Meaning of Privatisation

It means a transfer of ownership, management, and control of public sector enterprises to the private sector.

Privatization can suggest several things including migrating something from the public sector into the private sector. It is also seldom used as a metonym for deregulation when a massively regulated private firm or industry becomes less organised. Government services and operations may also be (denationalised) privatized; in this circumstance, private entities are tasked with the application of government plans or execution of government assistance that had earlier been the vision of state-run companies. Some instances involve law enforcement, revenue collection, and prison management.

Privatisation of the public sector companies by selling off part of the equity of PSEs to the public is known as disinvestment.

Objectives of Privatisation:

Providing strong momentum to the inflow of FDI

- Privatisation aims at providing a strong base to the inflow of FDI.
- Increased inflow of FDI improves the financial strength of the economy.

Improving the efficiency of public sector undertaking (PSU's)

- The efficiency of PSU's was improved by giving them the autonomy to make decisions.
- Some companies were given a special category of Navratna and Mini-Ratna.

Privatization in India

In 1991 India made some major policy changes in their economic ideologies. There were stagnation and slow growth in the economy.

To tackle these problems the, then Finance Minister Dr. Manmohan Singh introduced some major economic reforms. Now, we call it the liberalization of the Indian Economy and the LPG reforms.

Privatization has a very broad meaning in economics. Everything that ranges from the introduction of private capital to selling government-owned assets to transitioning to a private economy.

As the definition of privatization is so very diverse let us take a look at the three main features of privatization.

1. Ownership Measures: The ownership of all public enterprises ultimately shifts to private owners. The denationalization can be complete or partial.
2. Organizational Measures: This is where we limit the control of the state in public companies. Some methods include holding company structuring, leasing. restructuring of the enterprises etc.
3. Operational Measures: Public organizations and companies were running into huge losses. So the efficiency of these companies was to be increased.

Conceptualization of Privatization in India

1] Delegation: Here via a contract or franchise or lease or grant etc. the government keeps the ownership and the responsibility of an enterprise.

But the private company will handle the daily activities and deliver the product or service. The state will remain an active participant in this process.

2] Divestment: The government will sell a majority stake of the enterprise to one or more private companies. It may keep some ownership but will be a minority stakeholder in the enterprise.

3] Displacement: The first step here will be deregulation. This will allow private players to enter the market. And slowly and gradually the private company will displace the public enterprise.

Here the private sector will compete with public companies and ultimately outperform them, causing the public enterprise to be displaced.

4] Disinvestment: Directly selling a portion or whole of a public enterprise to private parties.

FORMS OF PRIVATIZATION

Name the various forms of Privatization and which form of privatization can be more acceptable to the people.

Total De-nationalization:

This implies complete transfer of ownership of a public enterprise to private hands. Some examples of total de-nationalization are : Allwyn Nissan-was handed over to Mahindra, Manfalore Chemical and Fertilizers to LAB Group and Maharashtra. scooters to Bajaj Auto (India).

Joint Venture :

This implies partial induction of private ownership from 25 to 50 per cent or even more in a public sector enterprise depending upon the nature of the enterprise and state policy in this' regard.

Workers’ Co-operative:

Transfer of ownership of a loss-making concern to the workers is another form of privatization. The ‘basic logic of the proposal is that workers besides receiving wages for work, would also be entitled to a share in ownership dividend. Since workers’ personal interest is linked to the interest of the enterprise, the workers are likely to work hard to increase productivity so that they can earn more. Such schemes were introduced in Kamani Tubes, Central Jute and Mewar textiles, etc.

Token Privatization:

The sale of 5 per cent to 10 per cent shares of a profit-making public sector enterprise in the market is known token privatization. The objective of such privatization is to obtain revenue to reduce budget deficit.

Out of the various forms of privatization, the most acceptable is the joint venture in which the share of the private sector is kept at either 49 per cent or 74 per cent. But simply a change of ownership is not sufficient to increase productivity and profitability. For this purpose, other measures like linking wages to productivity, changing promotion policy based on the efficiency of the workers is needed so that a competitive environment is created in which efficiency pricing becomes a norm.

Privatisation and India economy growth

Privatization, described as the transfer of state owned enterprises (SOEs) to the private owners, has become a common economic policy tool around the globe. The trend toward privatization is debatable issue. Indeed, the debate between the superiority of the private and public sectors has been going on for the past four to five decades. The discussion initially focused on how the size of public sector measured by the size of government consumption affected economic growth (Rubinson, 1977).

Findings of many studies demonstrated that privatization did not contribute to growth but helped to reduce income inequality, inflation contributed negatively to both economic growth and income equalization. On the other hand, several economists stated that Privatization, a method of reallocating assets and functions from the public sector to the private sector play vital role for economic growth. Recently, privatization has been adopted by many different political systems and has spread to every region of the world. The process of privatization can be successful way to bring about fundamental structural change by formalizing and establishing property rights, which directly creates strong individual incentives. A free market economy mainly depends on well-defined property rights in which people make individual decisions in their own interests. According to experts, privatization may improve efficiency, provide financial relief, boost wider ownership, and increase the availability of credit for the private sector.

Major causes of privatization are:

- To reduce the burden on Government

- To strengthen competition

- To improve Public finances

- To fund infrastructure growth

- Accountability to shareholders

- To reduce unnecessary interference

- More disciplined labour force.

The private sector have effective policies in solving the problem of externalities, through costless bargaining, driven by individual incentives. According to the Coase Theorem, individual parties will directly or indirectly take part in a cost-benefit analysis, which will eventually result in the most efficient solution (Mankiw, 2001).

When comparing with public sector, the private sector responds to incentives in the market. On the other hand, public sector often has non-economic goals. The public sector is not highly driven to maximize production and allocate resources effectively, causing the government to run high cost, low-income enterprises. Privatization directly shifts the focus from political goals to economic goals, which leads to development of the market economy (Poole, 1996). The downscaling aspect of privatization is an important one since bad government policies and government corruption can play a large, negative role in economic growth (Easterly, 2001). Through privatizing, the role of the government in the economy is condensed, thus there is less chance for the government to negatively impact the economy (Poole, 1996).

Privatization may have a positive impact on a country's economic situation. Privatization should not be used to finance new government expenditures and pay off future debts. Instead, privatization enables countries to pay a portion of their existing debt, thus reducing interest rates and raising the level of investment. By reducing the size of the public sector, the government reduces total expenditure and begins collecting taxes on all the businesses that are now privatized. This process can help bring an end to a vicious cycle of over-borrowing and continuous increase of the national debt (Poole, 1996).

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.

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 mechanism, private investors are able to buy shares of each organization. Advantage of this 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.

Other 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.

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 (Stirbock, 2001).

One of the noticeable feature of privatization is the improved competitive characteristics it provides to the enterprises which prove to be fruitful for the business as well as the country. Nonetheless, privatization contracts 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.

Privatization can be categorized in to three parts:

- Delegation: Government keeps hold of responsibility and private enterprise handles fully or partly the delivery of product and services.

- Divestment: Government surrenders the responsibility.

- Displacement: The private enterprise expands and gradually displaces the government entity.

Privatization certainly is beneficial for the progress and sustainability of the state-owned enterprises.

The advantages of privatization can be apparent from both microeconomic and macroeconomic impacts that privatization exerts.

Microeconomic advantages:

1. State owned enterprises generally are outdone by the private enterprises competitively. When compared the latter, it shows better results in terms of

profits and efficiency and productivity. Therefore, privatization can provide the necessary push to the underperforming PSUs.

2. Privatization brings about fundamental structural changes providing momentum in the competitive sectors.
3. Privatization leads to implementation 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.

Macroeconomic advantages:

1. Privatization has a positive impact on the financial growth of the sector which was previously state dominated by way of decreasing the deficits and debts.
2. The net transfer to the State owned Enterprises is lowered through privatization.
3. It helps in escalating the performance benchmarks of the industry in general.
4. It can initially have an undesirable impact on the employees but progressively in the long term, shall prove advantageous for the growth and prosperity of the employees.
5. Privatized enterprises provide better and quick services to the clients and help in improving the overall infrastructure of the country.

Though privatization offers numerous advantages, it has many disadvantages:

1. Private sector mainly focuses more on profit maximization and less on social objectives dissimilar to public sector that initiates socially viable adjustments in case of emergencies and criticalities.

2. There is lack of clearness in private sector and stakeholders do not get the complete information about the functionality of the enterprise.
3. Privatization has provided the unnecessary support to the corruption and unlawful ways of accomplishments of licenses and business deals amongst the government and private bidders. Lobbying and bribery are the common issues corrupting the practical applicability of privatization.
4. Privatization loses the mission with which the enterprise was established and profit maximization programme encourages malpractices like production of lower quality products, elevating the hidden indirect costs, price escalation etc.
5. Privatization results in high employee turnover and a lot of investment is required to train staff and even making the existing manpower of PSU abreast with the latest business practices.
6. There can be a conflict of interest amongst stakeholders and the management of the buyer private company and initial resistance to change can impede the performance of the enterprise.
7. Privatization intensifies price inflation in general as privatized enterprises do not get government subsidies after the deal and the burden of this inflation affects the common man.

Analysis of private Sector with reference to the Indian Economy:

Government of India chose for a mixed economy in which both public and private sectors were permitted to operate. The private sector had to operate within the provisions of the Industries (Development and Regulation) Act. 1951 and other relevant legislations. In this framework, the Industrial Policy Resolution 1956 stated, Industrial undertakings in the private sector have necessarily to fit into the framework of the social and economic policy of the State and will subject to control and guideline in terms of the Industries (Development and Regulation) Act and other relevant legislation. The Government of India recognizes that it would be desirable to allow such undertakings to develop with as much freedom as possible, consistent with the targets and objectives of the national plan.

Reports indicated that in spite of speedy progress of the public sector in the period of planning, private sector is the principal sector in the Indian economy.

Since many decades, numerous modern industries have been established in the private sector. Important consumer goods industries were set up in the pre-Independence period itself. Examples include cotton textile industry, sugar industry, paper industry and edible oil industry. These industries were set up in response to the opportunities offered by the market forces. They were highly suitable for private sector since they ensured good returns and required less capital for establishment. Though the engineering industries were not established in the pre-Independence period, yet Tata had initiated in the field of iron and steel industry at Jamshedpur. After Independence, a number of consumer goods industries were set up in the private sector. Presently, India is practically self-reliant in its requirements for consumer goods. According to the 1956 resolution, "industries producing intermediate goods and machines can be set up in the private sector." As a result, chemical industries like paints, varnishes, plastics etc. and industries manufacturing machine tools, machinery and plants, ferrous and non-ferrous metals, rubber, paper, etc. have been set up in the private sector.

In India, there is a need of privatization of companies to enhance economic status. Though the PSUs have contributed a lot to develop the industrial base of the country, they continue to suffer from a number of inadequacies such as;

Many PSUs have been incurring and reporting losses on a continual basis. Consequently, a large number of PSUs have already been referred of loss giving units.

Multiplicity of authorities to whom the PSUs are accountable. Delay in implementation of projects leading to cost escalation and other consequences.

There is Ineffective and extensive inefficiency on management.

Many PSUs are over-staffed resulting in lower labour productivity, bad industrial relations.

There are many examples of privatization of companies in India such as:

- Lagan Jute Machinery Company Limited (LJMC)

- Videsh Sanchar Nigam Limited (VSNL)

- Hindustan Zinc Limited (HZL)

- Hotel Corporation Limited of India (HCL)

- Bharat Aluminium Company limited (BALCO)

Privatisation in infrastructure sector started with the modification of relevant legislation to permit private enterprises to enter power generation in October

1991. Reforms have been much successful in telecommunications sector. Value added services were opened to private sector in 1992, followed by the enunciation of the National Telecom Policy in 1994-95 which opened up basic telecom services to competition. Foreign equity participation up to 49% was permitted in case of a joint venture between an Indian and a foreign firm.

The Telecom Regulatory Authority of India (TRAI) was established in 1997. In order to separate the service-providing function of publicly owned telecom enterprises and policy-making function, both of which were initially with the Department of Telecommunications, a separate Department of Telecom Services was set up in 1999- 2000. The two public sector service providers were corporatised in 2000-01. International long-distance business, which was a public sector monopoly, was opened to unrestricted entry in 2002-03.

In roads sector, there are also infrastructure reforms. Major reform was the creation of a major new source of funding for national, state and rural road construction, called the Central Road Fund (CRF) under the Central Road Fund Act of2000. The National Highway Development Project funded by the CRF is one of the largest single highway projects in the world. It includes the nearly 6,000 km of Golden Quadrilateral (GQ) connecting the four metropolitan cities of Chennai, Delhi, Kolkata and Mumbai and 7,300 km of North-South and East-West Corridor.

Major impact of Privatisation on Indian Economy are as under:

It frees the resources for a more productive utilisation.

- Private concerns tend to be profit oriented and transparent in their functioning as private owners are always oriented towards making profits and get rid of sacred cows and hitches in conventional bureaucratic management.

- Since the system becomes more transparent all fundamental corruption are minimised and owners have a free reign and incentive for profit maximisation so they tend to get rid of all free loaders and vices that are inherent in government functions.

- Gets rid of employment inconsistencies like free loaders or over employed departments reducing the strain on resources.

- Lessen the government's financial and administrative load.

- Effectively minimises corruption and optimises output and functions.

- Private firms are less tolerant towards capitulation and appendages in government departments and hence tend to right size the human resource potential befitting the organisations needs and may cause resistance and disgruntled employees who are accustomed to the benefits as government functionaries.

- Permit the private sector to contribute to economic development.

- Development of the general budget resources and diversifying sources of income.

In short, privatization is 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 to generate revenues. Privatization is overriding process to enhance productivity and competitiveness, as well as attracting foreign direct investment.