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An appraisal of the concept of privatization

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Abstract
Under the policy of economic reforms, Government of India decided privatisation of the economy. Privatisation means reducing the involvement of the Government/ public sector in the economic activities of a nation. It involves the transfer of Government assets or functions to the private sector. The present paper has made an appraisal of the concept of Privatization in India.

Keywords: divesture, privatisation, public sector, state enterprise

Introduction

After the Second World War the expansion of Government intervention in national economies gained momentum. The public sector was seen as a major contributor to economic growth and Socio-Political stability. But with the passage of time its weaknesses began to surface. Some of the objectives of Government intervention may have been achieved but other problems emerged from public ownership. Political interference in the operations of public enterprises increased. Managers were poorly paid, poorly motivated and inadequately monitored. Labour unions were powerful. All these resulted in the reduction of cost efficiency or productive efficiency and heavy dependence on budgetary support. In pursuing their personal goals. Politicians, managers, and workers watered down some high-priority objectives of public ownership.

Things are materially different under private ownership. Under private ownership product market guides prices and output while the capital market guides costs. A firm that cannot sell its products will not make profits and unprofitable firms will go bankrupt or be taken over. The market therefore regulates firms, providing the incentive for them to achieve both productive and allocative efficiency. Ownership is a significant determinant of enterprise performance. Experiences of failures of state-owned enterprises and successes of private ownership motivated many countries to resort to privatization. Now privatization is not essentially an industrial country phenomenon but a global phenomenon. Developing countries and transition economies are also taking recourse to privatization to get rid of waste, lethargy, inefficiency, and poor quality of output in the operations of State-run enterprises with the expectations of dynamism, cost effectiveness, high quality, and creative productivity in the operations of private enterprises. It is hard to find a country without a privatization programme, Malaysia has sold its national lottery, Buenos Aires its zoo, Czechoslovakia the guest house of communist party.

Concept of Privatization

To put simply, privatization is the process to bring partly or wholly any State- owned enterprise into private ownership and control. Which implies the sale of the equity share holdings of state-owned enterprise to private shareholder, wholly or partly. It also implies denationalization. But in broader perspective privatization connotes even starting new ventures in the private sector instead of public sector and to encourage private sector for ever increasing investments in various branches of the economy through deregulation and liberalization and also by deserving enterprises and items of production which were formerly exclusively reserved for public sector or which were strictly forbidden for private sector.

Privatization includes the following –(i) Divestiture, (ii) Denationalization, (iii) Relaxing industrial legislations and procedures, (iv)Liquidation of State-owned enterprise, (v) Leasing SOEs to a private undertaking or concern, (vi) Handing over management and control of a SOEs to a private concern, (vii) Involving private agencies in supplying goods and services needed by SOEs. (viii) Diversification and expansion of the activities of SOEs through participation of private concerns, (ix) Enhancing the share of private sector in GDP (X) Reducing the incidence of Government intervention. (xi) Doing away with obnoxious regulations hindering growth. (xii) Dismantling barriers obstructing free inflows of foreign capital either as direct investment or as portfolio investment by removing irksome FFRA Provisions or by making new provisions to facilitate inflow of desired foreign investments & (xiii) Responding favourably to the efforts of international institutions towards further liberalization and globalization to ensure unfettered flow of trade, finance and technology.

Goals of Privatization

Goals of privatization may be numerous and varied. Each country has its own problems and own scheme of privatization to surmount those problems but some of the goals are common. They comprise the following :-(i)

Greater efficiency & productivity, (ii) Greater employment by providing opportunities to educated youth etc. (iii) Reducing fiscal deficits.(iv) Augmenting revenue, (v)Promote export earnings, (vi) Reduce dependence on external borrowings (vii) Technological upgradation (viii) Greater integration with global economy, (ix) Saving resources for social sectors and strategic sector instead of making huge investments in giant industrial projects, (x) making the best and most efficient use of scarce national resources etc.

Co-existence of Private& State Enterprise

Market failures lead to expansion of Government ownership and control and Government failures necessitate escalation of private ownership and control. Before the collapse of Communism co-existence of private and public enterprises was not visible in the communist countries. Private entrepreneurship was just non-existent in these countries the state was the only enterprising entity. But with the collapse of Communism in the former Soviet Union and other parts of Eastern Europe and introduction of reforms in 'still communist' countries co-existence of private and public enterprises (in separate realms or competing with each other in the same realm) has become a global phenomenon. The crux of the problem lies in determining the '' areas, degrees and doses of state ownership and control of business on the one hand and extent of privatization on the other. In this matter, there can not be any generalization or universal and uniform application. The respective areas of private and public sector operations in India can of course be earmarked having full regard to the conditions prevailing in this country. Overall conditions in India is such that coexistence of private and stateowned enterprises (SOEs) is inevitable.

History of Privatization

Privatization'' entered the agenda of economic reformers when Margaret Thatcher became the prime minister of Great Britain in 1979 and Ronald Reagon, the president of the United States in 1980 Under the Thatcher's regime, Britain saw privatization on a large scale. State- owned-enterprises like the British Petroleum (1979), British Aerospace (1981), jaguar (1984,) Britoil (1982), Telecom (1984), British Gas (1986), British Airways (1987), Rolls Royce (1987), and British Airports Authority (1987) were among public enterprises which were denationalized and to the list were soon added water and electricity.

USA never had a sizeable public sector and thus space for privatization was not left much. In USA, privatization took the form of contracting out to private sector. Support services and other direct services (waste collection, street cleaning etc.) in the eighties, many western countries adopted privatization programmes. Mexico, Brazil, Chile and Argentina followed soon. In 1978, China was the first among the socialist countries to adopt privatization collective farms in the country were abolished and thus agriculture was privatized. Other privatization actions followed soon.''

INDIA's ideological commitment to public ownership of means of production led her to create a huge public sector which was soon to occupy the commanding heights of the economy. The public sector contributes 100 percent of petroleum and natural gas, 95 per cent of power and 60 per cent of steel. It is extremely important that it performs efficiently, serving the interests of the consumer and the Government. The popular impression that public enterprises per se are inefficient and do not give adequate return on capital is wrong. Notable contributors to Government coffers include IOC, ONGC, PHCL, SAIL, BPCL and BHEL. But all the PSUs are not running on profit. Some of the units are highly profitable while others are a drain on the public exchequer. More than 100 of the 241 operating public sector enterprises under the Central Government are loss-making units. In many of these loss-making units, the accumulated losses have wiped out the entire net worth. Even during post-reforms period no viable policy has yet been evolved to salvage these marooned units. Palliatives of budgetary support to revamp these units have failed to produce the desired results. privatization with well-thought modalities can cure these ailing units.

Why Privatization?

The rational of privatization lies mostly in the disillusionment of the Government of india with the performance of PSEs. But some other reasons are also accountable To mention a few drawbacks of PSEs: (i)High cost of production, (ii) inability to innovate, (iii) Costly delays in the delivery of goods, (iv)Diversion of benefits to elite groups, (v) Political interference. (vi) strain on public budget, (vii) Monopolised decision-making (viii)Kick-backs on big and small purchase and consultancy contracts, (ix) Free use of PSU cars, aircrafts and guest houses for personal pleasures, (X) Compelling PSUs to employ favourite people disregarding conventional norms and standards, (xi) Free publicity through misuse of PSU funds, (XII) Locating PSU plants in the constituencies of bigwig politicians for political ends, having no regard to the economic and technical viability, (xiii) Overemphasis on "the human side'' of PSUs, (xiv) Overlooking technology status, (xv) Lack of competitive marketing capabilities (xv) Lack of commercial and financial sustainability in the new economic environment (xvii) Wasteful locking up of valuable resources, (xviii) Excessive control and regulation, (xix) Loose accountability, (xx) Politicalisation of labour unions leading to industrial unrest and loss of man-days, so on and so forth. The Government should be clear about what it would do with the money raised through budgetary disinvestment. Should this money go to the general budgetary resources of the Government of India? Should it be used to help seek undertaking crossing the boundary to become viable ventures?" Even profit-making PSEs suffered for want of managerial autonomy and on the contrary they continued to be inhibited by constant bureaucratic interference from Government department. The situation was so difficult from the managements of profit making PSEs that they even lacked the authority to meet crucial capital expenditure out of internally generated resources. Added to these constraints, the policy regarding managerial remuneration in the PSEs continued to be outmoded with many executives in PSEs being tempted to switch over to private sector where levels of remunerations were highly attractive.

Government Plan of Action

In 1991, India announced its new economic policy which was market friendly and aimed to integrate the economy to the global market. It has thus given a notice to the public enterprises to show results. In the process of disinvestment, a major step taken by the Government has been to set up a Disinvestment Commission for working out the terms and conditions as well as modalities pertaining to disinvestment of public equities. While the commission is to determine the modalities of disinvestment, the actual sale of PSU shares would be done through Department of public Enterprise (DPF). The commission also intends to identify the non-core PSUs where the Government may even disinvest by more than 50 percent and may have minority ownership. Good progress has been made in accelerating the process of privatization through industrial, forex and exim policy liberalizations, by weeding out restrictive regulations and by providing stimulating concessions. only healthy PSUs are finding takers in the market The fate of non-viable PSUs can be brightened by utilizing the proceeds of disinvestment of healthy units.

Points of Caution

Privatization is a complex process which not only solves but also creates some problems. It raises efficiency and productivity but it is fraught with some concomitant dangers like creation of monopoly, aggravation of unemployment, tightening noose of multinationals, impairment of consumer interest and demand schedule. Privatization offers several benefits but not without cost. Any programme of privatization should be initiated only after making a careful cost benefit analysis privatization can offer many benefits but it involves some costs as well. The problems of privatization are not identical in all countries. Industrial countries have a well-organized and strong capital market and private sector enterprises. But such is not the situation in non- industrial countries.

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