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Privatization and its Impact on the Indian Economy:

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Introduction:

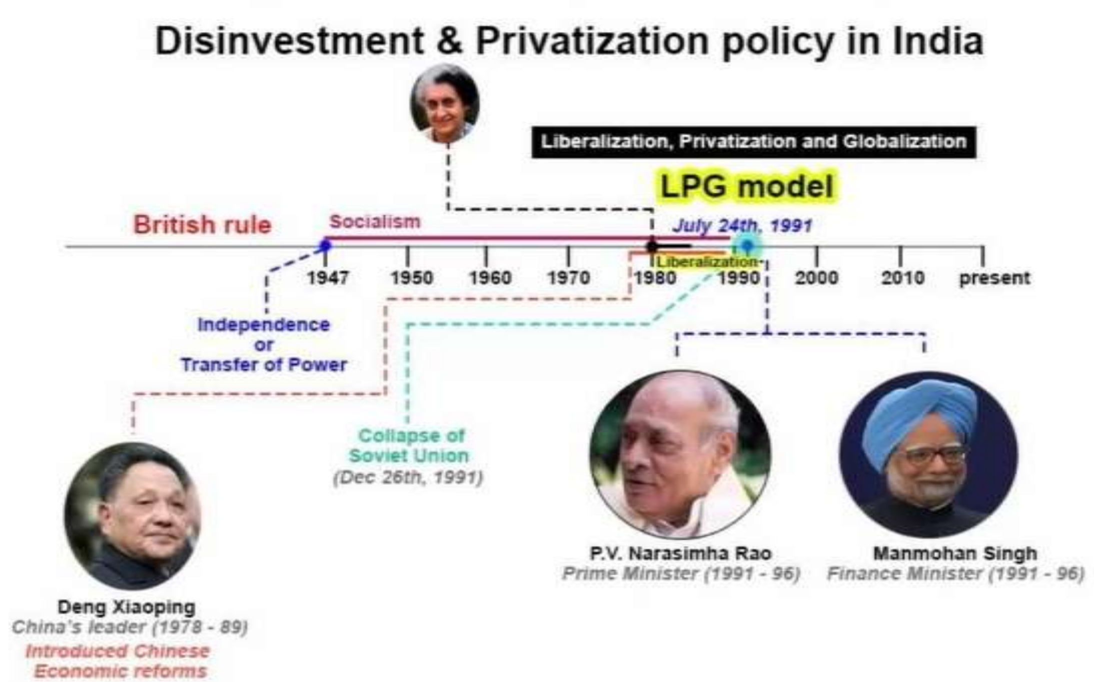
Privatization refers to the process of transferring ownership or control of government assets, firms, and operations to private investors. This process of transfer takes the form of issue and sale or outright distribution of shares to the general public. The term privatization broadly includes all other policies such as "outsourced" which is the process by which activities while publically organized or financed can be carried out by private sector companies. For example, garbage collection, street planning, housing, education, etc. Privatisation is the opposite of the Nationalisation of PSUs. It is the transfer of ownership, property, or business from the government to the private sector and the government stops being the entity or business owner. In other words, the government becomes either a minority stakeholder i.e holding less than 50% equity or completely transferring the ownership in the earlier government-managed enterprises. In 1991, India made major political changes in its economic ideologies. There was stagnation and slow growth in the economy. To address these issues, then Finance Minister Dr. Manmohan Singh introduced some major economic reforms. Now we call it India's economic liberalization and LPG reforms. Privatization has a very broad meaning in economics. Everything from the introduction of private capital to the sale of state assets to the transition to a private economy. As the Commission has observed, "The essence of a long-term disinvestment strategy should be not only to enhance budgetary receipts but also minimise budgetary support towards unprofitable units while ensuring their long-term viability and sustainable levels of employment in them." Government agrees with this view and I would appeal to Hon'ble Members to take a positive view of disinvestment.

Since the definition of privatization is so diverse, let's look at the three main characteristics of privatization.

Ownership Measures: Ownership of all public enterprises will later transfer to private owners. Nationalization can be full or partial.

Organizational resources: Here we limit state control in public enterprises. Some methods include holding company structuring, and leasing. restructuring of companies, etc.

Operational Measures: Public organizations and businesses suffered heavy losses. Therefore, the efficiency of these companies had to be increased.



Privatization helps to reduce the burden on the government because it can cut its expenditure and use it for other development activities. Private companies are more successful than state-owned companies. Private companies have more effective policies to deal with internal or external problems. There is huge competition in the market, leading to better quality and best availability of products. No political intervention allows public sector firms to operate impartially, it can

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have both positive and negative effects, but privatization has been found to have a positive effect on the economy (Adams, 2007).

History:

In the past, India worked on a socialist economy because it was feared that capitalism would start making profits and social welfare would be disrupted rather than working for the welfare of the people. Government on the other hand follows democracy ie. they are public in nature and thus government became the owner of public sector companies like Steel Authority of India Ltd, Gas Authority of India Ltd, Hindustan Petroleum Corp., ONGC., Container Corporation of India, Air India etc. and became the crown jewels of India. socialist legacy. Public sector companies have been operating in India for about 70 years, and Prime Minister Indira Gandhi nationalized the top 14 banks in 1969. And again, just when he became Prime Minister. In India's third term as minister, i.e. around 1980, liberalization began with the introduction of the Sixth Five-Year Plan and ended the socialism of his father Nehru. 1991 - From the collapse of the Soviet Union, the Persian Gulf War and the twin deficits, all such dire situations led to the airlift of India's national gold reserves. It was at this time that Chinese leader Deng Xiaoping introduced China's economic reforms. Then, on July 24, 1991, the budget speech of all things changed the course of Indian history. India's finance minister Manmohan Singh stated that India did not face soft choices and was ready to embrace the market through its economic policy reforms - liberalization, privatization and globalization. Chandrashekar's government in 1991-92. the policy listed in the interim budget of 1990 (November 1990-June 1991) was to divest up to 20% of government shares in selected PSEs to public sector institutional investors. Privatization entered the Indian political economy under the terms of the 1991 bailout and has had its pros and cons ever since.

Rangarajan Investment Committee: Rangarajan's PSE Share Divestment Committee (April 1993) emphasized the need for a large investment. The main recommendations of the committee were: It stated that in industries specifically reserved for the public sector, the share of transferable capital could be up to 49%. He recommended that in exceptional cases, such as companies that have a dominant market share or that need to maintain their identity for strategic reasons, maintain the target level of state ownership at 26%, which means that investments could be reduced by 74%. In all other cases, it was recommended to sell 100% of the state investment. The schedule recommended 51% or more board ownership for only six industries, namely: Coal & Ignite, Mineral oils, Arms, ammunition and defence equipment, atomic energy, Radioactive minerals and Railway transport. Since then, GoI continuously used it as an opportunity to press its foot on privatisation.

Policies of Privatization: The private sector has effective policies to deal with the problem of externalities through costly negotiations driven by individual incentives. According to Coase's theorem, individual parties participate directly or indirectly in the cost-benefit analysis that ultimately leads to the most efficient solution. Compared to the public sector, the private sector responds to market incentives. On the other hand, the public sector often has non-financial objectives. The public sector is not very enthusiastic about maximizing production and efficient allocation of resources, forcing the government to run expensive and poor enterprises. Privatization shifts the focus from political goals directly to economic goals, leading to the development of a market economy. The contractionary aspect of privatization is important because bad government policies and government corruption can have a very negative impact on economic growth. Privatization concentrates the role of the state in the economy, which means that the opportunities of the state to negatively influence the economy decrease. Privatization can have a positive effect on the economic situation of the country. Privatization should not be used to finance new public spending and pay future debts. Instead, privatization allows countries to pay off some of their existing debt, which lowers interest rates and raises investment levels. By reducing the size of the public sector, the government reduces overheads and begins collecting taxes from all the now privatized companies. This process can help end the vicious cycle of over-borrowing and continued growth of public debt. Nations around the world have adopted different methods of privatizing state assets depending on the initial conditions of the country's economy and the economic principles of the political party in charge.

- The major method of privatization is the sale of state-owned enterprises to private investors. The state would simply decide which institutions should be privatized and through the use of market mechanisms, private investors are able to buy shares of each organization. The advantage of this

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method of privatization is that it creates badly needed revenues for the state while putting privatized firms in the hands of investors who have the incentives and the means of investing and reformation.

- Another method of privatization is called voucher privatization. The government universally distributes vouchers to its eligible citizens, which can be sold to other investors or exchanged for shares in other institutions being privatized. Although this method does not create profits for the state, it does privatize state-owned firms in a short period of time.

- The next method of privation is called internal privatization, also known as “employee or management buyout”. State-owned enterprises are sold to managers (for an extremely low price) who are already familiar with the particular firm and its structure, but there are minimal revenues created for the state. This method creates some incentives but the incentives are much stronger when firms are sold to strategic investors. Furthermore, new owners often do not have the resources to invest and restructure, which is badly needed in a large percentage of state-owned firms in underdeveloped countries.

- One of the noticeable features of privatization is the improved competitive characteristics. it provides privatization contracts that are greatly influenced by merger variables and even global issues and are structured on the basis of manipulation of the government and the private actors along with the administering jurisdiction.

CATEGORIES OF PRIVATISATION:

1- CPSEs: CPSEs (Central Public Sector Enterprises) are the enterprises which share 51% or more stocks with Central Government or other CPSEs.

2- PSBs: PSBs (Public Sector Banks) are the Banks which works under the control of the Central Government or other PSB and share 51% or more stocks with them.

3- SLPEs: SLPEs (State Level Public Enterprises) are the enterprises working under the control of the State Government or other SLPEs and share 51% or more stocks with them.

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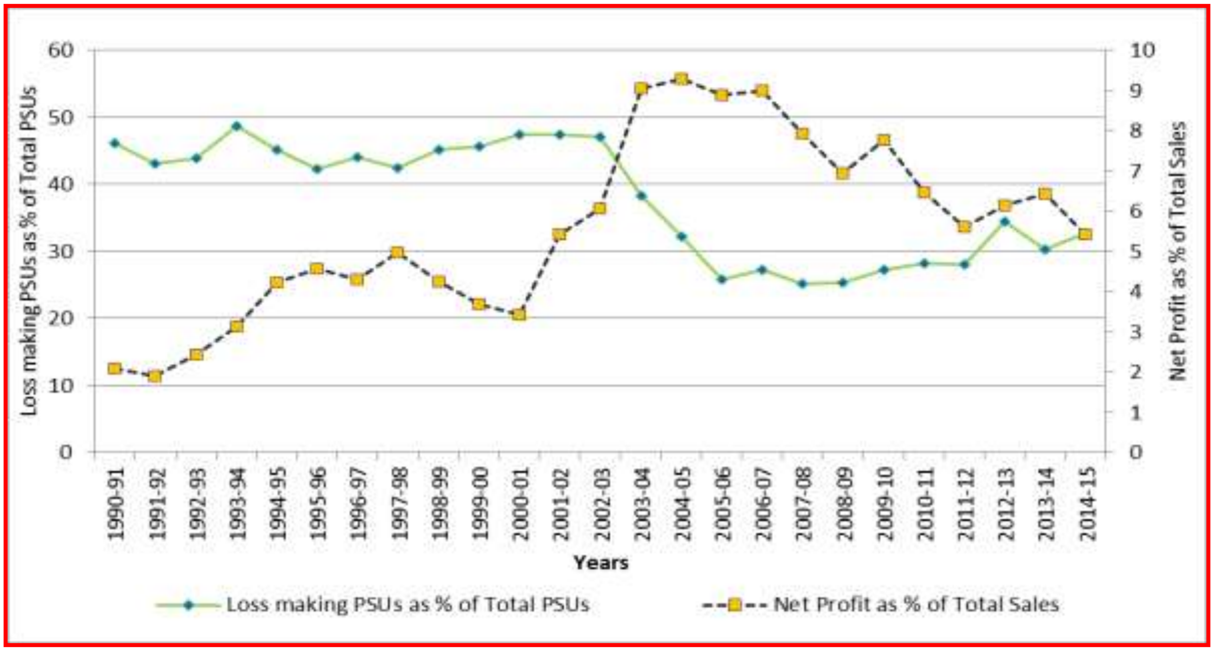
Cumulative Overall Performance of the PSUs 1990-91 to 2014-15



Almost half of the PSUs were unprofitable in the 1990s, but with the rapid growth period of 2002-2003 and the application of better performance agreements to many more of them and increased capital investment, their numbers also increased. losses increased. Power sources were reduced to about a quarter of the total. But since then, and especially when growth slowed after 2012, the share of losers rose again to almost a third of the total. PSU profitability - measured as profit relative to total sales - also rose from an absurd 2% in 1990-91 to about 3% in 2000-01, before peaking at nearly 9% in 2003-06 and 2006-07 meanwhile fell to 5-6 per cent. How much of the improved performance is due to MOUs and how much to partial privatization is explored in more detail later in the paper. We also examine whether there are differences in the performance of the electricity supply industry due to tight budget constraints and levels of competitiveness.

The period from 2001-02 to 2003-04: This was the period when a maximum number of disinvestments took place. These took the shape of either strategic sales (involving an effective transfer of control and management to a private entity) or an offer for sale to the public, with the government still retaining control of the management. Some of the companies which witnessed a strategic sale included:

- BHARAT ALUMINIUM CO. LTD.
- CMC LTD.
- HINDUSTAN ZINC LTD.
- HOTEL CORP.OF INDIA LTD. (3 PROPERTIES: CENTAUR HOTEL,JUHU BEACH, CENTAUR HOTEL AIRPORT, MUMBAI & INDO HOKKE HOTELS LTD.,RAJGIR)
- HTL LTD.
- IBP CO.LTD.
- INDIA TOURISM DEVELOPMENT CORP.LTD.(18 HOTEL PROPERTIES)
- INDIAN PETROCHEMICALS CORP.LTD.
- JESSOP & CO.LTD.
- LAGAN JUTE MACHINERY CO.LTD.,THE
- MARUTI SUZUKI INDIA LTD.
- MODERN FOOD INDUSTRIES (INDIA) LTD.
- PARADEEP PHOSPHATES LTD.
- TATA COMMUNICATIONS LTD.

The valuations realized by this route were found to be substantially higher than those from minority stake sales. During this period, against an aggregate target of Rs. 38,500 crore to be raised from PSU disinvestment, the Government managed to raise Rs. 21,163.68 crore.

The period from 2004-05 to 2008-09: The issue of PSU disinvestment remained a contentious issue through this period. As a result, the disinvestment agenda stagnated during this period. In the 5 years from 2003-04 to 2008-09, the total receipts from disinvestments were only Rs. 8515.93 crore.

National Income before and after privatisation

Year	GDP (in crores USD)	GNP (in crores PPP dollars)
	Before Privatization	
1980	18959.41	29461.34
1981	19688.35	34,087.1
1982	20423.44	37291.78
1983	22209.03	41555.08
1984	21587.82	44698.94
1985	23658.91	48514.29
1986	25335.24	51934.96
1987	28392.7	55490.24
1988	30179.1	62749.64
1989	30123.37	68905.65
1990	32660.8	97382.58
	After Privatization	
1991	27484.23	1.01 Lakh
1992	29326.24	1.09 Lakh
1993	28419.37	1.18 Lakh
1994	33301.45	1.28 Lakh
1995	36659.96	1.41 Lakh
1996	39978.69	1.55 Lakh
1997	42316.04	1.64 Lakh
1998	42874.1	1.76 Lakh
1999	46434.44	1.95 Lakh
2000	47469.16	2.06 Lakh

GDP growth rate is after privatization, last ten years was 46% increase in compared to before privatization. As well as the growth rate of GNP, after privatization was approx 100% compared to the data from the year 1991 to 2000.

Macroeconomic advantages:

- Private companies always have a better incentive than public companies. Managers and employees of a private company have skin in the game, ie. their income is linked to the company's performance. There is no such incentive in state-owned enterprises. Therefore, privatization usually leads to an improvement in the efficiency of the company.
- There is a lot of political interference in the stock company. This can prevent the company from making financially beneficial decisions. However, the private company does not let political factors affect its operations.
- In state-owned companies, the board can sometimes only think about the upcoming elections. So any ambitions they may have may be short-lived as they try to win over voters. But a private company has no such restrictions. They have long-term goals and objectives and steer the company in the right direction.
- Privatization also increases competition in the market. Therefore, it has proved to be very useful for consumers. Healthy competitiveness in the economy increases efficiency and effectiveness.

Conclusion:

Privatization may be a means to achieve one thing, but it can trigger many other consequences. There is no guarantee that privatization in India will reduce corruption and work successfully for the benefit of Indian citizens. Privatization of the Indian economy will affect us both positively and negatively, we have to find a way to do it in the best possible way. This has both quantitative and non-quantitative long-term consequences. The need for privatization also improves the financial situation. Energy sources have contributed to the development of the country, but they have many shortcomings. Privatization has both good and bad sides. The government should implement full and partial privatization to increase efficiency. But at the same time social justice is essential and must not be neglected in the implementation of reforms.

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