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## **IMPACT OF PRIVATIZATION ON ECONOMIC DEVELOPMENT IN INDIA**

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# Impact of Privatization on Economic Development in India

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**Abstract – Privatization in generic terms refers to the process of transfer of ownership, can be of both permanent or long term lease in nature, of a once upon a time state-owned or public owned property to individuals or groups that intend to utilize it for private benefits and run the entity with the aim of profit maximization. In other words, it is a route from public or state ownership to private players or a group. From the other point of view, it is a strategy that provides advantages to a few at the price of many. However, this is always subjected to the circumstances involved. In this paper, the aim is to understand the major advantages and disadvantages of privatization and impact of privatization in this country.**

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## INTRODUCTION

Indian economy had experienced major policy changes in early 1990s. The new economic reform, popularly known as, **Liberalization, Privatization and Globalization** (LPG model) aimed at making the Indian economy as fastest growing economy and globally competitive. The series of reforms undertaken with respect to industrial sector, trade as well as financial sector aimed at making the economy more efficient impact of privatization in India.

## MEANING OF PRIVATIZATION

Privatization means allowing the private sector to setup more and more of such industries as were previously reserved for public sector. Under it existing enterprises of the public sector are either wholly or partially sold to private sector.

The term of privatization is used in two senses-

### Narrow meaning of privatization

In narrow sense privatization implies the private ownership of public enterprises.

### Broader meaning of privatization

In broader meaning privatization implies transferring the ownership of public sector to private sector or managing and controlling the public sector by private individuals without transferring the ownership.

### Definition of privatization

Privatization is the general process of involving the private sector in the ownership or operation of a state owned enterprise.

## Advantages and disadvantages

### **Advantages:**

1. Basic advantage in privatization is accurateness and commitment towards the service as they private organizations are very much concerned about the profits they make ultimately which depend on the quality of service being provided by them and the public response to it.
2. Privatization generates more revenue compared to government enterprises, thus govt. can indirectly earn a bit more by leasing out enterprises to private organizations.
3. Customer support and satisfaction basically is of much interest in private enterprises comparatively.

### **Disadvantages:**

1. The biggest threat is reliability. There is nothing that backs up the private organizations, whereas govt. can back up its enterprises easily in terms of funds. There are more chances of bankruptcy in private orgs where are 0 to few in Govt orgs.
2. Though the quality of service may be little compromised, its reliable.
3. Some departments need social responsibility which can be done only by government like police department, traffic management.

## IMPACT OF PRIVATIZATION IN INDIA

Before independence, private sector dominated in India. In 1991, new economic policy was declared. Under this policy, private sector has been accorded great importance and process of privatization has

been initiated. Main features of the process of privatization in India are as follows:

⇒ **Contraction of public sector:** number of industries reserved for the public sector has been gradually reduced from 17 to 2. These two industries are- atomic energy and railways, and the remaining industries have been opened for private sector.

⇒ **Sale of shares of public sector to the private sector:** Up to 74% of shares of public sector have been sold to foreign investors, institutional investors, mutual funds, public and workers. Till the end of march 2013, shares of public sector worth Rs. 1,34,519 crore were sold.

⇒ **Sick public sector units:** public sector units will be treated in the same way as sick units of private sectors, various cases of sick industrial companies of public sector have been forwarded to BRPSE (board of reconstruction of public sector enterprises)

⇒ **National renewal fund :** this fund was establish for protecting the interest of employees on account of privatization .some employees are retrenched and some are offered voluntary retirement under this scheme, upto march 2012, 6.18 lakh employees have sought voluntary retirement from public sector units. It has been decided that workers interest will be protected in allb in disinvestment decisions.

⇒ **Implementation of recommendations of Rangarajan committee :** Rangarajan committee have been implemented, which have gone in the direction of privatization of PSUs .

1 to disinvest 49% equity of reserved public sector units and to disinvest 74% equity of other public sector units

2 corporatization of public sector units.

3 public issue of shares.

4 10% of disinvestment proceeds should be set aside for granting concessional loans to PSUs.

⇒ **Increase in private sector investment in plans:** shares of private sector investment has been increased from 42% in fifth five year plan to 78.1% in eleventh five year plan.

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In 2009,govt. stated that in profit making PSUs,govt. plans to retain majority holding and selling the rest to the public. So, the present govt. will promote disinvestment.

**Table : Amount of disinvestment of public sector units in Recent years**

year	Target amount to be realized by disinvestment	Actual amount realized (in crore)
2000-01	10,000	1,871
2003-04	14,500	15,547
2009-10	-----	23,553
2010-11	40,000	22,144
2011-12	40,000	13,894
2012-13	30,000	21,504

(source: dept. of Disinvestment, ministry of finance)

Amt. of disinvestment proceeds was highest in the year 2009-010. In this year rs.23, 553 crore disinvestment proceeds were realized. From 1991-2013 govt. has realized Rs. 1,34,519 crore from disinvestment. In year 2009-010 govt. has formulated mega disinvestment plan in which is decided that at least 10% equity of all profitable central PSEs should be disinvestment by sale of equity share to public. From 2009-010 to 2012-13, Rs.81,095 crore was realized by disinvestment minority stake in NHPC, OIL, NTPC, REC, SJVN, EIL, Coal India, PGCIL, MOIL, SCI, NMDC, PFC, ONGC, etc. in 2012-13,disinvestment proceeds were rs.21,504 crore. Target amount to be realized by disinvestment for the year 2013-14 has been fixed at Rs.30,000 crore.

## 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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