Privatisation in India

Subject - History

What is privatisation?

In the narrow sense, privatisation involves changing public ownership to private ownership, that is the publicly owned companies or organizations are managed by private entities. However, in the broader sense, it means public management of public sector enterprise. In layman's terms, it is a way of reconfiguring the relationship between state and the private sector so that the function and responsibility of the private sector get enhanced to increase functioning and efficiency.

What are the three measures of privatisation?

Privatisation contains three measures:

1. Ownership: The first step is the transfer of ownership of PSU (full or partial). This can be by the ways of denationalization, joint ventures, management buy out etc.
2. Organization: it includes steps to limit state's control through a specific company system and structure.
3. Operation: this includes steps with the goal of achieving efficiency. It so happens because of the spirit of commercialization in PSUs as far as decision-making, incentives and inputs are concerned.

What are the different types of privatisation?

The different kinds of privatisation methods are:

- Voucher privatisation
- Share issue privatisation
- Asset value privatisation

Privatisation in India

India followed the system of mixed economy as it enabled them to combine the positives of the market economy with the advantages of planned economy. Over the years, the state laid down some rules that led to excess control of the economy thus hampering development. In 1991, the government was not providing goods in an efficient manner, the foreign exchange reserves were declining, inflation was increasing and the balance of payment started seeing a huge deficit. Due to this crisis, the World Bank and International Monetary Fund pressurized the then Prime Minister, Narasimha Rao to change the country's policy. This led to privatising government companies, namely BAC, BSNL etc. All the steps were taken in the form of stabilization (to correct weaknesses) and structural reforms (to remove the rigidities). The main objectives of the New economic policy, formulated by the finance minister, Dr. Manmohan Singh also included steps to increase the participation of private agencies and players in almost all the sectors of Indian economy.

The steps taken for privatisation in India were:

- Sale of PSU Shares: The government started offering the public sector units to the public and to the financial institutions. The share of private sector rose from 45% to over 55%

- Disinvestment of public sector units: this was taken for the sick units. The government sold companies worth Rs. 30, 000.
- Minimization of the public sector: initially it was thought that public sector's control over industries will increase efficiency, stimulate industrial growth and poverty eradication. But since that did not happen, the number of industries reserved for the public sector was reduced to three, which were originally 17. These were transport and railway, atomic energy and mining of atomic minerals.

Few advantages and disadvantages associated with privatisation

Advantages related to privatisation

1. Competitively the private enterprises tend to perform better than the state-owned ones. This is in terms of profits and productivity.
2. It provides momentum to the competitive sectors.
3. It allows implementation of the best global practices that helps to inculcate sustainable development to human and economic resources.
4. It helps reducing deficits and debts and hence has a positive impact on the financial status.
5. It helps to reduce the net transfer to the enterprise owned by the state.
6. There is lack of political interference and hence are guided by business sense.
7. Selling PSUs allows the government to raise significant sums that can then be used to solve grave issues.

Disadvantages related to privatisation

- Leads to excess weight to profit and lesser focus on social issues and upliftment. There are industries like healthcare, education, sanitation and the like that cannot be guided by profit motive alone. This can thus lead to social impairment.
- There is lack of transparency in the private sector, as the stakeholders do not get complete information.
- Allows corruption and unlawful techniques of procuring licenses and deals.
- Intensifies inflation and can end up being painful to the common man.
- Can lead to monopolies for those industries that just have the capacity of witnessing one major player. In such a case a public monopoly is a better option than private monopoly so as to prevent exploitation.
- It can lead to fragmentation of industries leading to unclear functioning.

Impact of liberalization, privatisation, and globalization in 1991

1. The impact of the policies can be understood from measuring various parameters. These impacts have been both positive and negative and can be understood by the following points.
2. The gross foreign investment that included FDI, Portfolio investment and international capital market investment rose from $132 million in 1991 to $5.33 billion in 1995.
3. The growth in GDP, annually, rose from 1.25% per decade after independence to 6.5% percent post LPG policy implementation.
4. The per capita income in 1991 was about Rs. 11235, but has increased manifolds since the LPG implementation. This is mainly due to a rise in employment opportunities.

5. There was a fall in the unemployment rate. The unemployment rate was about 4.3% in the year 1991, but due to LPG, new jobs are created as foreign companies enter the Indian market. Further, due to the abolition of license raj, new entrepreneurs start setting up industries thus giving a boost to the labor market.
6. Even though agriculture is the backbone of the economy, due to LPG, the per capita income of farmers has gone down. Their indebtedness is on the rise and has been severely hit by the LPG policy.
7. Since the MNCs have a lot of financial capacity and technological backing, they tend to pose serious threats to the indigenous companies.
8. LPG has also led to an increase in income disparities.