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PRIVATIZATION OF PUBLIC ENTERPRISES AND ITS IMPLICATIONS ON ECONOMIC POLICY AND DEVELOPMENT

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ABSTRACT

Since 1951, the Central Public Sector Undertakings (CPSUs) have played an important role in India's economic growth. They were created with the goal of boosting the country's economy and ensuring its independence. When the first five CPSUs were established in 1951, they invested just 29 crores, which has now grown to 348 with a total investment of 16.4 trillion in 2018-19. They began to suffer losses and are now a financial burden on our GDP of roughly 0.16 percent (GDP). The new industrial strategy of 1991 marked the beginning of the government's shift away from investment and toward disinvestment. Since then, disinvestment policies have changed, and privatization's influence on the Indian economy has grown."The Indian economy has been greatly impacted by privatisation. Revenues to the government dropped precipitously during Covid, and the primary approach for reviving the economy was privatisation. Some major businesses in the market may become monopolised through excessive privatisation.

KEYWORDS: *Privatization, Economic Policies, Public Private Conversion.*

INTRODUCTION

Government offices in India serve as an antidote to the corrupt institutions and officials that plague the country. The private sector, on the other hand, has grown exponentially during the past few decades. This leads to the idea that privatisation may significantly reduce corruption [1].

While this is true for government personnel, employees in the private sector are generally highly compensated for their role in maintaining a motivated workforce, which is why they refuse to accept the bribe. Bribes and other illicit activities are aggressively combated by private enterprises, who take prompt and stringent action. The spirit of competition among private sector businesses also contributes to an expansion in GDP, which is financed by the taxes that these businesses pay.

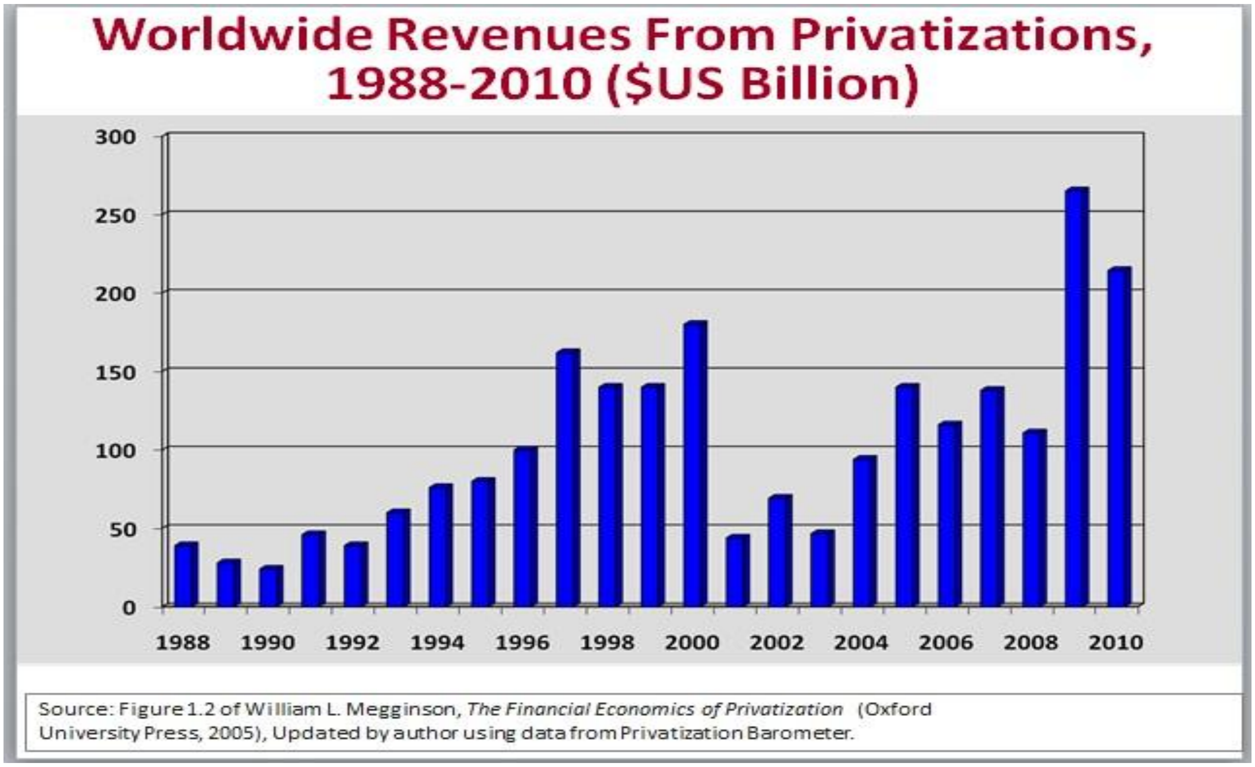

Figure 1 : Revenues Analytics

Relationship between Privatization and Corruption

Both private and public organisations have been implicated in corruption. For a better understanding of how corruption affects those in positions of power rather than specific industries or sectors, look no further than the cases of Satyam, 2G, Common Wealth Games, Telgi, Bofors, and the Harshad Mehta Scandal, to name just a few. The largest frauds have often been perpetrated by both the private and public sectors working together [2, 3]. Private corporations have been known to pay hefty bribes to government officials in order to close lucrative commercial deals.

In the end, privatisation is not a guarantee of reduced corruption, as corruption has existed in the private sector as well. In reality, when the level of corruption in government is high, there is a greater concentration of the market and prices rise as a result [4].

Because of the size and kind of assets being sold off, the process of privatisation can sometimes leave things more open to corruption. In some cases, privatisation can be used for political or personal advantage. If the state's assets are valued fairly for its taxpayers, then it's a win-win situation. High-value procurement initiatives make some industries, such as oil and gas, energy, mining, and transportation, more vulnerable to corruption and illicit activity. Consequently, it is imperative that the privatisation be done correctly, without resorting to arbitrary procedures, because the failure of the privatisation push might have far-reaching effects.

While privatisation may lessen corruption, it is not the most effective way to combat it. Finally, this idea has two sides to it. In spite of the findings of some academics that privatisation reduces corruption, some feel the opposite. Corruption in India may be curbed and prevented from spreading further if Privatization is used to its full potential.

Privatization is a synonym for the loss of government control. a change of control of a firm or a piece of real estate from the public to the private sector. The government is no longer the owner of the company or organisation. When a publicly listed corporation is taken control by a small group of individuals [5].

The creation of wealth is a result of privatisation. Profits are increased while production costs are minimised. Certainly, the government's decision to open a particular sector to competition is a positive one, since it will help both the market and the customer in the long run [6, 7].

To put it another way, it is primarily concerned with improving the quality of the services that people get. Furthermore, by assuming control of certain businesses, it lessens the financial strain on the government. There is no question that privatisation has had a significant influence on the world. There are advantages and disadvantages to living here, just as there are to flipping a coin [6].

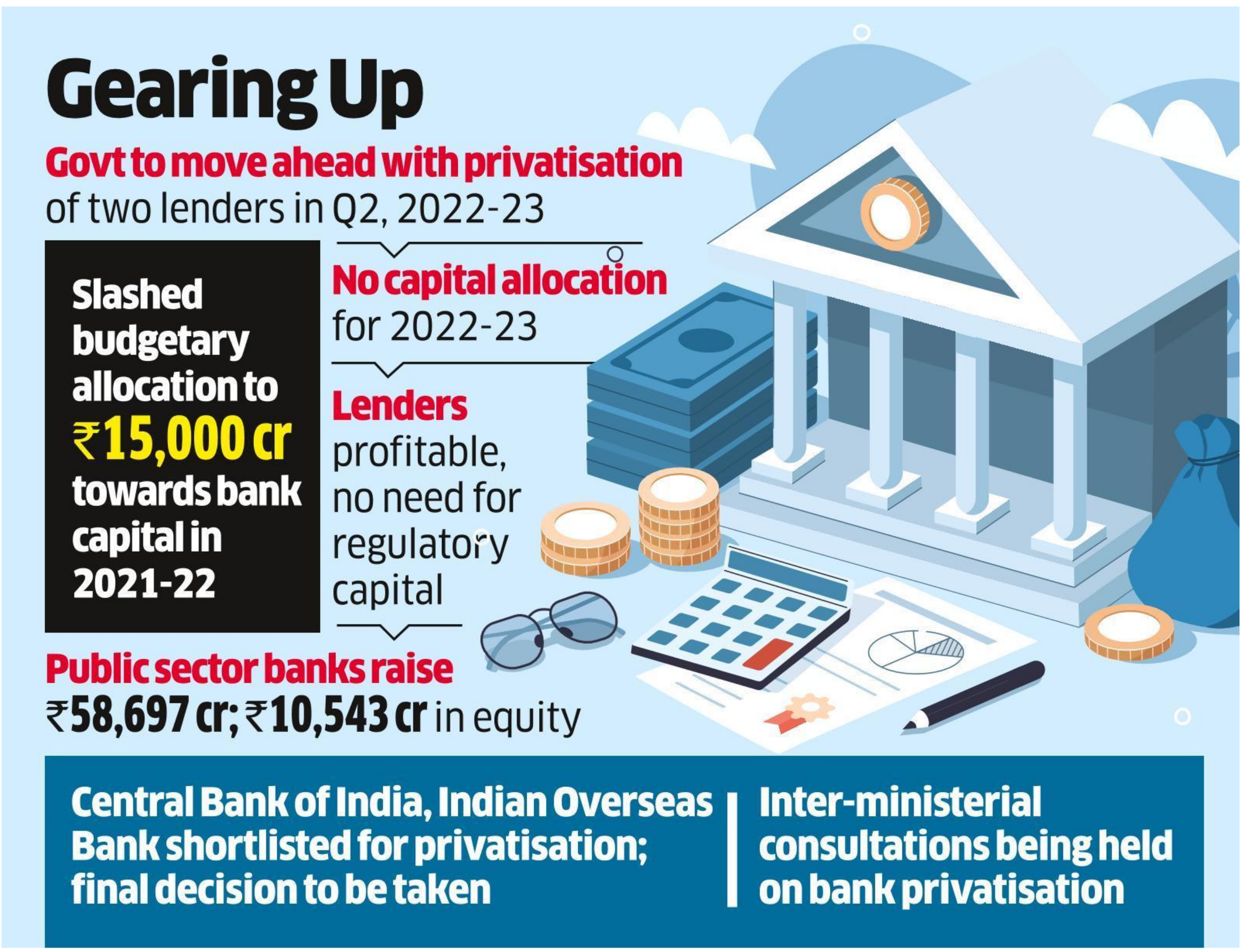

Figure 2 : Research Analytics on Privatization

As a primary justification for privatisation, it is said that private businesses have a profit motivation to reduce costs and increase efficiency. You don't get a cut of the earnings if you work in a government-run industry. A private company, on the other hand, is more concerned with generating money, therefore it is more inclined to decrease expenses and become more efficient. Companies like BT and British Airways, which were privatised, are now more efficient and profitable than they were before.

Governments have a history of being bad economic managers. In the absence of strong economic and commercial judgement, they are acting on the basis of political pressure. An inefficient example of this is when a state-owned firm hires more personnel. It's possible that the administration is apprehensive of laying off workers because of the possible negative publicity that might result. As a result, inefficient workforces are common in state-owned businesses.

The next election is always on the minds of a government. This means that they may be reluctant to make long-term investments in infrastructure since they are more concerned with short-term initiatives that benefit the corporation, which is a serious worry for the public good. Front-line services like healthcare are more difficult to reduce from the public sector than from the private sector.

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It has its drawbacks, too:

Privatization brings with it the potential for bribery and corruption, which should be taken into account. Privatized businesses are more likely to be opaque than public institutions, and this, along with a desire to make a profit, can foster corruption [8].

It is possible to claim that privatisation had a role in the rising inequality of the 1980s, if we focus our attention on the UK. In order to widen the wealth divide, the government was selling off public assets (which belonged to everyone) to a small but influential group. As a general rule, the richer end of the spectrum has benefited from better services, although this is not always the case for all utilities.

Water and rail firms, for example, have become private monopolies as a result of privatisation. These must be regulated to avoid monopolistic power from being abused. Government regulation is still required, just as it was under state control.

In addition, costs are rising, which is a disadvantage. Consumers have little option but to pay exorbitant costs since private proprietors sometimes enjoy a dominant position in the industry.

In addition, typical economic models of privatisation suggest that new private owners enhance productivity and lower costs, which might lead to job losses and salary decreases for workers. Increases in employment as a result of privatisation will have the opposite consequence of increasing output.

Benefits of Indian Economic Privatization

- Privatization on a smaller scale increases efficiency, quality, variety, innovation, lowers costs and pricing — all of which result in higher profits for a company. High incentives, less government interference, strong competition, and reinvestment may all be added on top of this.
- Asset sales generated by privatisation can assist boost capitalisation at the macro level. It enhances the financial health of the government and creates more money, which leads to an increase in the entire economy. Overspending and borrowings are reined in, resulting in an increase in foreign investment and additional tax revenue.
- Privatization minimises public sector corruption and red-tapism at a societal level.
- In the private sector, businesses are more aware of their customers' needs and hence provide better customer service.
- The ownership of shares increases people' ability to participate in economic decision-making.
- Because of a decrease in state engagement, citizens have greater personal freedom.
- Cons of Privatization
- The critics argue that privatisation might lead to local monopolies, which they say is a problem. If utility monopolies are formed, their market power will be used to exploit customers' interests. Profits can be made by reducing output and raising pricing.
- Some cases of foreign acquisition of divested assets in developing nations have shown that the majority of their revenues have been taken out of the country. The economy may not gain in some cases, for many reasons.
- Additionally, some scholars contend that privatisation leads to greater levels of socioeconomic inequity. If wealth is concentrated in the hands of a small number of people, this might lead to widespread layoffs and cutbacks. The poor's situation might get worse as a result of this.
- In addition, critics claim that privatisation is a political ploy that may be utilised for clientelism. So, while corruption can be reduced, it cannot be eliminated.

In many emerging and transitioning economies during the last decade, privatisation has been a fundamental component of structural transformation. There are a variety of reasons why governments go through with privatisation, including boosting economic efficiency in light of the widespread existence of underperforming public enterprises in many countries, as well as improving the fiscal position, particularly in cases where governments are unwilling or unable to continue financing deficits in the public enterprise sector. In addition, governments with limited liquidity that are under budgetary pressure have at times privatised in order to use the earnings to finance deficits. The establishment of domestic capital markets has also been a goal.

Efforts like these have been examined extensively in the literature on the microeconomic implications of privatisation, which has focused on the possible efficiency advantages. However, there has been little empirical research on the fiscal and macroeconomic consequences of privatisation. 1 The World Bank has played a leading role in assisting on the design and execution of public enterprise reform, including divestment. However, privatisation has significant fiscal and macroeconomic ramifications, therefore the International Monetary Fund is also interested (IMF). As a matter of fact, privatisation is now a critical component of many countries' agendas.

The privatisation of nonfinancial public firms in emerging and transition countries is examined in this article in terms of fiscal and macroeconomic considerations.Two further sections of the study deal with the following: the effects of privatisation on the budget and macroeconomic variables, as well as IMF-supported projects' privatisation components, which include a privatisation component. For the empirical data, a variety of developing and transitional economy privatisation experiences and geographical diversity were considered while selecting the case study nations.

Privatization has brought in large sums of money for a number of countries in development or transition. The activities taken previous to the sale, the sales process, and the postprivatization regime all have an impact on the gross receipts that may be transferred to the budget. Extrabudgetary management and the huge disparity between gross and net collections have resulted in a shortfall in the budget's revenues. The following are some of the most important findings in relation to privatisation proceeds:

In the first instance, improper use of privatisation funds can result in a lack of oversight and accountability. Extrabudgetary funds should be subject to legislative control, with their accounts made public, audited, and subject to public disclosure.

On the other hand, it is imperative that all privatisation transactions be recorded on a gross basis. Restructuring, recapitalization, or debt cancellation costs for public enterprises should be recognised as spending funded by gross sales profits.

As a final point, privatisation involves a transfer of assets, and the revenues are lumpy, one-time, and unpredictable. As a result, the revenues of privatisation should be included in the government's budget as a source of funding.

How Privatization Proceeds Are Put to Use

The consequences for the government's net wealth and the macroeconomic impact of privatisation proceeds should be considered when evaluating their prospective uses.

When it comes to the government's net wealth, privatisation earnings don't always mean it's in a better position. Government choices on how to spend the earnings should take into account the longer-term ramifications of privatisation, including revenues lost and/or future expenditures that will not be incurred. As private sector ownership leads to increased efficiency and the government shares in this benefit, the government's net value will rise [8].

According to the macroeconomic impacts of privatisation, it is important to consider the source of revenues, the degree of capital mobility, and the exchange regime. Like debt-financed fiscal expansions, privatization-financed fiscal expansions will have a wide-ranging impact on the economy. Capital inflows linked with privatisation are sterilised automatically if they are used to decrease foreign debt. Reducing the country's debt might have an effect on the country's liquidity.

The fungibility of resources must be taken into account when assessing governments' claimed plans for the use of privatisation revenues. The following are a few typical applications for this product:

Increased Costs: As a result, relying on privatisation proceeds for current expenses is not recommended. Targeted usage in order to mitigate the short-term effects of privatisation is a viable option. As long as there is no negative impact on the country's net worth as a result of greater capital investment, it is possible to use the revenues [9].

Net Debt Reduction: If you're looking to reduce your debt burden, you have two options: pay off existing debt or accumulate assets. Which option you choose depends on your debt management strategy. There are benefits such as preserving the government's net value and perhaps influencing the cost and availability of debt through positive signalling.

Receipts from privatisation projects might be set aside for certain purposes. This makes budgeting more challenging, as it makes it more difficult to respond to shifting conditions and priorities by reallocating money. The practise should be avoided as a result of this.

Taking a Break from the Budgetary Constraints: In the short term, the earnings of privatisation might provide a temporary buffer for governments engaged in harsh adjustment and reform efforts.

Privatization's Financial Effects

The immediate impact of privatisation on the budget, as well as the long-term financial repercussions, may be seen. The econometric results show that privatisation proceeds are conserved rather than spent in the case study nations. Extrabudgetary treatment is not necessary for wise management, as evidenced by this finding, which applies to receipts funnelled via the budget. For the vast majority of nations surveyed, an IMF programme was in place, which may have had an impact on this outcome [10].

A smattering of data implies that privatisation has a long-term positive impact on the budgetary condition. It's clear from both the company level and aggregate statistics that privatisation has a favourable influence on revenue, as well as reductions in transfer payments and deficits in certain nations' consolidated public business accounts following periods of privatisation.

There is sometimes a lack of data on public enterprise operations and financial transfers between firms and the government (including quasi-financial flows). Many countries believe they could do better in this area.

Privatization's Effect on the Economy

Microeconomic and case study data show the long-term growth and employment benefits of privatisation. In both the complete sample and transition nations, these findings hold true but are less apparent [11].

Growth

According to microeconomic data, private businesses, particularly those in competitive industries, are more operationally efficient than state-owned ones. Privatization and economic growth are found to be closely linked in the case study countries. This suggests that privatisation may be a proxy for one or more variables that aren't being included, such as a positive shift in the regime, and this is in line with previous research on economic growth.

Human Resources

Public firms frequently aim to sustain employment and take advantage of budgetary latitudes that allow them to do so. Concerns have been raised that privatisation might lead to more job losses. In spite of factual evidence to the contrary, certain workers may nevertheless be adversely affected by privatisation. As a result, reducing its societal impact is critical [12].

The World Bank leads privatisation, although the International Monetary Fund has worked closely with it. In recent years, the bulk of IMF-supported plans have incorporated some sort of conditionality on privatisation, based on the Bank's experience and recommendations.

Conditionality on process and objectives has been stressed in IMF-supported programme monitoring of privatisation. International Monetary Fund (IMF) policymakers have recently placed a greater focus on privatisation procedures that have a significant fiscal and macroeconomic impact. When privatised enterprises are operating in an adequate regulatory context, programmes should pay more attention to this aspect.

Financial plans should be designed with the broadest feasible definition of privatisation receipts in the fiscal objectives and quantitative performance criteria, and macroeconomic consequences should be considered when assessing utilisation. Adjusters must deal with the uncertainty surrounding the total quantity of revenues; in general, receipts that are more than expected must be kept [13, 14].

There are a number of alternative meanings for the term privatisation, but the most prevalent one is that something is taken from the public sector and put into private hands. When a tightly regulated private corporation or industry becomes less controlled, the term is frequently used as a synonym for deregulation. "Franchising" or "out-sourcing" may also be used to describe the privatisation of government operations and services, in which private companies are given the responsibility of carrying out government programmes and services that had previously been the responsibility of state-run organisations. Revenue collection, law enforcement, water supply, and jail management are just a few examples [15].

A third definition is the sale of a state-owned firm or municipally-owned corporation to private investors; in this situation, shares may be traded in the public market for the first time or for the first time since the prior nationalisation of an entity. For example, a joint-stock firm can be formed through the demutualization of an organisation like a mutual organisation, cooperative, or public-private partnership.

On the other hand, "going private" is a synonym for "privatisation," which refers to the acquisition of a publicly listed company's whole stock by private equity investors. Shares are no longer traded on a public stock market following the purchase because the firm is now privately held.

CONCLUSION

While privatisation might be used to achieve one goal, it can also have a number of unintended consequences. There is no assurance that privatisation in India would minimise corruption and function in the best interests of the Indian populace. Regardless of whether an organisation is private or public, corruption stems from an individual's mindset. However, we can eliminate corruption to some extent through privatisation. We need to find a method to implement privatisation of the Indian economy in the best possible way, since it will affect us in both positive and negative ways.There are quantitative and intangible long-term implications to this. There are a number of criteria that determine whether or not privatisation is a success or a failure. India's economy and policy are heavily influenced by the country's political leaders. Increasing competitiveness in the market is one of the benefits of privatisation. Privatization, if handled correctly, encourages greater efficiency and productivity.

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