CS 780- Project

Privatization in India

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Introduction :

Privatization is generally defined as the process of transfer of ownership, a path from public ownership to private ownership. With tons of people favoring the claim while tons rejecting it, with varying ideology from wildly impractical to eminently reasonable.

In the past few years Privatization of Government Enterprises has been a major topic of discussion in our country. The Government is reducing its share in most of the sectors it owns.

Privatization is supposed to bring competition, improve work efficiency and reduce the government's burden to run those economic enterprises and focus on its important goals. On the other hand it can also lead to monopoly, increased cost of basic goods, reduced job security and increased work pressure.

Content :

- India’s Privatization Drive : Critical Analysis on the belief that Public Sector Units perform better when privatized.
- Applied various checklists on the above claim.
- Quantitative Analysis on the Data.(Probability)
- Impact of Privatization.

Theory Testing:

Theory :

“privatization will improve efficiency of public sectors and also will help the government to get out of its financial crisis. “

T : Privatization of a company

P : Performance of the company improves.

B : market conditions for sales.

So, as for condition 1, T^B -> P,
For second condition 2, ~T^B->~P

Here we analyzed BPCL and HPCL for financial year 2019.

Argument Validation :

Claim :

Private sector is more efficient than the public sector. Privatization is better as it hands off the public sector into private hands.

Basic Structure :

- **Premise 1 :** Private sector is more efficient than the public sector.
- **Premise 2 :** Privatization puts public firms under private ownership.
- **Conclusion :** Privatization is efficient

Confounding Variable :

- **Privatization of only Profit making PSUs.**

Method of Agreement :

The customary principle is that similar effects are likely to arise from similar causes.There is a large number of studies that compare pre and post privatization performance of firms.

Comparison of Financial Indicators of Privatized Firms vis-a-vis Peers

Source: Economic Survey (2019-20) fig. 1

Method of Difference :

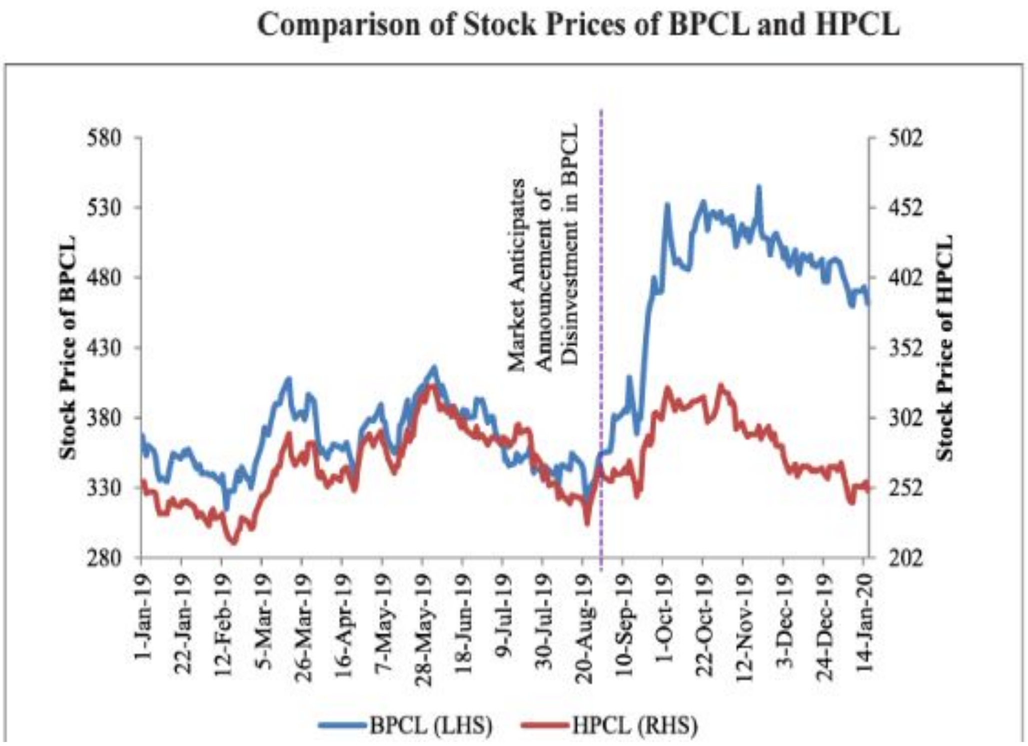

Figure shows the share price of BPCL when compared with its peer HPCL and focuses on the difference in the prices from September 2019 onwards.

Here, we assume that the improvement in stock price and profits/loss are the indicators of the efficiency of the PSUs.

Hidden Premises :

- **Human Resource management is better in private firms.**
- **No interference of politics in private firms.**
- **Less efficient employees can be replaced by more efficient ones in private firms.**
- **Quick decision making in private firms.**

Laws of Deduction :

Consider the following claim :

Privatisation of several companies is done and so India is in good state

Let P = Privatisation is done.

Q = India is in a good state

The claim stated above clearly says that :

$$P \rightarrow Q$$

But we cannot say for sure that $(\sim P \rightarrow \sim Q)$

Counterfactual question :

What would have happened to India if privatisation was not there ?

Counterfactual fallacy :

India would have been in a bad state if privatisation was not done ?

Argument by Analogy :

- Analyzing the Disinvestment/Privatization of other countries.

- **Greece** : Greek organization of football protagonists (OPAP)
- **Ireland** : Bord Gias Energy
- **United Kingdom** : Royal Mail

Quantitative Analysis :

calculated the conditional probability that the Public unit will result in profit given it is privatized.

$$P(\text{Loss} \mid \text{Privatized}) = \frac{P(privatized \mid Loss) x\, P(Loss)}{P(privatized)}$$

$$P(\text{Profit} \mid \text{Privatized}) = 1 - P(\text{Loss} \mid \text{Privatized})$$

Data : We collected the data from wikipedia and Govt. of india website (Department of Public Enterprises.)

Total companies under government = 274

Companies privatized or liquidated = 35+36 respectively

= 71

Unit having profit= 180

Unit under loss= 94

Units privatized while making profit= 48

Units privatized while under loss= 23

Now,

Probability of Unit under loss = P(Loss)

$$= 94/274$$

$$= 0.3430$$

Probability of Unit being Privatized = P(privatized)

$$= 71/274$$

$$= 0.2591$$

Probability that Unit is privatized while under loss = P(privatized | Loss)

$$= 23/94$$

$$= 0.2446$$

P(Loss | Privatized) = P(privatized | Loss)x P(Loss)P(privatized)

= (0.2446 X 0.34300)/.2591

= 0.3238

probability that the Public unit will result in profit given it is privatized

= P(Profit | Privatized)

= 1 - P(Loss | Privatized)

= 1 - 0.3238

= .6762

Impact of Privatization :

- On Public
- On Government
- On Employees

Conclusion :

- On the basis of data and quantitative analysis, we show, higher probability that privatisation will improve the efficiency. But there are also other social factors that should be taken into consideration. Joint ventures as well as **PPP (Public Private Partnership)** which is considered as incomplete privatization should be taken into consideration which enables the government to check the efficiency and at the same time limiting its excesses to some extent.