RATIONALE OF DISINVESTMENT POLICY FOR PUBLIC SECTOR ENTERPRISES

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Abstract

The term disinvestment and privatization stands for the government policies to reduce the role of the state and assign larger role to the private sector, which usually presume the logic of the market in all economic decisions. Privatization is witnessed when governments take a decision to reduce their obligations to regulate and direct the behavior of private sector enterprises in the economy. In the recent past, as a reaction to the inefficient working of the state-owned enterprises, the wave of privatisation spread all over the world as huge amount of public resources are blocked in several non-strategic PSEs giving meager return. Moreover, it has to tune-up huge amount of outstanding debt before any money is available for investment in infrastructure. Pursuance of deregulation policies aimed to make the restrictive regulatory system less important. Following this, the entry of new private sector enterprises could introduce competition where public sector had been enjoying monopoly. The existing public enterprises would be forced to go commercial and respond to the market discipline. The paper argues that the main aim of disinvestment has been to reduce the public sector borrowing requirement at the cost of the restructuring and rationalization of PSEs in particular and the public sector in general. This paper examines the diluting role of public sector as a matter of policy. It also intends to analyse whether the policy of disinvestment is an appropriate and sufficient measure to ensure and sustain economic performance as well as efficiency.