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Privatization in Indian Economy

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***Abstract** – Process of adoption of privatization policy gathered momentum at international level in 1979 when then prime minister of England Mrs. Margaret Thatcher transferred British Telecommunication to private enterprise. In 1980 and 1985, "British Gas Corporation", "Rolls Royce" and "British Airways" were also privatized. In 1981, United States of America adopted privatization. Similarly, France and Italy also adopted in one way or the other. In the wake of disintegration of USSR other socialistic economies at the beginning of the last decade of the twentieth century, the tendency of privatization among world economies has been gaining ground. Besides, countries like Japan, Taiwan, South Korea, Hong Kong, Singapore, etc. also reveal that Privatization is the secret of their success.*

In India, after independence, our government had given much emphasis to public sector units. Hence 17 key industries were reserved for public sector in industrial policy 1956. After 1991, our government realized that Public Sector units (PSUs) are not operating efficiently. So government, in a phased manner, privatized some PSUs and at present, number of industries reserved for PSUs is reduced from 17 to 2. Various loss making PSUs have been sold to private sector. Even in case of profit making enterprises, partial disinvestments have been done to generate more resources for modernization and development of these PSUs.

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INTRODUCTION

Privatization is a managerial approach that has attracted the interest of many categories of people- academicians, politicians, government employees, players of the private sector, and public on the whole. As per the opinion by the subject experts, privatization can be advantageous in terms of the higher flexibility and scope of innovation it offers along with cost savings, many a times. However, other specialists defiantly debate that privatization has an adverse impact on the employee morale and generate fear of dislocation or termination. More likely it also adds on to the apprehensions pertaining to accountability and quality. Experts both advocate and criticize privatization making it more or less a provocative decision that calls for a diligent scrutiny by the decision makers in assessment of pros and cons attached to the concerned policy [20].

In India, privatization has been accepted with a lot of resistance and has been dormant initially during the inception period of economic liberalization in the country [8]. The article intends to analyze the present status of privatization in India and summarize its advantages and disadvantages in context with the Indian Economy.

THE ECONOMIC NEED FOR PRIVATISATION

India initiated its privatization program in 1991 as a part of a larger macroeconomic stabilization and structural reform effort to cope with extremely difficult economic conditions. Inflation had risen above 15 percent and foreign exchange reserves were dangerously low. India had to access International Monetary Fund (IMF) resources through a stand- By Arrangement in 1991. The policies adopted by the country around that time covered the whole gamut of 'Washington Consensus' policies, including the privatization of state enterprises. Second, There was growing domestic consensus that state-owned enterprises were not generating adequate returns and were suffering from low efficiency, and the government expected that privatization of these enterprises would lead to better outcomes. In this context, the two main objectives of privatization in India were to raise revenues to ease the fiscal crunch and to improve the profitability and efficiency of the divested enterprises.

PRIVATIZATION IN INDIA: AN OVERVIEW

Before Independence, Private sector dominated India. During the period of planning, importance of public sector increased and that of private sector relatively declined. In 1991, new economic policy was declared. Under this policy, private sector has been accorded great importance and the process of privatization has been initiated. Number of industries reserved for public sector has been gradually reduced from 17 to 2 only. There is only two industries i.e. atomic energy and railways which are under controlled by public sector and the remaining industries have been opened for private sector. Up to 74 per cent of shares of public sector have been sold to foreign investors, mutual funds, institutional investors, public and workers. Till the end of March

2012, Shares of public sector worth Rs.1,00,265 crore were sold. In some PSUs, even 100 per cent shares are disinvested. Now shares of PSUs are sold through Bidding process.

In five year plans, share of private sector in total investment of plans has increased. Share of private sector investment has been increased from 42 per cent in fifth five year plan to 78.1 per cent in eleventh five year plan. Finance Minister P.Chidambaram said on May 26, 2004 that the government would not further disinvest the strategic, profit-making and navratan PSUs like oil and natural gas corporation (ONGC), Indian oil corporation (IOC), Hindustan petroleum corporation Ltd. (HPCL), Bharat petroleum corporation Ltd. (BPCL), Oil India Ltd. (OIL), National thermal power corporation (NTPC), Steel Authority of India Ltd. (SAIL), etc. However, Disinvestment of Sick PSUs was allowed.

On June 4, 2009, the united progressive alliance(UPA) government reiterated that in profit making PSUs, government plans to retain 51% holding and selling/disinvesting the rest to the public. So the present UPA government will promote disinvestment.

Table1. Amount of Disinvestment of Public Sector Units in Recents Years

Year	Target Amount to be Realized by Disinvestment (Rs. In crore)	Actual Amount Realised (Rs. In crore)
2000-01	10,000	1,871
2003-04	14,500	15,547
2004-05	4,000	2,765
2009-10	---------	23,553
2010-11	40,000	22,144
2011-12	40,000	1,145

(**Source: Department of Disinvestment, Ministry of Finance**)

Amount of disinvestment proceeds was highest in the year 2009-10. In this year, Rs 23,553 crore disinvestment proceeds were realized. From 1991-2012, govt. has realized Rs 1,00,265 crore from disinvestment. In the years 2005-06 to 2008-09, disinvestment process slowed down. In year 2009-10, govt. has formulated mega disinvestment plan in which it is decided that at least 10% equity of all profitable central public sector enterprises (PSEs) should be disinvested by sale of equity share to public. In 2009-10 and 2010-11, Rs 45,697 crore was realized by disinvesting minority stake in NHPC, OIL, NTPC, REC, SJVN, EIL, PGCIL, MOIL, SCI, NMDC, and Coal India. In 2011-12 disinvestment proceeds remained low at Rs 1,145 crore. Target amount to be realized by disinvestment for the year 2012-13 has been fixed at Rs 30,000 crore.

Table 2. List Of Main Public Sector Unit In Which Partial/Full Disinvestment has already been made.

1. Shipping Credit and Investment Corporation of India	17. Hindustan Zinc Ltd.
2. Container Corporation of India Ltd.	18. Maruti Udyog Ltd.
3. Videsh Sanchar Nigam Ltd (VSNL).	19. Modern Food Industries (India) Ltd.
4. Oil and Natural Gas Corporation Ltd (ONGC)	20. Indian Tourism Development Corporation.(10 Hotels)
5. Gas Authority of India Ltd (GAIL)	21. Bharat Aluminium Company Ltd. (BALCO)
6. Steel Authority of India Ltd. (SAIL)	22. CMC Ltd.
7. Mahanagar Telephone Nigam Ltd. (MTNL)	23. IBP Company Ltd.
8. Indian Petrochemicals Corporation Ltd. (IPCL)	24. Paradeep Phosphates Ltd.
9. Power Grid Corporation.	25. Power Finance Corporation.
10. Shipping Corporation Of India.	26. National Hydro Power Corporation (NHPC)
11. National Aluminium Company (NALCO)	27. Rural Electrification Corporation (REC).
12. National Fertilizers Ltd. (NFL)	28. Oil India Ltd. (OIL).
13. Indian Airlines	29. National Thermal Power corporation (NTPC).
14. Dredging Corporation.	30. National Mineral Development Corporation(NMDC).
15. LNG Petro Net	31. Coal India Ltd.
16. Madras refineries Ltd.	32. MOIL Ltd.

ADVANTAGES OF PRIVATIZATION

Privatization indeed is beneficial for the growth and sustainability of the state-owned enterprises. The advantages of privatization can be perceived from both microeconomic and macroeconomic impacts that privatization exerts.

A. Microeconomic advantages:

- State owned enterprises usually are outdone by the private enterprises competitively. When compared the latter show better results in terms of revenues and efficiency and productivity. Hence, privatization can provide the necessary impetus to the underperforming PSUs .

- Privatization brings about radical structural changes providing momentum in the competitive sectors.

- Privatization leads to adoption of the global best practices along with management and motivation of the best human talent to foster sustainable competitive advantage and improvised management of resources.

B. Macroeconomic advantages:

- Privatization has a positive impact on the financial health of the sector which was previously state dominated by way of reducing the deficits and

- debts.

- The net transfer to the State owned Enterprises is lowered through privatization

- Helps in escalating the performance benchmarks of the industry in general .

- Can initially have an undesirable impact on the employees but gradually in the long term, shall prove beneficial for the growth and prosperity of the employees

- Privatized enterprises provide better and prompt services to the customers and help in improving the overall infrastructure of the country.

DISADVANTAGES OF PRIVATIZATION

Privatization in spite of the numerous benefits it provides to the state owned enterprises, there is the other side to it as well. Here are the prominent disadvantages of privatization:

- Private sector focuses more on profit maximization and less on social objectives unlike public sector that initiates socially viable adjustments in case of emergencies and criticalities

- There is lack of transparency in private sector and stakeholders do not get the complete information about the functionality of the enterprise.

- Privatization has provided the unnecessary support to the corruption and illegitimate ways of accomplishments of licenses and business deals

- amongst the government and private bidders. Lobbying and bribery are the common issues tarnishing the practical applicability of privatization.

- Privatization loses the mission with which the enterprise was established and profit maximization agenda encourages malpractices like production of lower quality products, elevating the hidden indirect costs, price escalation etc.

- Privatization results in high employee turnover and a lot of investment is required to train the lesser-qualified staff and even making the existing manpower of PSU abreast with the latest business practices.

- There can be a conflict of interest amongst stakeholders and the management of the buyer private company and initial resistance to change can hamper the performance of the enterprise.

- Privatization escalates price inflation in general as privatized enterprises do not enjoy government subsidies after the deal and the burden of this inflation affects the common man.

FUTURE PROSPECTS FOR INDIA

Indian economy is a dynamic economy that is showing tremendous potential of growth. Globalization, liberalization and privatization are the key strategic mandates for economic policies. Market oriented reforms are sustainable and are gaining acceptance with resistance to privatization going down due to the benefits like enhanced efficiency through target oriented management and disposition of public funds into social and physical infrastructure of the country. Privatization has shown great outcomes in the development of sectors like banking, insurance, telecom, power, civil aviation etc. However, the lobbying in domestic circuits was enfeebled by the surprising reversal of the Indian economy in present time. Indian economy registered an average growth of 8.5 per cent in the past four years and it is evidence enough to highlight the potential of privatization and its need and likelihoods of privatization. However, it is disheartening to acknowledge that India is not a very alluring destination for foreign investors. Bureaucracy, red tapism, political hiccups, corruption are also prominent hindrances in the development of India that offers ample of skilled and cheap labor and inadequate capital. In spite of all the hurdles, it is a viable to expect higher rate of returns as compared to capital intensive industrialized countries. With more liberal reforms in the making, future of privatization seems to be bright and a salubrious flow of foreign investment and even development of domestic private players to take charge of the struggling PSUs and turn them around.

CONCLUSION

Over the time, Indian policy makers have shed their inhibitions about privatization and have formulated liberal reforms to divest the huge capital investment in PSUs and enhance the efficiency and profit generation of the state owned enterprises. Many sectors wherein entry barriers were too high were loosened up to welcome investments from both domestic as well as international investors. Sectors that showed tremendous success after privatization are insurance, banking, civil aviation, telecom, power etc. However, complete privatization is still a far-fetched dream. In most of the liberalized sectors, government control is still evident and there is more of delegation or joint ventures between public and private sector are functional like Maruti Suzuki etc.

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