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Privatization in India

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Abstract: Privatization generally is defined as the process of transfer of ownership, it can also be permanent or just for the years for which a particular contracted has been drafted between the parties. It is basically a route from public ownership to private ownership. On the other side it is also a strategy that provides advantage to a few at the price of many. In the 1960's and 1970's academicians, economists and politicians favored state ownership over personal possession within the production and provision of products and services.

By the tip of the 1980's, however, there was a reversal of public policy from state domination of the assembly and provision of products and services to non-public ownership and operation.

This was due partly to what the globe Bank observed as "state failure", that was characterized by inefficient service delivery, unprofitable SOEs, high government debt, and stagnant economic process rates. Consequently, privatization caught on in several countries as a policy tool to foster potency, encourage investment, free public resources for investment in infrastructure and social programs to boost economic process and spatial arrangement equity. This paper also discusses the causes and reasons for privatization to happen in India and what are its pros and cons.

I. INTRODUCTION

The Economist magazine, in the year 1930, has first defined privatization as :-

The transfer of ownership, property or business from the government to the private sector is termed as privatization. The government ceases to be the owner of the entity or business.

The process in which a publicly-traded company is taken over by a few people is also called privatization. The stock of the company is no longer traded in the stock market and the general public is barred from holding stake in such a company. The company gives up the name 'limited' and starts using 'private limited' in its last name.

Privatization is considered to bring stability to the company, something that a government company is not worried about. When the new economic policy was formed in 1991, the term privatization was introduced in India.

Privatization is a vast construct. It claims to unleash economic freedoms and allow private initiative and enterprise. On the other hand, however, privatization has been denounced for its essentialist notions of efficiency and rationality and for undercut democracy and community.

Our country was chosen as a case study as it is symbol in many ways of a number of developing countries who have made the move to open their economies and engage in privatization reforms in the last ten years. Moreover, India is also an interesting case, as democracy here has succeeded for more than half the twentieth century and has proved substantial as well as resisting.

Privatization includes various operations, such as the introduction of private capital, the selling of government-owned assets, and transition to a private economy.

Even though the privatization has mixed meanings, in general it means that the government has huge amount of control over the ownership of a business enterprise. Indeed, every government has a bound responsibility to have active and professional ownership to create value. Such value can include economic value, social value, sustainability value, livelihood value, and so on.

The structure of this paper is as follows

1) Background
2) Conceptualization of Privatization in India
3) Government opposition to complete privatization
4) Causes of privatization
5) Impacts of privatization
6) Advantages and disadvantages of privatization
7) Future prospects of privatization in India ....

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A. Background

Over the last 62 years or so, the condition of India's Public Sector enterprises has been severely attacked. The public sector enterprises have been set up not purely out of ideological considerations of creating a communist pattern of society. At this time creating good infrastructural domain of the country was top of the agenda of the government.

Bearing in mind that the private sector is not only in doubt, but also incapable, of building social economic infrastructure.

In a mixed economy framework, the two sectors are expected to play a role which helps both parties. But what happened in India was rather different where public sector, in spite of its own inefficiencies acted as a feeder to private sector. At this time more loss would not have been afforded by the public sector. This is why in the year 1990, government started to form a policy in which both public and private sector will work in complimentary manner. After knowing that all public sector are failing and private sector are in success the demand of privatization of the public sector came forward when the Congress Government came to power in `1991. Wave of privatization swept all of India. The World Bank in its 1991 report, promoted for the introduction of market friendly approach and advised to deregulate and decontrol the public sector.

B. Conceptualization of Privatization in India

The concept of privatization in India consists of the following:

1) *Delegation:* in this the government takes responsibility of an enterprise and its ownership also. While state actively participates in this process private enterprises can deliver the products or services.
2) *Divestment:* The government sells the most off the stakes of the company to one or more private companies. Therefore, the government manages some ownership and a small amount of stakeholder
3) *Displacement:* In this deregulation is the first step. This process allows the private stakeholder of the company to enter the market and they themselves will displace the public enterprise step by step.
4) *Disinvestment:* The process of selling the whole or a portion of a company to private parties is known as disinvestment.

C. Governments opposition to Complete Privatization

In the 1990's budget the Indian government made it clear that they have the desire and it was important to extract and release the massive amount of investment made in the state-owned enterprises and this led to privatization in India. This led the foundation for Foreign Direct Investment and liberalization of business practices and protocols as well. However, being a socialist economy (in which goods and services are produced directly for the use) the government was not in favored for privatization. Many experts are of the view that the government wrongly positioned their disinvestment strategy by dangling between the principles and other off their approaches. Though all political parties acknowledged the way of privatization but all adopted an escapist attitude towards complete privatization for safe guarding their vote banks. They employed tactics of **"videshi**" and **"swadeshi**", and strategies like getting a strategic partner or enlarge the equity base through and initial public offer before divesting. Indian government has been conservative in allowing partial privatization of strategic sectors like power supply, telecom, banking, roadways, insurance, civil aviation, postage and telegraph services etc. Mostly, both state owned enterprises and privately run enterprises co-exist in these sectors. Government uses the shield of social interests of the employees of the PSUs to camouflage the interest of the bureaucrats and politicians. However, intensified competition of the delicensed and liberalized sectors have surely made the lethargic state owned enterprises to pull up their socks and shedding the complacency of monopoly to face the competition

D. Major Causes of Privatization are

1) To try and reduce government burden
2) To strengthen the competition among the companies
3) To improve the finances of public companies so that they don't suffer heavy losses
4) To improve the infrastructural growth of the nation
5) To get a more disciplined labor system

The private sector have many policies in solving the issues of external parties, by without bargaining with cost , driven by the individual profits of the company. When comparing with the public sector, the private sector does will to the profits in the market. On the other way public sector has more non-economic goals.

The public sector is highly driven to maximize the production and use all the resources effectively, because of this government has to run at high cost for low-income enterprise.

Privatization shifts the focus from political aims to economic aims, which directly impacts in the growth of economic condition of the government. The downscaling aspect of the privatization is there to look because of the government bad economic policies and corruption. By privatizing, the role of government has less impact in the country's economy. Privatization have a positive impact on the country's economy situation.

It should not be used to pay the expenditure of the government and pay off debts. Privatization helps in reducing the interest rates and raising the level of investment in the country to help the country's economy to get better. By reducing the public sector, the government reduces the total expenditure and collecting taxes on all the business that are being privatizes. The major method or privatizing to sell government owned company to private parties.

E. Impacts of privatization

1) The resources get freer for more productive utilization.
2) The private company tend to make more profit and get more transparent in their functioning as private owners, as there is no pressure from the governing body over them.
3) Because of privatization system tend to become more transparent all the fundamental corruption are minimized and profit incentive is also maximized.
4) It takes the pressure off from the government to make profit and to carry out administrative load.
5) It effectively reduces the corruption and optimizes output and function.
6) By this the private sector is actively participating in economic development of the country.
7) Development of general government budget is tended to maintained well and as well as diversifying the source of income for the government.
8) Privatization is overriding the process of government to make rapid developments in productivity and enhancement in competition among the companies and also increase the foreign direct investment in the country.
9) After privatization the system becomes more transparent after which rate of corruption gets reduced and company own the project, and also will of making high profits increases.
10) Private companies are less tolerant towards the surrender of the project as this happens in government departments, hence they tend to send right size of human resource potential to work in the private company as they are more demanding for work.
11) Due to its strict environment the companies tend to get rid of the employee who are not consistent with their work.
12) It helps in the development of the general budget resources and brings variety in the sources of giving income.

F. Advantages and Disadvantages of Privatization

1) *Advantages:* The main advantage of privatization is that it creates a financial growth around the nation but at the same time it takes time. The private sector tries to use the resources at its optimum way then public sector. Public sectors enjoy mostly monopoly but at the same time in private sector creates the competition of public enterprise and they have urge to improve efficiency. The fiscal burden on government gets reduced due to privatization. It helped our country to get on map of worlds as various multinational companies invested in India as they saw market growing because of privatization. The privatization increases the labor workers in the companies as they get privatize and income gets increased. The political interference of the government reduces in the company as they are owned by private individuals. The companies after getting privatize try to improve on their efficiencies as their sole goal is to make profit efficiently. The process of privatization maintains the budget, as the public enterprise gets more costly. After privatization companies tend to divert in making more profit and increasing the efficiency.
2) *Disadvantages:* The problem with price is mainly the reason because of privatization the government mostly sell the least profitable business, which the private sector is not willing to buy at the reasonable rate from the government. Because of disinvestment the people who can lose their jobs may create a political tension. Privatization has also in hindsight is the reason for corruption and illegal ways of gaining the license of business deals between government and the private company. Because of privatization the company loses its main moto and may focus on malpractices of goods or providing low quality of goods to consumers to make more profit in the market. It also results in huge employee turnover and results in managing large number of staff and training them for a long time to get ready for work if they are less qualified. It also escalates the price inflation in general. The private sector can follow the method of maximizing the monopoly of profits which can be huge disadvantage for the consumers. Some of the private industries are suffering from the problem that their employees are getting industrial sickness.

G. Future prospects for India in terms of Privatization

Our country's economy is a dynamic economy that is showing us great potential of growth in the world market. Globalization, liberalization and privatization are the three corner stones of any country's economic policy. Privatization is slowly getting accepted in India and changes like enhanced efficiency in work and deposition of public funds into public sector will happen eventually. It has already shown great advancement in the sectors like banking sector, insurance, telecom, civil aviation etc. Indian economic has shown average growth of 8.5 percent in past for before covid happened this itself is a great achievement for our nation and this mainly happened because of some firm decisions made by the government such as privatizations. However, it feels little bad to know that India is not very tempt place for foreign investors. Different political powers, red tapism, bureaucracy, corruption needs to be stopped if we have to make our country an economic superpower in the world. In spite of having all the issues we can see higher rate of returns as compared to capital intensive industrialized countries. With more changes and development in the future, privatization seems to be a great way of foreign investment.

II. CONCLUSIONS

Over the period of time, the policy makers in our country have lean towards their conscious nature about privatization and have formed many new reforms to deprive the huge capital investment in Public Sector Enterprise and made more profit with an increased efficiency. Many sectors and industries who found it difficult to enter in the market were welcomed now for investment from both domestic as well as international investors. The banking sector, various types for small- and large-scale industries showed a great improvement in them after privatization. But however complete privatization of the nation is a long road to run.

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