Public Sector Reforms – Best Practices and Lessons Learnt

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Abstract:

The purpose of this article is to review the public sector's performance in India, with a focus on the market-oriented reforms that have been implemented during the last few decades. The post-2000s saw a substantial increase in the number of central public sector enterprises (CPSEs), and more specifically, the number of profit-making CPSEs. Due to changes in institutional structures pertaining to increased openness, more autonomy, and other factors, the public sector's performance by conventional measures first improved. This was demonstrated by an increase in net profit and profitability throughout the same period. However, the report contends that since 2012, performance on the same count has declined, mostly as a result of a drop in public investment in technology and plant and machinery as well as a relative undervaluing of production from the public sector. The study also emphasizes how deeply ingrained the idea of the public sector is in the conflict between efficiency and equity. These businesses are expected to achieve specific goals on both the input and output sides, which are outside the scope of the one-dimensional efficiency indicators that are typically used to assess the performance of profit-maximizing companies.

Keywords: public sector, efficiency, investment, profitability, equity.

After India gained its independence, the country faced several hurdles in the early years of its existence. One of these challenges was the need to create an independent path for economic growth that was free from the colonial-era division of labor. In 1860, India ranked third in the world only after the United Kingdom and China in terms of manufacturing production, but drastically lost its share in global manufacturing value added during the century that followed (Bairoch,1982, Nayyar, 2013).

As a colony, she was meant to supply Britain's Industrial Revolution, and the colonial power was destroying all its pre-existing industrial operations to create markets for the products made in British factories.

Building infrastructure, heavy and fundamental industries, and preparing a labor force for modern industries were the impending challenges. The 1956 Industrial Policy Regulation outlined the principles and parameters of what would fall under governmental authority. India chose to pursue a mixed economy, in which the private sector would mostly be limited to the consumer products market and the state would maintain crucial control over vital resources and manufacturing facilities.

This was the context for India's adoption of liberalization policies. Since 1991, there have been numerous reforms that have reduced the amount of industrial licenses significantly, reduced the areas set aside for the public sector, disinvested in the equity of some public sector enterprises, increased the limits on foreign equity participation in domestic industrial enterprises, encouraged foreign direct investment (FDI), rationalized taxes by lowering excise and customs duties, corporate and personal income taxes, and introduced a value added tax.

The public sector reforms were a component of the broader plan to introduce market-linked incentives to condition performances and build market levers for resource allocation. The reforms prioritized disinvestment of government shares, listing PSUs on stock exchanges, and delicensing, which permits private entities to enter industries exclusively restricted for public ownership. (Khanna 2012). Along with the new rules and stock exchange listing, other requirements include the nomination of independent directors, audits, and disclosure and governance requirements. Additionally, governments must be permitted to suspend or withdraw budgetary assistance from public enterprises based on their performance.

There were just five Central Public Sector Enterprises working in a few sectors, such as railroads, ports, telegraphs, ordinance manufacturers, etc., at the start of the First Five Year Plan (1951–1956). Due to the high investment requirements and nature of the public services delivered, these industries were strategically significant. PSEs are now more prevalent than ever in terms of both quantity and sector of operation since the first five-year plan. From five in 1951 to around two hundred and fifty in 1990, there were more CPSEs.After that, for almost 20 years, there were roughly 250 CPSEs, although both the amount of money they received and the scope of their operations grew dramatically. The number of CPSEs and the amount invested in them increased significantly between 2012 and 2018.

The public sector could attain higher profitability during the post-reform period, Increasing public sector investment played a major role in increasing industrial capacity, especially in heavy industries, logistics, and transportation infrastructure. However, the rise in income disparity, especially in rural India, put a stop to the flow of surplus funds from consumption goods to industrial investment, which in turn limited the expansion of capital investment in the public sector, which was primarily driven by channelizing consumption expenditure. This was one of the main causes of India's industrial stagnation, which started in the middle of the 1960s and lasted for ten years.

The importance of the public sector decreased in the post-reform era as a result of the growing reliance on markets as the primary means of allocating resources. Allowing private investment in areas that had previously been the province of the public sector promoted competition, and exposure to financial markets was seen as a tool for setting investment priorities. The rising trends make it clear that some of these gadgets could improve public sector performance in the post-reform era, mostly due to greater competitiveness and resource efficiency within standard constraints.

The public sector's share of machinery and intellectual property products declined, indicating a reduction in investment growth, which was the main cause of the later portion of the public sector's growth decline. The need to transfer public assets to private property in a market-led regime appears to be driving the privatization of public enterprises these days, rather than being determined by performances, despite the fact that reforms could improve the financial performance of many public sectors and the number of profit-making public enterprises has increased significantly.

Conclusion

Even though institutional transparency and monitoring have helped many CPSEs perform better recently, it's still critical to develop alternate standards for assessing the success of businesses that are expected to meet specific social welfare objectives but lack the independence to set their own prices like private ones.

In particular, the public sector's guarantee of a livable wage for all workers has traditionally aided in the development of the middle class. In practically every industry, the public sector has a far larger value added wage share than comparable private sector parts. If it is a public asset, there may be an ideal distribution of profits among various "public" segments, such as employees of the businesses and product consumers; however, the public sector sets a standard for gainful employment that ought to be followed globally rather than permitting wages to fall at will. The most crucial point is that competition increases efficiency, but it shouldn't come at the expense of access, especially for developing nations like India. What's more, there are natural monopolies where it is either extremely difficult or extremely wasteful of resources to encourage the presence of numerous providers. Since the returns are owned by the public and providing access to these services will somehow restrain the economic purpose of making profits, public monopolies are preferable to private monopolies in certain situations.

End Notes

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