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ADVANTAGES AND DISADVANTAGES OF PRIVATISATION 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 in this country.

Index Terms: Privatisation, advantages, Public administration.

I. 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.

II. PRIMARY FEATURES OF PRIVATIZATION

Espousing market principles by public policy makers has evolved as one of the prominent characteristics of the contemporary public enterprise management which encompasses privatization as a primary facet. Privatization of State- owned enterprises has developed as a critical tool for economic policies pertaining to progress and development of developing countries.

One of the prominent feature of privatization is the enhanced competitive characteristics it provides to the enterprises which prove to be fruitful for the business as well as the country. However, 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 players along with the administering jurisdiction [19]. Perotti and Guney (1993) cited in Al-Zuhair[2], have supported privatization as a vital source to enhance economic enticements, magnetize better managerial skills of the private sector, extend the share ownership, lower the public borrowings in order to sustain sustainable services. Shirley (1988) cited in Al-Zuhair [2], view privatization as an attempt to enhance market potencies. Privatization is an essentially effective tool for restructuring and reforming the public sector enterprises running without significant aim and mission as private sector is perceived to be fundamentally more self-motivated, prolific and reliable for superior quality of products and services. Privatization can be of three prominent types:

- 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 [15].

III. PRIVATIZATION IN INDIA: AN OVERVIEW

Privatization in India is still at a minimalist level. Privatization by way of sale of public sector enterprises is almost negligible while divestment is also existent by way of selling of a portion of shares of the 31 public sector enterprises. Privatization got tremendous boost by the introduction of new economic policy in 1991 that allowed delicensing, relaxing entry restrictions and equity funding [4]. This heightened the competition in the industries that were monopolized by the public sector earlier. State owned enterprises were lacking the finesse that private enterprises employed as the competitive edge. Deregulation in India was facilitated by laws like the Industries (Development & Regulation) Act, 1951 (IDRA), Monopolies & Restrictive Trade Practices Act, 1969, (MRTPA), Foreign Exchange regulation Act, 1973 (FERA), Capital Issues Control and technical scrutiny by the Directorate General of Technical Development (DGTD) (Goyal, n.d.). Post-independence, the Indian government adopted socialistic economic strategies. It was in 1980s, that Rajiv Gandhi initiated economic restructuring. With the help of IMF, Indian government commenced a sequential economic reorganization. P.V. Narasimha Rao brought in the revolutionary economic developments with the help of Dr. Manmohan Singh. The results of these reforms can be assessed statistically by comparing the total overseas investment in terms of portfolio investment, FDI and investments from foreign equity capital markets. In 1995-1996, it was $5.3 billion as compared to $ 132 million in 1991-1992. The highlights of the reforms including eradicating license raj for all except 18 critical sectors for licensing; tempering the control on industries; Foreign Technology Agreements; FDI & FII; amendment of MRTP Act, 1969; Deregulation; Regulation of Inflation; Tax restructuring; encouraging overseas business relations [11]. Few examples of privatization in India are Lagan Jute Machinery Company Limited, Modern Food Industries Limited, BALCO, Hotel Corporation of India Limited, Hindustan Zinc Limited, Paradeep Phosphates Limited, BSNL etc.

IV. GOVERNMENT OPPOSITION TO COMPLETE PRIVATIZATION

In the 1990’s, the budgeting process adopted by Indian government, fiscal deficits, and negative balance of payments boosted the government’s desire and necessity to extract and release the massive investments made in the state owned enterprises and this led to privatization in India. This paved way for Foreign Direct Investments and liberalization of business practices and protocols as well [10]. However, being a socialistic economy, the government has not ever favored complete privatization for the very basic reason that private players shall enter into the strategically important industries and shall use them for their own benefits and profit maximization [13].

Experts are of the view that Indian government wrongly positioned their disinvestment strategy by dangling between the principles and accommodating approaches. Though all political parties acknowledged the doctrine of privatization but all adopted an escapist attitude towards complete privatization for safe guarding their vote banks. They employed tactics of "videshi" and "swadeshi", and strategies like getting a strategic partner or enlarge the equity base through and initial public offer before divesting [10]. Indian government has been conservative in allowing partial privatization of strategic sectors like power supply, telecom, banking, roadways, insurance, civil aviation, postage and telegraph services etc. Mostly, both state owned enterprises and privately run enterprises co-exist in these sectors. Government uses the shield of social interests of the employees of the PSUs to camouflage the interest of the bureaucrats and politicians. However, intensified competition of the de-licensed and liberalized sectors have surely made the lethargic state owned enterprises to pull up their socks and shedding the complacency of monopoly to face the competition [14].

V. 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 [16].
- Privatization brings about radical structural changes providing momentum in the competitive sectors [16].
- 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 [6,3].
- The net transfer to the State owned Enterprises is lowered through privatization [6,3].
- Helps in escalating the performance benchmarks of the industry in general [6,3].
- 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 [6,3].
- Privatized enterprises provide better and prompt services to the customers and help in improving the overall infrastructure of the country.

VI. 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 [9,1].
- There is lack of transparency in private sector and stakeholders do not get the complete information about the functionality of the enterprise [9,1].
- 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 [1].

- 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. [9].
- 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 [9].
- 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 [1].
- 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.

VII. 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 [12]. 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 [17].

VIII. 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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