etc. Reforms that are economically desirable, but concerns mass polity[5], are pursued with caution. At least three factors determine, the political placement of reforms:

a) How many people are affected?
b) How organized they are?
c) What is the effect direct or indirect?

Instead of carrying but the public sector reform, whole heartedly, as it involves large labor and social dilemma, political parties, especially NDA government resorted to privatization of PSU, as the safest bet. By privatizing the PSU, the government in effect abdicates its responsibility and thereby insulates itself from interest group pressure with the enterprise in public hands the state may find it impossible to resist demands for subsidization. But with PSU in private hands, the political pressure may weaken for subsidization.[6]

The role of politicians had its market equivalent in producers occupying the market. Politicians seek to promote an image, which enhances their chances of winning

[5] Varshney makes a distinction between mass politics and elite politics.
Elite politics is expressed in debates and struggles within the institutionalized settings of a bureaucracy, a parliament, a cabinet. Mass politics takes place on streets and unleashes citizens passions
[6] This is called soft budget constrain, Margaret Thatcher in UK in 1980s established hard budget constraint by abolishing subsidies.

elections. Just as market entrepreneurs pursue profits, politicians pursue votes (Downs, 1957). If the political parties go for wide scale public sector reform, the amount of losers or people affected would be more, thus runs an increased risk of being replaced by an opponent. When politicians go for strategic sale of one odd PSU, they keep the fact in mind that voters may not be that, well informed about their decisions regarding PSU and cost of getting informed for common citizen is too high. So it is easier to shell out privatization deal compared to go for public sector reform.

The second explanation is elaborated by Jenkins (1999). According to him, the reforms were implemented through underhand and often non-transparent tactics, made possible by the way in which democratic institutions work in practice. Indian politicians, could introduce, privatization process initially, because they were confident that the privatization, would not fundamentally alter their privileged position. 'Politics' as usual would not end and they could even get new opportunities for earning illegal income. By claiming one thing but doing another and by introducing de facto reforms when official policy statements stressed something else, they ensured that measures did not encounter much opposition. Though the UPA government has decided to revive three major PSUs in West Bengal – Braithwhite, Bridge and Roof and BBJ constructions – involving Rs.442 crores. There is also a proposal to revive four more PSUs including Andrew Yule, Standard and Hindustan Cables and Tyer Corporation of India involving Rs.400 crores. At the same time, the Government has slashed the allocation for the revival of sick PSUs, under the Department of Heavy Industry by more than half. The present Finance Minister Mr.P Chidambram has allocated a paltry sum of Rs.88 crore, representing a sharp fall of 54% from Rs.1947 crores provided last year for the revival of sick PSUs.[7]

The VSNL disinvestments deal was shrouded in transparency pursued by NDA government. VSNL was a cash rich company. It has cash reserves and surplus of more than Rs.6,000/- (year ending March 2000) and made profit of over Rs.800 crore for that year. The decision of the Government, handing over a company to a "strategic partner" for only 25% of its values makes very little business sense. No basis is for valuation of

[7] For details see: Budget 2006.

VSNL shares has been made public and no clearly defined methodology has been identified for its disinvestments.[8]

5.5 CONCLUSION

The dominant coalition has become more diverse, fluid, fragmented and more inclusionary. Bardhan (1998) acknowledges that, changed attitudes and new realignments within the dominant coalition is important backdrop against which reforms have taken place. The case in point is present UPA government, which comprises of Congress-I and various other leftist and regional parties. Though Congress-I initiated the process of reform in 1991. But now finds itself handcuffed by the Left parties. The Left parties in January 2006 rejected the Governments proposal to disinvest 'non-navratna' companies, saying that it wasn't proper way to mobilize resources (Jan 2, Hindustan Times). The UPA government was again put in the dock in Parliament over bidding for the restructuring of Mumbai and Delhi airports with Left launching on all out attack over the bidding. Karat, P. Said, "Modernisation and privatization don't go hand in hand" (HT, Jan, 2). Since the initiation of reforms, in 1991, several political parties have been in power at all India level and all of them have pursued the reform process, even though they have criticized it while being in opposition. Elections and democratic opposition[9], has resulted in rounding off the sharp edges of the reform policies. Though, some times, actual reform might get derailed and slow. The compulsion of democratic institutions and processes has played a significant role in the reform process in India.

The next chapter discusses the role judiciary has played as potentially powerful institution of governance in privatization process and sale of Public Sector Undertakings. Ironically Supreme Court has failed to take a more coherent approach to social security policies as an indispensable condition of privatization of Public Sector Undertakings. It along with the executive has shown close understanding and ideological coherence on privatization policy.

---

[8] For details see '*VSNL Disinvestment scam in the making*, Prabir Purukayastha (2001), June 10, Peoples Democracy, VXXV, No.23.

[9] The recent controversy created by the disinvestment of Neyveli Lignite Corporation shows that hasty polity decisions often result in reversals. The compulsions of coalition politics often come in front of reforms. Though the result can be both negative(in case of labour reform) or positive(stalling of relentless privatization of profitable PSUs.).

CHAPTER 6

ROLE OF JUDICIARY IN THE PROCESS OF PRIVATATION OF PUBLIC SECTOR UNDERTAKINGS

6.1 INTRODUCTION

Judiciary has played a potentially powerful role in privatization process and sale of Public Sector Undertakings. Living up to its initial political independent image of a conservative change agent, more of a reformer than a radical transformer, it has facilitated privatization process. However in some judgments Supreme Court has taken a more pro-active position in favour of workers and the obligation of state safety nets to displaced labour. Ironically Supreme Court has failed to take a more coherent approach to social security policies as an indispensable condition of privatization of Public Sector Undertakings. It has largely assessed an impact of privatization on citizen's rights and quality of public services and issue of just transfer of resources from government to private domains.

As an arbiter of citizens assets and workers rights judiciary is supposed to play an important role on the constitutionality, legitimacy and sustainability of decisions to privatize Public Sector Undertakings. The Indian constitution provides many safeguards for citizens against arbitrary government action and infringement of individual liberties. Judicial interception of official practices acts like a speed breaker to hasteful action.

Any assessment of judiciary as an institution influencing the process of privatisation would have to explore an important aspect of judicial power i.e. ways in which the judiciary consolidate its independence vis-à-vis the executive/ legislature and comes to be seen as a crucial component of the democratic process itself. This assessment would also have to examine the factors affecting judicial decisions and their wider socio-economic implications related to the sale of Public Sector Undertakings in India.

To facilitate understanding of the impact of privatization on Constitutional rights this chapter reviews judicial decisions concerning the scope and applicability of constitutional provisions towards furthering social justice and equity in Indian society. This chapter proceeds in the following steps: The first section discusses the Constitutional provisions regarding social justice and equity. In the second part, some general reflections on the evolution of judicial review, judicial independence and judicial activism are offered. The third part examines recent court decisions regarding privatization. Through these decisions one may understand the role that judiciary has managed to play in the process of reforms leading to a capitalist transformation of society.

6.2 REVIEW OF CONSTITUTIONAL PROVISIONS REGARDING SOCIAL JUSTICE AND EQUITY

Every Constitution has a philosophy of its own. The preamble to the Indian constitution establishes, summarizes the aims and objectives of the constitution as amended in 1976[1] .It states that India is a Sovereign, Socialistic, Secular Democratic and Republic.

The Constitution guarantees social and economic justice (Chapter iii and iv), eradication of poverty, through socialistic distribution of natural resources. Social justice is a fundamental right[2]. It is a comprehensive form to remove social imbalances by law harmonizing the rival claims or the interest of the different groups/ or sections in the social structure or individual by the means of which alone it would be possible to build up a welfare state. The goal envisaged by the Constitution is that of welfare state[3] and the establishment of a socialistic state[4].

At the Avadi Session in 1955, Congress launched the objective of a socialistic pattern of society by a resolution, which became the lighthouse of constitutional practices in India.

"In order to realize the object of Congress . . . and to further the objective stated in the preamble and Directive Principles of State policy of the Constitution, planning should take place with a view to establishment of a socialistic pattern of society, where the principal means of production are under a social ownership or control, production in progressively speeded up and there is equitable distribution of national wealth."

The goal of the Indian polity, 'socialism' is ensured by inserting the word 'Socialist' in the preamble by the constitution (42nd Amendment) Act, 1976. Granville

---

1 Certain amendments were done by the Constitution in 42nd Amendment Act.
2 See: Ashok Kumar Gupta vs State of UP (1997)5 SCC 201.
3 See:Dalmia Cement (Bharat)Ltd.vs.UOI (1996)10 SCC 104
4 By 42nd Amendment Act,1976.

Austin considers the Directive principles of State Policy (Art. 36-51) to be aimed at furthering the goals of socialistic revolution. He explains. ".. they are a middle way between individual liberty and public goods between preserving the property and privilege of the few and bestowing benefits on many in order to liberate the power of all men equally ..."[5]. Directives emphasize that the goal of the Indian state in not laissez faire and profit making, but it is a welfare state, where the state has a positive duty to ensure to its citizens social and economic justice and dignity of the individual. Though the word 'socialism' is rather vague, Supreme Court has observed that its primary aim is to eliminate inequality of income, status, and to provide a decent living to all working people. The Indian Constitution does not seek to abolish private property but seek to put it under restraint so that it may be used in the interest of the nation, which includes the upliftment of the poor. Instead of total nationalization of all property and industry, it envisages a 'mixed economy', aims to offer equal opportunity and abolition of vested interests.

The establishment of public sector undertakings was guided by the very same philosophy of providing social justice. The policy of heavy industry and inward orientation of administration and state ownership of means of production were dedicated to the achievement of a socialistic society through democratic means. Nehru thus endeavored to build socialism through his overall economic strategy (Nayar, 2001). Once the constitution came into effect the courts came up with a series of judgments that held up constitutional provisions on both property and special provisions for disadvantaged citizens and struck down state Government actions curbing freedom of speech as unconstitutional[6]. The 1951 Act, that first amended the Constitution, is interpreted as a landmark in the establishment of social justice in India (Menon, N, 2004:1812). The three significant changes it proposed were (a) the addition of clause 4 to Article 15, by which Govt. was enabled to make special provisions for backward classes of citizens. (b) The insertion of 31 a and 31 b, by which Government acquisition of land could not be challenged on grounds of inadequate compensation and the Ninth Schedule was created within which land reform legislation was placed, thus protecting it from

[5] The Indian Constitution ,pp 500-502.

[6] For details see :Granvile Austin ,Working of Democratic Constitution in India', Oxford University Press, Delhi 1999 pp.69-86.

judicial review (c) clause (c) was added to Article 19, by which Government could limit freedom of speech "in the interest of the security of the State".

By amendment to article 15, the Government would be able to make special provisions for backward classes. In view of Upendra Baxi(1982), rights borne by the community are not constraints on the power of State, rather they are legal entitlements protected by the State, that constrain other member of society.

While Amendment to Article 31, relates to law for acquisition by the state of any estate also, taking over the management of any property by the State in the public interest or to secure proper management of the property shall be constitutionally valid. In the Lok Sabha debates[7], there were many who used the language of justice and equality when supporting amendment to Article 31.

Renuka Ray spoke of social and economic equality and Pandit Kunzru agreed with Nehru that property was not an absolute right but was subject to rights of the community, which were greater than individual rights. Nehru urged, " We have to think in terms of large schemes of social engineering" .The above amendments were in tune with the socialistic aspect of nation building project of Indian modernizing elites

6.3 INDEPENDENT JUDICIAL REVIEW

Judicial Review is an important component of any democratic regime. Though the constitution has enshrined a separation of power amongst various branches of government the general presumption has been that judicial review in a parliamentary system should be soft. Courts in India have intervened in parliamentary decisions, giving birth to 'rights' based discourse[8]. Legitimacy has been awarded to court intervention, as the representative institutions/executive are seen as corrupt, inefficient, and incapable of performing their basic functions. The exercise of judicial power is seen as a means to achieve the primary goals of Indian welfare state, set out in Directive Principles of State policy. In India, there is evolving constitutional jurisprudence that has enhanced the power of judicial reviews (Pratap B. Mehta 2004).

[7] Lok Sabha Debates ,Part –2 Vol.xii,May17,1951.Col.8906.

[8] Most of the resource distributional battles in India have resorted to 'rights' as system of torts is weak in India.

The character of judicial activism has changed considerably over time. In the early years after independence the courts, much against the wishes of the executive, was seen as wedded to a very traditional and liberal interpretation of property rights, aligning itself with the propertied classes and standing in the way of Government's land reform legislation (P.Mehta 2004). The Supreme Court held on impeccable 'liberal' version of rights such as it imagined to be prevalent in the 'civil society' of the west (N.Menon, 2004:1818).

Nehru was never comfortable with the rising interference of judiciary. He resorted to Constitutional amendment as a means of snatching away the some of the powers of judiciary. He insisted that amendment could not wait for the election to place the first Parliament elected by the universal suffrage. "Far from changing this constitution", he said, "these amendment give full effect to the constitution as we wanted it to be". There were not new ideas, "we have only sought to bring out what is implicit.

During the last 1960s and 1970s, the judiciary again stood in the way of Mrs. Indira Gandhi's development agenda. It struck down the Government' scheme for the nationalization of banks, abolition of privy purses and restricted the Parliaments power to amend Fundamental Rights (part II of the Constitution) This claim was later modified to the effect that Parliament could not, through constitutional amendment, override the basic structure of the constitution.

Ironically, judiciary emerges out of Emergency, as a powerful institution. The Supreme Court of India has established itself as politically significant institution. As a powerful actor in Indian politics, the courts participate and collaborate in governing India. (P.Mehta 2004) But judiciary has not always been very sympathetic and impartial to the concerns of poor and downtrodden.[9]

The overt enthusiasm to set administrative agencies in order is called Judicial Activism. Public interest Litigation (PIL) pulled this activism towards the advent of radicalism and judicial populism. Public Interest Litigation or Social Interest Litigation (as called by Baxi,U (1983), it marked the democratic access to courts, as a collective rights of people of India. It did so by variety of approaches, it entertained letters written by Non Governmental Organizations, it innovated practices by fact finding (through

[9] See: Bhushan ,P (2004),Supreme Court and PIL changing Perspectives Under Liberalization' Vol xxxixNo.18.

independent socio economic commissions); it invented itself with continued jurisdictions over intensive domain of State lawlessness (prisons, juvenile homes, protective home for women) and fashioned all kinds of judicial intervention and remedies.

S.P. Sathe (2002) links judicial activism to social transformation, "A court giving new meaning to a provision so as to suit the changing social and economic conditions or expanding the horizons of the rights of individual is said to be an activist court." But, activism can be either good or bad. The flip side of contemporary judicial activism is its attitude of self-restraint in matter entailing violation of peoples' rights after the liberalization and globalization. There is now a large body of cases, where courts have betrayed citizens and demonstrated a lack of sensitivity towards the rights of poor and disadvantaged sections of society. 'Social justice' has become just a high blown rhetoric in the legal circles. Whether it was Supreme Court judgment on the Narmada Dam, or the judgment that said that government employees or unions had no right to strike, the Supreme Court, had tried to construct a national statute discourse which has little place for other voices of protest (Vishwanathan, S, 2000:4177). For the courts Public Interest Litigation has become an obstructionist and frivolous affairs where anyone seeking publicity or has is own vested interests can press the PIL button.

6.4. COURT JUDGEMENTS ON PRIVATISATION

Courtrooms battles are not new to India's infrastructure's privatization process. There is a large body of cases, which have an impact on future modernization process, and have general national and global interest. This part of the chapter looks at three very important verdicts, which have an overbearing influence on distributive justice and accountability.

The first relates to the BALCO Employees Union vs. Union of India (2002 Vol.2 SCC 343) where the employees union of the BALCO had challenged its disinvestments process on arbitrary and non-transparent fixation of reserve price. On December 2001 the Supreme Court upheld the disinvestments of 51 % equity of BALCO in favor of Sterlite Industries stating that correctness of Government decision couldn't be gone into by the court. The court observed that it is neither within the domain of courts nor the scope of judicial review to embark upon an enquiry as to whether a particular policy is wise or a better policy could be evolved over the issue. The court ruled out meddling in administrative decisions relating to the economic policy of India. The court was not very vocal on the allegation that deal was not transparent and was done through fraudulent means. In this case, court ignored the interest of the workers and neglected the basic question, as to whether privatization or disinvestments is the only means to reform a public sector unit and why other alternatives were not explored to restructure Public Sector Undertakings.

In a recent decision Supreme Court held that there is neither fundamental nor legal nor moral right to strike on the part of the workmen. Supreme Court in T.K. *Rangarajan vs Government of Tamil Nadu & Others* on August 6,2003 shows that it has, followed verdicts of New Public Management on government servants The Attorney General for India, Soli Sorabjee(as quoted in The Hindu ,August 13,2003) characterized this as "uncalled for" and "beyond comprehension," pointed out that the right of collective bargaining, including the right to strike, as an invaluable entitlement of workers and employees won through years of toil and struggle. There were two core issues before the two-member bench. The first was the constitutionality, legality and rightness of the summary dismissal of about 170,000 State Government employees in Tamil Nadu under the State's Essential Services Maintenance Act (ESMA), as amended *post facto* by an ordinance conferring on the Government the right of dismissal, without giving the employees an opportunity to be heard. The second issue was the status of the right of workers and employees to freedom of association and collective bargaining, including the right to agitate and strike (The Hindu ,August 13 2003). The judgment in one stroke deprived lakhs of government employees of their basic right to strike. Court took an unsustainable position taken against the right to strike as a part of internationally recognized basic democratic rights It was contrary to the fundamental rights in the constitution, ILO[10] and Covenant on Economic, Social and Cultural Rights[11] to which India was a party. Though it is true that in some cases the strike is misused, but there is no reason why all strikes should be condemned as immoral. The right to strike is a potent weapon in the hands of workers, against arbitrary decision of the private sector units. With the rise of Multinational Companies this right appears all the more useful as

[10] ILO is a specialized UN agency to promote international action aimed achieving full employment and raise the living standards of people.
[11] Article 8 of this convention, binds all states to ensure right to strike, from trade unions and function freely.

bargaining power of laborers is not equal to that of multinational giants. The right to strike was important tool in the hands of workers as government is coming up with six mega investment regions on the model of Pudong and Rotterdamm and Special Economic Zones, which are going to be free of all government interferences (The Economic Times, April 26 2006). In such circumstances legal protection to workers was all the more must.

The third case is about the government's power to abolish any post created by it for streamlining administration and for overcoming financial crunch. According to the ruling, (Avas Vikas Sansthan vs Government of Rajasthan) on March 8th 2006, the court could not by a writ of mandamus direct the employer to continue employing such employees as have been dislodged as a result of department being partly or wholly abolished or abandoned for want of funds. As many as 604 employees of AVS had lost their jobs after abolition of these bodies which were registered on Nov.17, 1988, under the Societies Registration Act, 1860 .In all 9 AVS were set up in the state of Rajasthan and were dissolved vide resolution dated March 26,1999. The court also noted the fact that Rajasthan government acting as welfare state formulated a scheme for absorption of these employees in local bodies such as Municipal Boards, Municipal Councils and Jaipur Development Authority on priority basis. The employees of AVS vide state government order dated June 1,1999 were to be absorbed on the condition that they would be employed on the lowest post of pay drawn in AVS of direct recruitment and on the minimum grade with no benefits of past service. Voluntary Retirement Scheme (VRS) was offered to them. The apex court found erroneous the high court judgment dated May 3,2002 granting relief of re-employment, with pay protection, seniority and pension. "We are of the opinion that the decision of the High Court granting relief of reemployment with pay protection, seniority and pension is erroneous," the Bench said. The ruling is likely to affect the trade unions in India and will give legitimacy to the downsizing or rightsizing as started during NDA regime. Rising non-plan expenditure has made the government to go lean as per the recommendations of Fifth Pay Commission (1997) and this is leading governments to reduce the largesse of government departments.

These cases have revealed a return of conservation of Supreme Court as in Golaknath decision, where Supreme Court, held nationalization of privy purses as unconstitutional by invoking the right to property. It was quite evident from this decision that such laws would be serious obstacles, to the implementation of the directive principles. Such a decision facilitated the process in which social justice took a backseat, and goes in favor of rich and powerful sections of society.

6.5 IMPLICATIONS AND CONCLUSIONS:

Intervention by Judiciary has demonstrated three important implications for the direction of PSU reforms in India.

1. There is a close understanding and a form of ideological coherence and unanimity between legislature and judiciary on the policy of privatization. The then Union Minister for Law, Justice and Company Affairs, Shri Arun Jaitley said the judgment of the Supreme Court of India in the disinvestment of BALCO has been a turning point, a defining moment and a milestone towards ongoing economic reforms and privatization of public sector undertakings. He further said that the Government stood firm in its commitment to economic reforms and that would go on unhindered. Talking of changes in the outlook of judiciary towards economic reforms, the Law Minister said the Courts after the BALCO judgment should not interfere in economic policy domain, which was the preserve of the executive. He said that the BALCO Judgment would go a long way in giving further fillip to the economic reforms. He further said this judgment should work as bulwark against misuse of Public Interest Litigations (PILs) by vested interests in the Courts to thwart various economic reforms by causing unnecessary delays. The former Chief Justice of India, Shri Justice A. M Ahmadi concurred with the Law Minister stating that Indian Judiciary was largely blamed for its delays. He said that important economic developmental projects should not be bogged down on account of delays. The Judiciary, by and large, should confine to ensure the consistency of such projects in keeping with the Constitution of India.[12]

---

[12] Source: www.pim.nic.in

2. In most cases after the year 2001, impatience of judiciary against trade unions and civil society organizations to suppress the outrageous injustice of privatization and globalization was visible.
3. A near agreement amongst political elites in India towards pursuing a right-based approach of Public Sector Undertaking restructuring and as a result of this feasibility and evaluation studies for sustainability could never occupy the core of the privatization debate. This stands in complete contrast to neighboring Pakistan where a bigger bench of nine judges held null and void privatization of Pakistan Steel Mills Corporation (PSMC) by declaring it unconstitutional and illegal .It also directed the government to constitute Council of Common Interest on a time bound manner.

The Supreme Court in the above verdicts has articulated the will of the clients in the public sector – the demand for cost effective user-friendly government manned by duty conscious people. Underlying, there are overarching question of distributive justice and accountability. These are based on the ideology of new public management, where customer satisfaction, cost effective services, meaner and leaner government, casting aside red tape, working better and costing less in the norm. This is a clear efficiency based market approach, where economic efficiency of the enterprise is the norm and concern for democratic citizenship and public interest has been subordinated.

It has articulated the will of the taxpayer who wants smarter or less government and wants the government to emulate private sector practices, while forgetting the basic difference between public sector and private sector. The role of the government is not just to provide economic goods and services for clients but also espouse broader values such as fairness and social justice citizens. Courts while taking the interest of clients i.e. the taxpayers in mind, has ignored the interest of the citizens who may or may not be the taxpayer. (Alfred, J, 2002).

The Courts have frowned upon challenges to any action of the executive, even when they flouted the laws of the land and were mired in corruption. The courts are fast espousing the virtues of free market while forgetting the interest of poor and downtrodden.

The broader consideration of distributive justice rests on the three pillars of democracy, namely legislature, executive and judiciary. Thus examination, of the

Constitutional, legal and public administration process of a given government along with an appreciation of economic and political factor is must before considering the possibility of privatizing Public Sector Undertakings. The court should facilitate the process of reform keeping in mind the needs of a welfare and socialist state rather than taking an elitist view.

CHAPTER 7
CONCLUSION

Of all the problems India is facing in its transforming from a mixed economy to a market economy, no one is more formidable than the reform of PSUs. This legacy of the old Nehruvian era became the main target of Indian reform policy makers in 1990s, shortly after the reform began. After a decade of experiments, while other socialist countries like China and Russia have technically privatized their PSUs, India is still struggling to find a way to reinvent and reengineer these economic establishments.

Public Sector Undertakings were set up as an integral part of our developmental plans and industrial policy. This policy framework envisaged that these PSUs would generate further surpluses and would yield some minimum rate of return on the investment made in them. However, over the years demand for disinvestments gained momentum. The pressure to privatize PSUs became stronger as government faced shortage of funds to spend on areas like infrastructure, primary education, rural health care. It was charged that inefficient PSUs were largely responsible for the macro economic crisis, India faced in 1980,s, a phenomenon that spilled over into a balance of payment crisis in 1990-91.The principal charges against the PSU are: low rate of return on investment, declining contribution to national savings, poor capacity utilization, overstaffing, lack of accountability and autonomy, secrecy, and bureaucratization leading to excessive delays and wastage of scarce resources. According to a release by apex industrial body PHDCCI, building these enterprises have the cost the government more than Rs.2 lakh crore till date. The government loses Rs. 10,000 crore a year from 100-loss making PSUs.[1]

Disinvestment policy advocated by consecutive Indian governments is heavily rooted in economics and market based principles .It ignored other drivers of change rooted in normative values, and focused just on one approach to government reform i.e. privatization. BALCO was a test case of privatization. Strategic sale of Balco at first look might lead to the conclusion that now employees would be more accountable and new management will infuse efficiency which will lead to more productivity and

[1] Source:, PSUs run up Rs. 10,000 crore losses in *Economic Times*, Monday 10 July 2006.

profitability. But the real picture is very different. The improvement in profitability was not the result of ownership change but due to external factors.[2] Moreover there was a displacement of social objectives by political expediency, which did not lead to economic efficiency. It also lead to distributional inequities.

The present chapter focuses on normative values of public sector reform, which were ignored by the Indian policy makers in their rush for privatization. It looks at the areas where reforms are to be taken like accountability, labor practices, information technology, greater transparency etc apart from improving economy and efficiency.

7.1 PRIVATISATION: IS IT THE ONLY OPTION?

In the recent years, the privatization movement has intended the discussion to whether certain activities are most effectively performed within public or private organizations. The primary issue in these deliberations has been what existing Governmental services or activities should or should not be privatized – shifted from public organization to private ones (Savos, E, 1983). The position taken in this chapter is that the privatization movement represents only one position, in the debate over how public functions should be organized. Indian policy makers privatized PSUs without adequate considerations of the larger environment in which they operate. They ignored the functions performed by them, which is central in the evaluation of their performance.

Since the Disinvestment Commission was set up in August 1996 and generated several reports for disinvestment of public sector undertakings, the process of strategic disinvestments has moved rapidly. The UPA government is considering disinvestments in BHEL and Neyveli Lignite Corporation and Nalco amid controversy.(July,7,The Hindu). 'The business of government is to govern and not to engage in business' - this maxim is now an economic reality for both the Centre and the states. The government is conscious that it has to proceed from making a success of selling profit- making PSUs to establish a track record of privatization. Privatisation has emerged as a major stimulus to improve industrial efficiency, facilitate inflow of foreign investments and ensure efficient allocation of resources. In effect, the government's role has changed from that of an owner-manager to its role of a regulator.

---

[2] See: Vedanta Annual Report 2005 .

Reforms in India were interpreted within the framework of New Public Management, fostering the impression that efficiency and market-based reforms account for greater change and innovation. The focus on just New Public Management, distorted the policy makers view that refused to look at other approaches to public sector reform. A balance has to be maintained among competing drivers of change. Kaufman (1985:36-38) contends that changes in values, tastes, economic development, existing political, social, and economic institutions and knowledge and technology influence the pattern of reform. Broad shifts in values especially due to post modernism, has altered the direction of reforms. Wise (2002:556) contends that values that are germane to any reform process are: social equity, humanization and democratization and empowerment.[3]

Critical social theory provides some understanding about the process of reforms. Through the works of Max Horkhiemer ,Theodor Adorno, Habermas and Herbert Marcuse in the 1960s and 1970s it broadly covers the interactions between the explanatory, the normative and the ideological dimensions of social and political analysis of public sector reforms . 'Social theory' is used to describe the attempt to theorize the modern social world in any of its spheres (psychological, cultural, economic, legal, and political). The 'critical social theory' takes a critical stance towards itself, by recognizing its own presuppositions and its own role in the social world, and towards the social reality that it investigates, by providing grounds for the justification and criticism of the institutions, practices and mentalities that make up that reality. It basically implies that change in political and economic systems will reduce coercion, injustice, inequality and inequity. (Box.R2005). Stivers.C (1990:227) in the similar vein criticizes the emphasis on just procedural dimensions ignoring the issues of substantive justice in policy making. It cuts through the gauge of privatization theory of public choice, principle agents and transaction cost analysis.

Ali Farazmand[4] argues that privatization and globalization are related in as they constitute a deliberate program of promoting the market at the expense of ordinary citizens. He evaluates the pros and cons of market-led reforms. On the positive side, he

[3] For details see: Wise.L.R.(2004) 'Public Management Reform: Competing Drivers Of Change' *Public Administration Review*,Vol.62, No.5.pp555 - 567

[4] For details see: Farazand A (1999) 'Privatisation or reform Public Enterprise Management in Transition' *International Review of Administrative Sciences*, 65 pp 551-567

cites the newfound interest in modernization and results-orientation. On the other hand, he is concerned that these reforms are not only a threat to democracy and self-governance. In his view, privatization leads to a diminution of skills and capacity and a weakening of the regulatory role of the state and of the public interest. He argues that it is the essential to expose the shallowness and contradictions of the New Public Management policy proposals.

The PSUs are vested with social, economic and commercial objectives. The combination of these objectives varies in priority among PSUs. Clarity of the objectives is the first pre-requisite for PSU reforms. Efficiency for PSUs, need a holistic measure capable of assessing the social, economic and commercial objectives. In this regard, it has to be kept in mind; various PSUs are in different levels of social and economic advancement institutional structures, administrative capabilities, geographical attributes etc. There is a need to bring harmony between economic reforms and aspirations of common people. This does not mean that process of reform should be derailed or stopped due to political pressure or expediency. But there is a need for healthy balance between reforms and objectives of welfare state. India's reforms clearly emphasize the importance of efficiency and effectiveness, reliance on explicit standards, greater competition and private sector styles of management. There are attempts to reduce corruption and to address accountability issues but are far from those desired. Judiciary remains a weak link in the process and is not performing desired role in the transition to market economy. It is still based on conservative ideology of the independence era and along with the executive fostering a market based economy.

Reform of the PSU cannot be ignored, whatever be the mode of ownership or objective of PSU. The purpose of PSU reform is to advance sustainable social justice, and for social justice economic efficiency is must. (Bardhan 2001:472). A very important aspect for PSU reform is the need for providing transparency, information revolution and accountability. These along with social equity, democratization, and harmonization will lead to the achievement of social objectives. The Tenth Five Year Plan, 2002-2007, lists out issues and strategies to make improvements in this area. The plan talks of Reform in following areas: people's participation, decentralization, right to information, civil service reform, judicial reform, use of IT, empowerment of the marginalized etc. The OECD[5] has approved new Guidelines on Governance of State-Owned Enterprises to give concrete advice to countries on how to manage more effectively their responsibilities as company owner's .The Guidelines aim to help make state-owned enterprises more competitive, efficient and transparent. The Guidelines call on governments to ensure a level-playing field for state-owned enterprises competing with the private sector by separating the state's ownership role from its regulatory role. It expects government to become more informed and active shareholders by simplifying the chain of accountability through centralizing or more effectively coordinating shareholding responsibilities within the state administration. It also seeks to reduce political interference in day-to-day management .It wants to empower boards by clarifying their mandates and respecting their independence. Lastly strengthening internal controls and carrying out independent, external audits based on international standards should improve transparency. Following are some of the areas where reforms are urgently required to make public sector undertakings globally competitive

1. LABOUR POLICIES and SOCIAL SECURITY NETWORK

Efforts of PSUs to prepare to meet challenges of international competition in the India will mean identification of excess manpower and introduction of VRS and retraining/ redeployment of staff. It will mean outsourcing work, which might lead to job reduction. In this context social security nets by government are useful. Review of archaic labor laws long overdue and there is need for these laws to be substantially overhauled to enable speedy work at the same time security to the labor. The UPA government is considering amendment to labor laws for increasing working hour, allowing living of seasonal worker and making contract labor rules flexible. It has been proposed to amend the Factory Act 1948 to increase the limit of working time from 48 hours a week to 60 hours per week and daily work hour from 9 to 12, so that the overtime limit, could be extended. It is also considered to amend the Contract Labor Act in specified non-core activities in tune with modern outsourcing practices. Prime .Minister . Manmohan Singh at the 40th Indian Labor Conference had made an

[5] These guidelines are based on the OECD's Principles of Corporate Governance, created in 1999 and revised in 2004, that are the benchmark for national codes of governance for members as well as non-member countries

indication to this effect. A more flexible and transparent regime of laws, including labor laws will in fact contribute to increased employment. Appropriate and relevant labor legislation is, therefore, in the interests of labor and in the interests of the nation as a whole. He however clarified that the government was against hire and fire policy.

There is a need for holistic approach to the issue to prevent the emergence of serious imbalance like large scale – unemployment without adequate support system in the form of social security and insurance resulting in wide spread labour unrest. There is a need to set up social safety net in each PSU before privatization Prof.Jagdish Bhagvati says that Indian politicians should strike a balance between fully-fledged liberalization and social and economic security.(Hindustan Times,19 Jan 2006). He further says compromise should not be done on social issues." You can't expect people to walk out on a high wire unless there is a security net." China's experience has been incredible in closing down its state enterprises. It has done a remarkable job in laying off its workers while creating more jobs in the private sector.[6] India should try to impart relevant training to its employees before declaring them redundant.

2. REFORMS IN BUREAUCRACY

Whether it is traditional hierarchical bureaucracy or New Public Management inspired government, bureaucracy should promote efficiency and welfare. Rosenbloom (1977), stresses the role of bureaucracy, in promoting notion of fairness, and political neutrality of government actions. If action can be portrayed as equal, fair, just or equitable, the acceptance of government policy will be easier. But the shift towards market – type bureaucracy focuses more on competition and market incentives. This leads to goal displacement, as focus is more on meeting consumer demands rather on welfare of citizens. This might lead to corruption as contractors might resort to unfair means to increase profits.

Also the power – conscious and change averse bureaucracy might go slow in effecting the much needed reforms in PSUs. As it might affect its interest as it may have to share it's power with citizens in disclosing confidential information. Even P.M.

[6] In China many SoE's have been closed down .But total urban employment has risen from 19million in 1995 to 24 million in 2001- that is total of 10.5 million new jobs are created in private and joint sector. (Ghosh D .N 2001)

Manmohan Singh, lamented the lack of long term thinking within the bureaucracy. Prime Minister Manmohan Singh has approved path-breaking reforms aimed at overhauling the country's elite administrative service by stressing on integrity and performance. The decision links the performance of Indian Administrative Service (IAS) officers to their capabilities and reputation, which will henceforth be judged not just by seniors but also by peers and eminent personalities. The existing system of assessment based on an Annual Confidential Report (ACR) will be replaced by a new instrument called Performance Appraisal Report (PAR). "PAR will be a tool for career planning and training and not just a statement of a senior's opinion of a junior," a statement said.[7]

3. ROLE OF INFORMATION TECHNOLOGY

Information Technology is poised to revolutionaries public sector through new thresholds in human connectivity. The impact of IT on cost, efficiency and equity as drivers of cross border trade and investment in public sector is phenomenal. The basic needs are not satisfied for the vast majority of the world's population by prevailing structure of resource allocation. New opportunities for production of knowledge and to trade in it for direct economic benefits, opens new way of improving the performance of PSUs. Its most significant features are reliable storage, retrieval and transfer of text, sounds, images and number as audiovisual and data communication. This substitutes and supplements face to face contact and transportation and augments capacity of public sector in all aspects – development, delivery and administration. When this capacity is recognized as a shareable and exchangeable resource, public sector managers, can design the outcome of their efforts by seeking the participation of people. It is here that e-governance can make major impact on improving the quality of services by making it more transparent, responsive and citizen friendly. The UNDP's ongoing inititiatve 'Reforming Technical Cooperation for Capacity Development' explores the fundamentals of capacity development and how technical cooperation in particular can best contribute to the development of lasting indigenous capacities. It suggests that sometimes information is too expensive to deliver, not only in it's immediate cost (for instance, the high cost of expatriate human resources), but also the indirect costs (for instance, the claim that external assistance can undermine local capacity, disrupt local

[7] Source: Indo Asian News Service May 7,2006.

labor markets, and tie clients to high-cost suppliers). Nonetheless, the use of information and communications technology (ICT) helps to dramatically lower these costs

To give a filling to e-governance in India the Information Technology Act 2000 was enacted, providing a legal recognition for transactions carried out by means of electronic data interchange. Many State Governments are running successful E-Governance Plans like e-seva in Andhra Pradesh, Bhoomi in Karnataka, Friends in Kerala. As a process of public sector reform, application of ICTs for delivery of services require political will, commitment, reengineering of organizations and Government business processes. While private companies have sold their rejects through e-auction, the platform is still not considered ideal by PSUs to sell wastes. Coal India Ltd is sitting on 18 mt of coal rejects, which commands premium in the national market. While private sector sell their wastes material for Rs.600 per tonne, CIL is unable to get customer. CIL is sitting on Rs. 1,000 cr and leading to invaluable loss to government.(The Economic Times, 10 July,2006)

4. TRANSPARANCY

Administrators of the enterprise need to conduct the public business in the open. Openness is defined as disclosure of information in policy-making stages that permits the public to be informed participants in the policymaking. The idea that government decisions making should be accountable is not new. The concern with transparency, is a reaction against both the arbitrary decision making round in the state – dominated economics and the often secretive process by which liberal economic policies are introduced. In the case of Balco the government could have informed the media and the public of the comparative position of Balco's technology and costs of production. And how the sale would ensure rising excise, sales tax and income tax revenues to government. The importance of transparency cannot be underemphasized. The valuation of the company as well as the bidding process could have been publicised before the sale was finalized. The better the transparency the less the chances of any controversy arising.

The work of a small and unusual activists group in north Indian state of Rajasthan, has raised a series of practical and theoretical issues concerning the best way of combating specific instances of corruption, and for promoting accountability. The Mazdoor Kisan Shakti Sangathan (MKSS) has engaged a campaign to secure the rights of people to gain assess to information held by Government officials (Jenkins.R and Goetz, M1999).

On October 12, 2005, Right to Information Act, a constitutional Act no.22 became operational with the hope of an era of better, more transparent, accountable and responsible governance. It makes a significant shift for Indian democracy with greater access to citizens to information and greater responsiveness of the Government to the Society. In one stroke the country has been freed from Official Secret Act, 1923, which made divulging official secrets an offence. This act is the corollary of the Fundamental Right of Freedom of Speech and Expression [Act 19(1)(a)]. It implies that citizen can ask for Government information and make transparency and good governance triumph (The Hindu,2006)

5. CORPORATE SOCIAL RESPONSIBILITY

Corporate Social responsibility[8] is very important emerging area of public sector reform. CSR is a concept that an enterprise is accountable for its impact on all relevant stakeholders. It is continuing commitment by business to behave fairly and responsibly, contribute to economic development while improving the quality of life of the workforce and their familiar as well as of the local community and society at large. By expressing their social responsibility companies are affirming their role in societal and territorial cohesion, quality and environment.

CSR has been influenced by two major concepts – stakeholder model, wherein it is recognized that good business practice is not only seen on maximizing shareholder value. The other concept is triple bottom line, where enterprises would no longer be judged by the conventional single i.e. financial bottom line, but also on their performance in social and environmental bottom line.

There are several emerging areas of corporate social responsibility – social responsibility, business responsibility, environment responsibility and stakeholder involvement. But the government thinks otherwise. Social obligation of PSUs is often stated to be responsible for placing PSUs in a disadvantageous position as compared to private sector. There is a lack of clear strategy on the part of the government with regard

[8] This section is heavily borrowed from special feature on corporate social responsibility in Economic Times,17 March 2006 *'Corporate That Care'*

to social responsibilities of the PSUs. Some PSUs have undertaken social responsibility on their own like NTPC, ONGC; there are others who seem to be totally unaware of such an obligation. This would be possible only if the government define the policy on the social objective of the PSUs. Government and the PSUs should include targets for discharging social responsibility and evaluate the achievements. PSUs fulfilling social responsibility should be adequately compensated.

6. AUTONOMY

Flexibility and autonomy in the operations of public sector is essential to minimize government intervention but, at the same time, the right of government to access necessary information for performance evaluation of individual enterprises. The Department Of Public Enterprises has issued new guidelines for appointment of independent directors to facilitate the induction of political appointees (The Economic Times,2005). This clearly goes against the principle of autonomy, as politicians will use this to maximize their control over PSU.

But at another level PSU may end up enjoying greater autonomy and reduced intervention in decisions relating to pricing and distribution policy, exports and imports and award of contracts among others. The decision was taken by Department of Public Enterprises on the recommendations forwarded by Adhoc group of exports (AGE) under ex-planning Commission members, Arjun Sen Gupta. The main contention of the AGE was that the difference between ownership and management of PSUs should be well understood to ensure that PSUs are run by the Board of Director and not by the owner as far as the Government intervention is concerned it should be restricted.[9] Moreover, according to Hindustan Corporate Bureau, (29 Nov.), well managed public sector units, are expected to get more autonomy. Profit making companies falling under the 'Navratna' category, can invest up to Rs.1,000 crores in joint ventures and incur capital expenditure. The PSUs are asking for more autonomy . But objections are raised by concerned by ministries and departments over issues of accountability. PSUs want to invest money in stock market but there is a risk involved as public money is at stake. Some of the PSUs are sitting on huge cash reserves and have the capacity to invest upto Rs.10,000-15,000 crore and can invest in mutual funds. (The Economic Times, 2006).

[9] Source: "*More Autonomy for PSEs likely'*, Economic Times, 13 Dec., 2006

Government should give clear guidelines on the issue of accountability, as this is an important area. Clarity will help in better performance as bureaucrats will take the responsibility to perform.

7. AUDIT OF PUBLIC SECTOR UNITS

Under the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act 1971, the CAG has the authority to issue directions to the auditors of government companies regarding the manner in which each company's accounts is to be audited. Most government corporations established under specific Acts of the legislature, the CAG conducts audits either as sole auditor or superimposed auditor depending on the statutory provisions involved. In the latter alternative, the audit of the CAG is over and above that of the particular private firm appointed to conduct the audit. However, the CAG has no auditing mandate in the case of some bodies such as the Reserve Bank of India and Life Insurance Corporation of India. The audit methodology employed for public enterprises in India by the CAG covers three broad aspects: financial statements, systems and performance. In addition, a horizontal study of the overall working results of audited companies and corporations - focused on relevant indicators - is also made. While the horizontal study provides a bird's-eye view of the overall performance of both the central and state government enterprises, the initial coverage highlights weaknesses and inadequacies in the accounting system and procedures of individual enterprises.

The Comptroller and Auditor General and their officers, are generally not qualified to appreciate the environment in which decisions have to be taken. CAGs power arise from the need to inform Parliament of the State of Accounts and proper working of Government units. To put commercial decisions under audit analysis is not fair to the officers. Sir, C.D. Deshmukh had ensured that Life Insurance Corporation of India, was kept out of purview of CAG audit. The UPA government. is also planning to restrict the role of Central Vigilance Commission (CAG)(The Economic Times 2005). The J.J. Irani Committee (2005) has recommended that the audit being conducted CAG cripples the independence of PSU. In order to compete globally they must be allowed to take quick and independent decisions with no vigilance. With the fear of being caught in the wrong foot in the future, in the web of rules and regulations, the executives most of the time defer taking decisions. Freedom in decision-making puts the private players ahead in competition. CAG should compete with other international bidders for auditing the PSUs. It has also been suggested that CAG should adapt the audit style, suitable to business entity. But at the same time, it is necessary for CAG to recognize the concerns and pressure under which PSUs, have to perform. The emphasis must not be on methods, procedures, or individual decisions but on an evaluation of overall results, taking into account the socio – economic and political environment in which decisions are taken.

Privatization has led to the debate on nature of functions of government and design of the organizations. Wise (1990) suggests that the time has come for post-privatization where public policy must move beyond admonitions by public officials to privatize everything to an understanding of the role of public sector. He says that privatization does not provide a framework for public sector. Privatization is neither offers a normative theory for the design of PSU nor analytic framework for that purpose. PSU should be designed so that they positive role in growth and welfare of the public. The requirements of sovereignty and democratic governance are significant in reforming public sector. Bureaucrats have a responsibility for furthering democratic values, accountability, sustainable economic development and better opportunities for citizen in policy formulation and implementation. But a trend of contracting and government load shedding to enhance public services has lead to an entrepreneurial form of governance. Privatization in India was carried out in a hurry where democratic institutions of governance were incapable and not fully developed to face vast challenges of privatization .No safety nets were designed for the upliftment of those affected by the harshness of ad-hoc privatization. A fundamental rethinking of the process of governance of public sector is required which confirms to the traditional ethics of public service. The legal framework and other good governance enforcing institutions are not in place and are to be improved and strengthened, to avoid the undesirable developments. Due attention has to be given to minimizing and alleviating the inevitable consequences of the privatization process through carefully designed and prepared social safety net programs.

Privatisation, since 1996,has been undertaken as an uncontested policy instead of reforms in public sector undertakings. However, this policy has overlooked the contribution of PSUs to the development process of the country and implementation of pro-poor policies .Privatization policy , is not rooted in socio-economic realities of the country, and has ended up being an unsustainable strategy. The logic and policy of privatization was rooted in market principles, which ignored the normative policy issues like social justice and welfare. But thanks to the Indian Democracy which has many times stalled the process of relentless privatization and has saved profit making PSUs from 'strategic sale'.

SELECT BIBLIOGRAPHY

Administrative Reform Commission (ARC)(1968)'Report of the Study team on the Machinery of the Government of India and Procedures of work' Part 2 Vol.1, Government of India, Manager of Publications New Delhi.

Agarwal ,R.N (2001),*Technical Efficiency and Productivity Growth in the Central Public Sector Enterprises in India During 1990s* ,Institute of Economic Growth, Delhi, March 30.

Alchian, A and Demsetz, H (1972), 'Productions Information costs and economic organization', *American Economic Review* 62(4) pp 777-795.

Alford, John (2002) 'Defining the Client in the Public Sector: A social Exchange Perspective', *Public Administrative Review*, June, May 1Vol. 63, No.3.

Amita Singh ed (2005): *Administrative Reforms: towards sustainable practices*, Sage Publications, New Delhi.

Amita Singh(2003) 'Questioning the New Public Management' *Public Administration Review* Jan/Feb.Vol.63 No.1.

Annual Report (1999) Ministry of Heavy Industries.

Annual Report (2005) Vedanta Group of Companies.

Annual Report (2005) NTPC.

Arif M&K Iyer (1995), Privatization, Public Sector Reforms and Development Strategies of Developing Countries, *Asian Journal of Public Administration*, Vol. 17, No.2, Dec.

Aucoin P (1990) 'Administrative Reform in Public Management: Paradigm, Principle, Paradoxes and Pendulums' *Governance* Vol. 3(2) pp 115-137.

Austin, Granville (1999), *Working of a Democratic Constitution*, Delhi: Oxford University Press.

Baijal, P (2002), 'Privatization gains to tax payers and employees, *Economic and Political Weekly* April 27, Vol. XXXVII, No.17 pp1595-1598.

Bardhan, Pranab (1984). *The Political Economy of Development in India.* New Delhi: Oxford University Press.

Bardhan, P (2001), Social Justice in a. Global Economy, *Economic and Political Weekly*, Feb.3-10, Vol. XXXVI, No.5 pp 467-481.

Barney ,Jay B and William G,Ouchi (1986)Organizational Economics ,San Francisco: Jossey –Brass.

Barzealay, M. (1992) *Breaking through Bureaucracy*, University of California Press, San Francisco.

Basu, D.D. (2005) *Introduction to Constitution of India*, 19th Edition. Wadhwa and Company Law Publishers.

Batley, R. (1996) 'Public and private relationships and performance in service provision',*UrbanStudies*,33(4-5)pp723-75.

Baxi, U (1983) *The Supreme Court in Indian Politics*, Delhi, Eastern Book Company.

Bhaya, H (1990) *Management Efficiency in the private and public sector in India* in J. Heath (Ed.). Public Enterprise at the Crossroads, London: Routledge

Bhushan, P (2004), Supreme Court & PIL: Changing Perspective Under Liberalization, *Economic and Political Weekly*, May 1 Vol. XXXIX No.18.

Brown K (1997) Evaluating Equity Outcomes in State Public Sector: A Comparison of three housing agencies, *Australian Journal of Public Administration* 56(4): 57-66.

Boston, Martin and Pat Walsh(1996) *Public Management :The New Zealand Model*, Oxford University Press, USA.

Box, (2005): Critical Social Theory in Public Administration, Prentice - Hall of India Private Limited, New Delhi.

Buchanon, J ,M (1978) 'From Private Preferences to Public Policy :The Development of Public Choice' *The Economics of Politics*,pp1-20 ,Institute of Economic Affairs: London.

Caiden, G (1991) *Administrative reforms Comes of Age*, Walter de Gruyter, New York.

Centre for Monitoring the Indian Economy (CMIE) (2003) *National Income Statistics*, December.

Chang, H and Singh, A (1992) Public Enterprise in developing countries and economic efficiency – a critical examination of analytical, empirical and policy issues' United Nations Conference on Trade and Development Discussion Paper No.48, Geneva: UNCTAD.

Chang,Joon(2003) *Globalisation ,Economic Development and role of the State* ,Zed BooksLtd,UK.

Cheung A, (1997) – Understanding Public Sector Reforms: Global Trends and Diverse Agenda, *International Review of Administration Sciences*, Vol. 63 (4), pp435 – 458.

Cheung, Tai Ming. "Can Zhu reform China?" *Institutional Investor.* April 1998, p. 91

Christenson, T and Laegreid (2000) : *New Public Management: The Transformation of ideas and practice*. Ashgate Publishing Company, USA.

Clarke, J. and J. Newman (1997) The Managerial State: Power, Politics and Ideology in the Remaking of Social Welfare, Sage, London.

Clarke T and C Pitellis (1991), '*The Political Economy Of Privatisation'*, Routledge, London.

Common, R.K. (1998) Convergence And Transfer: A review of the Globalization of Public Management, *International Journal of Public Sector Management* 11 (16)pp 4450-50.

Considine ,M and J,Lewis (1999) 'Governance at the Ground Level: The Frontline Bureaucrat in the age of Markets' Public Administrative ReviewNov/DecVol.59 No.6 pp467-478.

Cook P & Kirkpatrick, C (1995) *Privatization Policy and Performance: International Perspective*. Hemel and Hernpstead: Prentice Hall.

Cooper, Chris and Eric Zheng. "State-Owned Enterprise Reform in China." *International Business.* July/August 1998, p. 22

Denhardt, R. and J. Denhardt (2000) 'The New Public Service: Serving rather than steering', *Public Administrative Review* 60 (6): 549-59.

Drucker, P (1979) *Management: Tasks, Responsibilities, and Practices.* New York: Harper and Row.

Donaldson, Lex (1990) 'The Ethereal Hand :Organizational Economics and Management Theory' *Academy of Management Review* 15(3

Downs, A (1957), *An Economic Theory Of Democracy'*, Harper Row, London.

Dunleavy, P. and C. Hood (1994) From old public administration to new management., *Public Money and Management*, 14(3):9-16.

Estimate Committee Report, First Lok Sabha 16th Report 'Organization and Administration of Nationalized Industrial Undertakings'(1954-55) para11.

Farazmand (2001) *Privatization or Public Sector Reforms*, Greenwood Press, London.

Ferlie, E, A, Pettigrew, L, Ashburner and L.Fitzgerald (1996): *The New Public Management in Action*, Oxford University Press, Oxford.

Fine,B (2001), *Development Planning in 21st Century*, Routledge,USA.

Flynn, N. (1993) *Public Sector Management*, Harvester Wheatsheaf, London.

Flynn N. (1997) Globalization and Convergence: Some Evidence from East and South-East Asian States, International Research Symposium on Public Sector Management Aston University, 11-12 September.

Fredrickson H.G. (1996), 'Comparing the Reinventing Movement which the New Public Administration' *Public Administration Review*, Vol. 56 (3, May – June) pp 263 – 270.

Frederickson,G (2000) 'Can Bureaucracy be Beautiful' in *Public Administration Review*, Vol.60, no1. Jan.

Ghosh DN (2004) 'Partnership or Rivalry in a Globalizing World' *Economic and Political Weekly* Dec.25 ,Vol.xxxix No.52 pp 5630-5633.

Government of India – Ministry of Industry (1995) Report of the Committee on Public Undertakings on Social Responsibility and Public Accountability of Public Undertakings, Feb, 1995.

Haque ,M S (2001) 'The Diminishing Publicness of Public Services Under Current Mode of Governance' Public Administration Review ,Jan/Feb2001,Vol 61 No.1 pp65-82.

Hammer, M and J Champy (1993), *Re-engineering Revolution*, New York: Harper Business.

Haggard, S and R. Kaufman (1995): Political Economy of Democratic Transition .Princeton, New Jersey. Princeton University Press.

Hede A (1992) Equity Reform in Public Administration: A Longitudinal Study of Executive Attitudes, *International Journal of Public Sector Management* 5(1): 23-7.

Hicks, U (1961) Local Government in Developing Countries, Oxford, Oxford University Press.

Hood, Christopher, 1991, 'A Public Management for all seasons'. *Public Administration,* 69: 3-19.

______ (1996) Beyond Progressivisim: A new 'global paradigm' in public management *International Journal Public Policy and Administration,* 10(2):104-117.

Jha, R. and B.S. Sahni (1992), 'Measures of Efficiency in Private and Public sector industries: The case of India', Annals of Public and Cooperative Economics 63 (3) 489 – 495.

Jenkins, Rob 1999, *Democratic Politics and Economic Reforms in India.* Cambridge: Cambridge University Press.

Jenkins R and M, Goetz (1999): 'Accounts and Accountability: theoretical implications of the right to information movement in India' *Third World Quarterly* , Vol 20 ,No 3 pp. 603-622

Kapoor, D and, P. Mehta (2004): '*Political Institutions in India: Performance & Designs*' OUP 2004.

Kaufman, H. (1985), Time, Change and Organization: Chatham, NJ: Chatham House.

Kaur, Simrit (2003), Public And Private Regulation: The Indian Experience, Macmillan, New Delhi.

Kettle, D (1997) "The Global Revolution in Public Management. Driving Themes, Missing Links, *Journal of Policy Analysis and Management*, 16: 446-462.

Kickert, W. J. M. and T. Beck Jørgensen (1995) Introduction: Managerial reform trends in Western Europe., *International Review of Administrative Sciences*, 61(4):499-510.

Kickert, W. J. M. and F. O. M. Verhaak (1995) Autonomizing executive tasks in Dutch central government, *International Review of Administrative Sciences*, 61(4):531-548.

Kohli, A (1989) ' Politics of Economic Liberalisation in India, World *Development* 17 (3).

Lane, J. E. (1994) 'Will public management drive out public administration?' *Asian Journal of Public Administration*, 16(2):139-151.

Lane, J (ed)(1996) *Public Sector Reform*, Sage Publication Pp 1-16.

Lane .J.E (ed.)(1997), *Public Sector Reform: Rationale, Trends and Problems*, Sage, London.

Lane, J, (2000). *The Public Sector: Concepts, Model and Approaches*, Sage Publications, Pp 267 – 303.

Larbi, G.A. (1995) Implications and Impact of Structural Adjustment on the Civil Service: The Case of Ghana, The Role of Government in Adjusting Economies Paper 2, Development Administration Group, University of Birmingham.

Larbi, 4 (1998) Implementing New Public Management Reforms in Public Services in Ghana Institutional Constraints and Capacity Issues, Unpublished Ph.D. thesis, School of Public Policy, University of Birmingham.

Larbi, George A. (1999). The New Public Management Approach and Crisis states UNRISD Discussion Paper No.112, September, Geneva, United Nations Research Institute for Social Development.

Lok Sabha debate, Wednesday, December 18, 2002/Agrahayana 27, 1924 (Saka)

Lynn, L (2001), Globalization and Administrative Reform: What is happening in theory? *Public Administration Review* 3(2): 191-208.

Mclean I (1986) 'Some recent works in Public Choice' *British Journal of Political Science* 16 pp 377-94.

Menon, N (2004), Citizenship and the Passive Revolution', *Economic and Political Weekly*, May 1,Vol XXXIX. No 18.

Metcalfe, L and S. Richard (1990) *Improving Public Management*, 2nd Edition, Sage, London.

Mooji, J,(2005),*The Politics Of Economic Reforms in India*, Sage Publications.

Mukherji, R (2004), Privatisation, Federalism & Governance, Economic and Political Weekly Jan 3.pp109-113.

Mosley, F (1988) 'Privatization Policy –Based Lending and World Bank Behavior' in Privatization in Developing Countries (ed) Paul Cook and C. Kirkpatrick. New York. St.Martin Press, 125-139.

Naib, S (2004) Disinvestment In India: Policies, Procedures and Practices, Sage Publications, New Delhi.

Nayar, Baldev Raj 2003:*Gloablisation and India's National Autonomy*' Commonwealth and Comparative Politics, 48(2).

Nayyar, Deepak, 1998, '*Economic Development & Political Democracy, Interaction of Economics and Politics in Independent India*', EPW 33(49).

Nayyar, B (1989), *India's Mixed Economy: Popular Role of Ideology*, Bombay, Popular Prakashan.

Nellis, J. (1989) Public Enterprise Reform in Adjustment Lending, World Bank Working Paper, Country Economics Department, Washington, D.C.

Nellis, John (1999). 'Time to Rethink Privatization in Transition Economies?' *Finance and Development*, 36(2).

Niskansen,W.A (1979) 'Competition among American Government Agencies' *American Behavioral Sciences* ,Vol.22 pp 517-24.

OECD (1993) Managing with Market-type Mechanisms, Paris.

Olson, J (1988) 'Administrative Reforms and Theories of organization in C.Campbell and B Guy Peters (ed) *Organizing Governance: Governing Organizations*, University of Pittsburgh. pp 233-254.

Osborne S and K. Brown (2005), *Managing Change and Innovations in Public Service Organization,* Routledge, London.

Osborne, D. and T. Gaebler (1992) *Reinventing Government: How the Entrepreneurial Spirit is Transforming the Public Sector,* Addison-Wesley, Reading.

Patnaik, Prabhat 2000. 'Economic Policy and its Political Management in current conjecture: Transforming India: Social and Political Dynamics of Democracy, OUP, New Delhi.

Percatrice, D.R. and J.M. Trapani (1980). 'The Performance and Objective of Public and Private utilities operating in the United States' *Journal of Public Economics*, 13(2), 259-276.

Peters, B, Guy 1996: The future of Governing: Four Emerging Models, Laurence, Kansas: University Press of Kansas.

Pollitt, C. (1993) *Managerialism and the Public Services: The Anglo-American Experience*, 2nd edition, Blackwell, Oxford

Public Sector Enterprises Survey, 2003-04

Ramanadham, V.V. (Ed.) (1995) Privatization And Equity, Routledge , London

Raghuraman,S and P,Thakurta(2004),'A Time of Coalition ,Divided we Stand', Sage Publication, New Delhi

Report of the Committee on the Disinvestment of Shares in PSEs (Rangarajan Committee): April 1993.

'Report of the Fifth Central Pay Commission'(1997)Creative Arts Private Limited:New Delhi.

Reyes, D (1998) 'Public Sector Restructuring: Practice, Problems and Prospects' *Asian Review of Public Administration* Vol. x Nos –1-2, Jan-Dec pp42-56

Riggs,F.W.(1960)'The Use of Models for Administrative Analysis : Confusion or Clarity?' in Indian Journal of Public Administration, Vol6,No.3

Riggs (2000) 'Exporting Government', Paper prepared for presentation to the Association for Law and Administration in Developing And Transnational Countries (ALADIN), Leidin, the Netherlands, 23 June.

Rhodes (2000) 'New Labor's Civil Service Summing up – Joining Up', *The Political Quarterly* 71: 151-66

Rosenbloom D (1977), *Federal Equal Employment Opportunities: Politics and Public Personnel Administration,* New York: Praeger

Rowat D.M (1996) 'Public Sector Reform in theLatin American and Carribean Region – issues and contexts' *Public Administration and Development* Vol.16.pp397-411.

Sathe, S.P. (2002): Judicial Activism in India, OUP, New Delhi.Vol. XXXIX No.18

Savas E (1987), Privatisation : The Key to Better Government Chatham: Chatham House Publisher, 302 .

Schick,A(1998)'Why most Developing Countries should not try New Zealand Reforms', in *World Bank Research Observer*,Vol13,No.1 pp 123-31

Singh J& T, Anant (2002), *An Economic Analysis of Judicial Activism*, EPW, Oct. 26

Srinivasan,TN(2003) *'Indian Economic Reforms : A Stocktaking*', Stanford University. Paper Presented at the Fourth Annual Conference On Indian Economic Policy Reform

Stewart, J. and K. Walsh (1992) Change in the management of public services, *Public Administration,* 70(4):499-518.

Steinfeld, Edward S. *Forging Reform in China: The Fate of State-Owned Industry.* Cambridge: Cambridge University Press, 1998

Study Group on Reforms In State Public Sector.Vol-1, Planning Commission, Government of India August, 2002

Taylor, J and Pittman,S (1992), Moving Along the Privatization Continuum: A family Action Resource Paper, Melbourne.

Tenth Five-Year Plan, 2002-2007 (2003) Planning Commission, Government of India, Academic Foundation, New Delhi.

Terry Dlarry,(1998), 'Administrative Leadership ,Neo- Managerialism and Public Management Movement' *Public Administration Review* May/June Vol.58 ,No-3.

The Hindu (2005) 'Right to Information – Path to Swaraj',Delhi, October,7.

The Economic Times (2005) 'PSU Vigilance set for Overhaul', New Delhi, Nov.29.

The Economic Times (2005) 'Selection of top jobs at PSUs to be more open',New Delhi,Dec.28

The Economic Times (2006) 'Sterilite pays Rs.1099cr for 49%stake in BALCO',New Delhi, April 26.

Tullock ,G (1965)The Politics of Bureaucracy ,Public Affairs Press:WashingtonD.C.

Varshney,A(1999) ,*Mass Politics or Elite Politics :India,s Economic Reforms In Comparative Perspective* in India In Era Of Reforms. OUP, New Delhi

Van Riper, P (1958), *History of the United States Civil Service*. Evanston, IL: Row, Peterson and Company.

Vigoda, E (2002) 'From responsiveness to Collaboration: Governance, Citizen, and the next generation of public administration, *Public Administration Review* 62 (5) pp 527-40

Vishwanathan, S (2000): *Supreme Court Construct* A *Dam,*' EPW, Nov.25, Vol. XXXVNo.48

Von Mises, Ludwig (1944) Bureaucracy, Yale University Press: New Haven.

Walker B.(1996) 'Reforming the public sector for leaner and improved performance: The New Zealand Experience' *Public Administration and Development,* Vol.16 pp353-375.

Walsh K. (1995) Public Services and Market Mechanisms: Competition, Contracting and the New Public Management, Macmillan, London.

Welch, E and W. Wong (1998) Public Administration in a global context: Bridging the gaps of theory and practice between Western and Non Western nations, *Public Administration Review* 58(1) : 40

Weller, P (1996) The University of Public Sector Reform: Ideas, Meaning, Strategies in G. Davis and P.Weller (Ed), New Ideas, Better Government, St. Leonards: Allen and Unwin.

Williamson, E.O. (1975), Markets and Hierarchies, Free Press, New York.

Williamson, J (2000) 'What should the World think about Washington Consensus' *World Bank Research Observer*, Vol.15, No.2, August pp 251-64.

Wise Charles (1990) 'Public Service Configurations and Public Organisations Design in the Post-Privatisation Era.' Public Administration Review March/April. Vol 50.

World Bank, World Bank Report (1981), Accelerated Development in Sub-Saharan Africa, Washington, D.C.: World Bank

_______ (1987), World Development Report 1987, New York: Oxford University Press

_______ (1989) Sub-Saharan Africa: From Crisis to Sustainable Growth, Washington, D.C.

_______ (1992) Governance and Development, Washington, D.C.

_______ (1993) World Development Report 1993: Investing in Health, Oxford University Press, New York.

_______ (1994) World Development Report 1994: Infrastructure for Development, Oxford University Press, New York.

_______ (1995) Bureaucrats in Business: The Economics of Government Ownership, Oxford University Press, New York.

_______ (1997) The World Development Report 1997: The State in a Changing World, Oxford University Press, New York.

_______ (2006) The World Development Report 2006: Equity and Development, Oxford University Press, New York.

Wortzel H and L Wortzel (1989), 'Privatization: Not the only answer' *World Development* Vol. 17, No.5 pp 633-64

Yeatman, A (1994): 'The Reform of Public Management: An Overview' *Australian Journal of Public Administration*, Vol. 53, No.3, September pp 287-295

Internet Sources:

Mishra ,G, *On Disinvestment in India* www.zmag.org

Patnaik,Ila ,*Psu* Disinvestment www.india-seminar.com

Report of the Disinvestment Commission –Report i to xviiiiwww.divest.nic.in

Report of the Ninth Five Year Plan.VOL.2 www.planningcommission .nic.in /planrel/fiveyear.

www.reckon.india.com