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Privatization

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Abstract: ***Privatization is only a modern name assigned to the concept of laissez-faire advocated by Adam Smith and other classical economists. But in the environment of mixed economy, it has a new significance. The world economists have adopted it as a tool of new economic prosperity. It is expected that the new liberal era of industrialization will open a new chapter in the field of productivity, efficiency, cost consciousness, competitiveness and management. The participation of the private sector in the development process is not an option; it is an essential requirement of development.***

Key Words: Privatization, modern, concept, laissez-faire, classical, economists, industrialization.

Earlier private enterprises which had financial difficulties were taken over by the government in most of the countries. Now the policy has completely changed. Public enterprises which had financial difficulties are transferred to a private agency.

Government policy in India as in other countries is undergoing a sea change both on account of shifts on ideological agencies have increasingly brought in the privatization of public enterprises as a condition for project lending in several countries. It is evident from the World Bank report which has supported privatization of public sector steel industry and efficiency.

After four decades of experiments with nationalization in many countries of the world, a new worldwide experiment has started during the 80s in the form of privatization. Many countries are moving away from nationalization out of sheer economic compulsions, viz the widespread failure of the public sector enterprises, higher pressure on government budgets, particularly due to the subsiding of the public sector white elephants and various other macro-economic problems. The public sector has lost its dynamism and according to some, it is now more a drag on development than an engine of growth.

It can be said that if a failing private enterprise should go out of business or close down the organization, the same principle should be followed in case of public sector. But this is not always the case as the sick PSUs are allowed to operate with budgetary support.

Contradictory as it may seem, privatization is perfectly compatible with Marx's postulate of withering of the State. It really envisages the shifting of ownership of the means of production from the elite to the masses.

Objectives of Privatization

1. Improvement of the economic-performance of assets.
2. Depoliticalisation of economic decisions.
3. Reduction in public outlays, taxes and borrowing requirements.
4. Promotion of popular capitalism through wider ownership of assets.
5. Promotion of equity.

International Experience- Worldwide experience of privatization started during the 80s with a view to increasing efficiency and competitiveness of industry, means of earning money for Government, reduce budgetary deficit, widen share of ownership of economic assets and eliminate political interferences. Mrs. Thatcher in UK and Ronald Reagan in USA had championed the cause of privatization.

It was Mrs. Thatcher who pioneered this new drive towards privatization with an ideological seal by selling all or part of 13 companies ranging from utilities like British Telecom and British Gas to industrial companies. In the former Soviet Union, Mikhail Gorbachev introduced Glasnost and Perestroika (restructuring) which include a massive decentralization of economic management and

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decision-making, setting up of prices through competition, allowing private enterprise in selected areas and so an. In USA, privatization has dominated in the area of 'contracting out' of public services, infrastructure services, and some profit making industries. Similar experiments with privatization also started in Italy, Spain, Sweden, Germany, Netherlands, Ireland, Austria and Japan. In the less developed countries privatization has been pursued mainly because of fiscal problems like budget deficit throw a variety of ways as total of partial denationalization, closure or liquidation of perpetually loss-making enterprises, transfer of management, selling throw auction etc. Experiments with privatization process had started in 80s in Bangladesh, Pakistan, Thailand, Malaysia, Latin America and African countries.

Signals of privatization process in India began with certain loosening of controls in the area of industrial licensing, liberalization of import control policy, reduction in income and corporate tax rates and the long-term fiscal policy since 1985.

India's development strategy failed to exploit the advantages inherent in the economy. Instead, through planning it created high cost inefficient industries of less than economic scale and sheltered then from foreign competition. Self-reliance was perverted into self-sufficiency. The softness of the budget constraint of the bloated public sector and bureaucracy is at the heart of the problem. The socio-political system was unable to distribute assets. The instruments of industrial and import licensing policy have not succeeded in reducing inequalities. Even though tax revenue as a share of GDP has risen, the revenue has been increasingly squandered. The deficit reflects the growth of subsidies of various kinds and the soft budget constraints of the public sector.

Many observers argue that the solution to industrial sickness in the public sector is privatization. But privatization is not the real solution. Bangaram Tulpule has rightly observed that closing down PSUs will involve heavy financial as well as other costs. Closure of these will take away the jobs of over for lakh employees. Payment of compensation to them at the rate of Rs. 1.5 lakh each will involve an outgo of over Rs. 6000 crore. Even if a part of this amount is raised by the sale of assets of the units concerned, the government has conceded that the net cash outgo will still be very large. In many of these enterprises the cash outgo on closure, according to the official documents, will be as much as 6 to 10 times their annual losses. Closing down such enterprises as such heavy cost and the displacement of such large number of employees may make little economic sense since the annual interest on the present cash outgo will more or less equal the annual cash losses of these enterprises.

The Government of India has ruled out any overnight handing over of such PSUs to the private sector. It would be better if the management of ailing PSUs comes out with credible revival packages. The Government would take a pragmatic approach to decide the fate of these undertakings.

The present trend indicates that public enterprises require a radical restructuring and reorientation. This is likely to take any of the following routes.

i. Divestiture, i.e., assets of a Government enterprise are sold or transferred to a private owner.

ii. De-nationalization/De-regulation.

iii. Under the industrial policy certain industries are exclusively reserved for development in the state sector. Any relaxation in respect of such an exclusive reservation.

iv. Leasing of PE to a private sector party.

v. Transfer of management and control of a PF to private agency.

Privatization has transformed itself from rhetoric to reality in both developed and developing countries. In the present day situation it is an accomplished fact and not rigmarole. It is a reform that necessitates redistribution of income and usually a change in employment patterns.

Rationale for Privatization- The rationale for privatization in various countries can generally be classified under three heads. Pragmatism, a commercial point of view, and ideological compulsions. Pragmatism was born of hard facts. The mammoth public sector units had failed to deliver on counts of efficiency and output both,

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thereby belying the faith in them to establish the foundations of sound economic growth. While a few of them did manage to produce good results, they generally showed a marked decline from the 1970's, though a handful did well after the 80's. Fewer still managed to yield fairly decent returns on investment, dividends that were disproportionate to the enormous amounts of time and money invested in them. As such, they were not pulling their weight in the economy, and needed to be overhauled drastically any which way.

Secondly, the organizational culture in PSUs militated against good management, and it was felt that privatization would revitalize them by letting them be run on commercial lines typified by the private sector approach to industrial activity, including clipping the wings of powerful, much politicized trade unions that severely impeded the progress of the PSU juggernauts.

Thirdly, and as a corollary to the above, on account of historical reasons, the government was accustomed to getting its work don the easy way, i.e., by official diktat its autocratic, 'power distance' impersonal style of functioning made it difficult for it 'connect' meaningfully with it key managerial personnel and motivate them to effect commercial viability. This was unfortunate, given the fact that there were many highly capable managers within the ranks of the PSUs.

In keeping with the socialistic pattern of functioning, private enterprise had long labored under the stigma of profiteering at public expense, If the private sector can at all be accused of making money at public expense, it also cannot be denied that it was merely responding in the only way it could, given the monopolistic and monolithic structure installed by the very government that now clamored for efficiency and productivity in PSUs. In fact, by its private sector cousin-was the main culprit for the low productivity, poor return on investment and callous disregard for national priorities such as poverty eradication (job reservation was never more than mere sop to appease political sentiments, barely scratching the surface of the problems) that had brought the nation to a stage where it had to contend with a series of financial crises, and which badly tarnished its image. On the other hand, the private sector had flourished mightily despite - of perhaps because of - a system that gave it (on a quid pro quo basis, let it be admitted) protection from competition through licensing and other privileges.

It was left to the government of PV Narasimha Rao and his Finance Minister Dr. Manmohan Singh to take the bull by the horns and introduce task of revamping the economy in line with global trends, unshackling it from bureaucratic control, lowering trade tariffs and allowing foreign conglomerates into the country, they served notice on a complacent public sector to perform or perish. It was the start of a process whereby several unviable or redundant PSUs went under the hammer or were referred to BFIR, while the more efficient ones were encouraged to adopt the MOU route that gave them freedom to function on commercial lines, in return for full accountability. Several PSUs that had been ailing under tight government controls, over-staffing and trade union militancy such as NTPC, National Fertilizers and Hindustan Organic Chemical Ltd. immediately took humane but firm measures to effect smart turnarounds that left the critics dumbfounded Going further, dilution of the policy of sector-wise reservations generally gave both sectors the freedom to establish enterprises where earlier, entry was mutually exclusive. In the final analysis, the long - term health of the economy would depend heavily on how the better PSUs like Indian Oil Corporation (the lone Indian corporate in the fortune 500 list) and GAIL happen to fare. In weeding out the inefficient PFs and reengineering the good ones, the government can at last concentrate on its real function - governance, support, inspiration and guidance - leaving commercial activity to those better equipped and empowered to undertake it.

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