

The impact of Privatization

Or

New Economic Policy and its Impact

When India became free, our top planners thought that socialism could be ushered in by centralizing production and setting up a large number of public sector units catering to the varied needs of the people. Huge investments were, therefore, made in public sector units and a number of autonomous or semi-government corporations were set up in the country. With the means of production and distribution under government control, it was thought, the economy of the country could be placed on a sound footing.

Things, however, did not work out the way they should have. While public sector units performed well in some areas like water supply, defense services, postal and communication services, steel, oil and thermal power generation, they failed in several other areas. More than hundred public enterprises, for example, produced a loss of Rs. 3,06.68 crore during the year 1990-91. The outstanding debt burden in different sectors also touched new heights in the year 1992 (coal 281 crore, Iron and Steel-3200 crore, Electricity-1081 crore, sugar-755 crore and so on). External debt burden of the country increased up to Rs. 2,97,413 crores in the year 1991-92.

In such a sad situation, it became impossible for the country to bale out this large number of sick public sector units by giving more financial support. The only way to bring the loss-making public-sector units into profit was to privatize them in a phased manner.

Many countries like the U.S.A., the United Kingdom, Germany, Korea and France had already tried privatization under similar circumstances with wonderfully encouraging results. India, therefore, took the cue and came out with a liberalized trade and economic policy.

Privatization means transferring of power from the government to the private individuals. It is based on the principle of 'least governmental interference' and 'maximum private responsibility.' IN order to convert public sector units into private enterprise, the government decided to sell, in phases, some selected P.S.U. shares to private entrepreneurs or to the general public through capital market. In some cases, the government thought of disinvesting the P.S. Us in the form of privatization of the management and the ownership.

The government is aware that it has to establish legal and institutional frame-work to make the market economy enforce competition and attract investment. The government has also opened up trade with the outside world together with currency control to ensure that domestic prices are related to the world market price.

The private managed enterprises, it is expected, will show better results because of high managerial skills. It also brings about a social control over business, timely supply of goods and services and brings in better competition. About 50 countries in the world have already taken to the process of privatization.

The government of India has recently taken a big leap forward by signing the WTO agreement. This agreement that has found favour with more than 125 countries, places the country in the open world market in respect of trade and commerce. We may have to face tough competition and initial problems but we are certainly on the road to a respectable place in the world market. We are not going to lag behind in the matter of quality or quantity of production. It is expected that the new liberal policy of the government of India would show better results in years to come.