privatization of the Economy

POINTS TO DEVELOP

Growing privatizations the world over.

Privatisation – meaning, forms, aims causes.

Problems with privatisation.

Prerequisites identified.

History of privatisation-beginning with Britain.

India begins privatisation in India.

Reasons and circumstances.

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Conclusion.

There is a lot of euphoria today over privatisation as a panacea to fiscal deficits and other economic ills. However, privatisation as a current term circulating all over the world is operationally complicated. The craze for privatisation has soared after the ideological defeat and disintegration of the ‘command’ economy of the socialist bloc. With this, as the world economy tends to become one global village (driven by then incessant market forces and considerations of efficiency), privatizations as a policy norm seems to override political compulsions as an instrument for achieving competitive efficiency and resource optimization. Following the world trend, the India government also introduced privatisation. But , as elsewhere, the move has raised a hue and cry: the resistance is as much political as attitudinal, and , apprehensions are expected to persist for sometime till the effects of privatisation become clear.

The term ‘privatisation’ broadly means any process that reduces the state’s dominant role in directly owning and running the economic activates of a nation. It could involve dereservation of the erstwhile exclusively reserved industries for the public sector, delicensing, decontrol. It can be generally termed as a way of altering the relationship between the state and the private sector to enhance the role of the private sector in the national economy. At present, there are three discernible connotations of privatisation; denationalization, discernible, and contracting –out. There is no single model of privatisation. It can range from outright sale to a private buyer to the transfer of shares to the employees. There are, however, mainly three ways in which privatisation is done –'spontaneous' privatisation (or sales of firms or their assets form 'below'); public sales (directed from 'above'); and free mass transfer.

Privatisation is today seen as a means of increasing output, improving quality, reducing unit costs, curbing public spending and raising cash to reduce public debt. Usually , the ground for privatisation is that selling national assets is a means of raising revenue to avoid the politically unpleasant necessity of raising taxes. It is justified on the basis that it keeps consumer needs uppermost, helps the government pay its debt, increases long-term jobs, and promotes competitive efficiency and open market economy.

The privatisation witnessed on a growing scale in recent years in many countries is a result of the painful realization on the part of governments that they must realign their priorities to mobilize the skills and resources of the private scoter in the larger task of development. A principle motivation has been a general perception that public enterprises are usually 'white elephants' that incur heavy losses every year instead of accumulating surpluses or supplying services to all the problems of public enterprises, as these enterprises, on being transferred form the public to private hands, will become less politicized. Administrative corruption will case because its cost can no longer be hidden or subsidized, and professionally trained management with the requisite accountability will be established. Tax revenues from profits will also increase and strengthen the public treasury.

The privatisation process has gained momentum all over the world, but not everywhere has it succeeded. The record of the more active privatisers, both in the developed and developing worlds, is not always very encouraging. Significant privatisation of state-owned enterprises has occurred in only two countries-Britain and Chilel. All other efforts, including those of countries with highly publicized privatisation programmes such as Turkey, Venezuela and Brazil have not proved satisfactory. Records also show that there is a distinct gap between rhetoric and reality of privatisation.

In many countries, political and ideological obstacles preclude privatisation as a desirable strategy. Additional policy barriers arise when privatisation implies an economic or social cost to the nation. At the implementation level, there are impediments even when policy makers decide that privatisation is desirable. The main impediments are that private interests lack the resources to buy the enterprises that are for sale; no mechanism exists for transfer; or there is resistance form the entrenched interest groups as the labor union is too strong.

One of the principal reasons why privatisation has not been successfully implemented in most countries despite the best of intentions is the “insufficient attention paid to planning the effort and putting into place an appropriate administrative apparatus to carry it out”. Valuation of assets in the absence of capital markets is the biggest hurdle in the success of sales of public sector shares. Scarcity of domestic capital and political resistance to sales to foreigners are other difficulties.

The first step in any government’s privatisation programme is to declare publicly the objective and scope of the overall programme. The government must have clear-cut policy no what it intends to do with the privatisation programme. The first task must be to ensure that companies are being privatized in an environment conducive to business. Newly privatized companies need to operate in an ‘enterprise culture’ for there to be any real progress. Indeed, cultivating this culture – by providing adequate training for new entrepreneurs, for example, or ensuring a competitive environment – is probably more significant than changing ownership. And if the enterprise is still a monopoly after privatisation, as is often the case with the utilities, it must be sublet to suitable controls. Otherwise, inefficiencies and monopoly power will merely be transferred to the private sector, with the costs being borne by consumers. Or monopolistic exploitation by efficient private owners replaces the inefficiencies of public ownership.

Cleary the poorer countries, and those that have only recently adopted the principle of a mixed economy, will find it difficult to create such environments. They may also have limited capacity to manage the privatisation process. And may have trouble in finding suitable buyers for enterprises and ensuring that resources are equitably distributed.

The speed of privatisation is also a matter of concern. Building a suitable framework of institutions and regulations takes time, so privatisation should not be rushed, even when there is pressure from financial institutions during structural adjustment programmer. Indeed, it may be better to gain experience by starting with smaller enterprises before moving on to larger ones.

During the early 1980s. Margaret Thatcher bulldozed privatisation of state-owned enterprises. The great benefits reaped by Britain through privatisation set many nation s along the same path India is one of them. It initiated privatisation as an important part of the new economic policy of July 1991.

Economic thought processes in our country seems to suffer from ‘herd instinct’. Even thirty years ago, anybody who was somebody in the field of economics and management would flock around to discuss the merits of nationalization. Starting form the 1990s, the same souls, along with a new generation of professions who have grown up observing the public sector cookie crumble try to find a ubiquitous solution to all industrial maladies through privatisation. In the late sixties, the objective and economic rationale behide the growing role of the public sector used to remain immersed in political explanations. The situation today is not any different; merely the pendulum has swung the other way.

Due to economic circumstances such as a massive fiscal imbalance and critical balance of payment situation during 1990-91, India had to approach the IMF for substantial ‘repurchase’ facilities and the World Bank for structural adjustment loans. Necessarily , therefore, the classical IMF-WB ‘conditionality’s’ embracing almost every sector the economy were required to be abided by. This, inter alia, prompted the government to introduce the new industrial policy in 1991, meant to clear the massive cobwebs of livences, regulations, controls and restrictions in favour of licences, regulations, controls and restrictions in favour of the private sector industries, which, under the 1956 indusrial policy resolution, had to play a mere residual role.

Among the measures contemplated in the privatisation process as adopted in India is the disinvestment of government’s equity in PSUs and the opening of hitherto closed areas to private participation. However, in India, privatisation is misunderstood to mean only disinvestment. Privatsation offers several other options, particularly relevant for developing countries, such as the sale of assets with or without transfer of liabilities, placing PSUs under management contracts with private companies, leasing as well as several other initiatives in corporate restructuring of these enterprise, which will remain in the public sector or be candidates for privatisation later. Liquidation is also an option which needs to be given some priority where non viable enterprises in the non-infrastructural sector continue to be a drain on government’s resources- often owing to sheer inertia. Over the years, most of the areas which were earlier ,meant only for the public sector have been opened up for investments by the private sector, and the exclusive list of industries meant only for the public sector has come down drastically.

The Indian situation is particularly delicate as different interest groups are locked in a fierce controversy over the putative benefits of privatization, Besides, the entire issue suffers form politicization. Of course, the usual problems of valuation of assets and the ultimate beneficiaries of privatisation continue to dog the policy makers in this not necessarily mean all certain, privatisation per se need not necessarily mean all benefits to all people equally without a heavy social cost to the parties affected. How far the claimed benefits of economic growth and efficiency will materilise with privatization, is moot point.

Privatisation of the PSUs is not as simple as some make out. Political parties are far form agreed on this question for many , the payers' money and no government has the right to 'squander' such assets built over decades. Moreover, not everyone sees the public sector as the epitome of inefficiency and corruption and the private sector as the paradigm of all virtues. Still others believe that privatisation may reduce lakhs of workers to paupers as a result of retrenchment and layoffs devoid of even minimum safe-guards. Thus, the success of the privatisation process in India depends on the government's ability to balance the demands of economy and the reform process itself with what is socially and politically viable. Successful privatisation strategies must include complementary strategies of public sector restructuring as well as private sector development including financial sector strengthening.

A policy ensuring healthy competition between public and private sectors and also between foreign and domestic private companies, and a regulatory framework to curb inside trading of shares and strengthening of the stock market are necessary to ensure the success of privatization. And to meet thus necessities the following do's and don'ts may help greatly; don't only maximize revenue , create a competitive environment; don't replace public monopolies with private monopolies; don't sell through discretionary non-transparent procedures, which invite allegations of corruption and nepotism; don't use sales proceeds to finance budget deficits, or retire national debt; don't crowd financial markets with public borrowings at a time of public train them for new industries; don't rely merely an executive orders. Create a political consensus and public support.

As we have now moved beyond the stage of merely arguing for and against privatization, policy makers must resist the temptation to see privatisation as a panacea for iteratively, it is an extremely difficult undertaking. At the same time , experience shows that privatization is both desirable and feasible in certain cases. Therefore , creative and innovative thinking as well as systematic and strategic economic thrust generated expectation within a political system.

Privatisation is no exception. However, if it is sold as a catch –all remedy, the disillusionment can also be total. This is a trap we need to guard against.