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Privatisation of the Indian Economy

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Abstract:- An important change from an essentially state-controlled economic structure to one in which private businesses are major players is represented by the privatisation of the Indian economy. This action was taken in the early 1990s as a part of a larger series of economic reforms with the goals of boosting economic development, encouraging competition, and raising productivity. The shift to privatisation affected many important companies, but it also advanced finance and telecommunications, enhanced foreign direct investment, and enhanced service delivery. Nevertheless, there were additional difficulties with the privatisation process, including as opposition from the political establishment, obstacles from regulations, and issues with social fairness. India's economy has profited immensely from privatisation in terms of enhanced market integration, innovation, and economic success despite these obstacles. An overview of the reasons for the privatisation initiatives in India, as well as the procedures, conclusions, and current discussions, are given in this abstract.

I. INTRODUCTION

The concept of privatisation was initially defined by The Economist magazine in the year 1930. Privatisation refers to the process by which ownership, property, or company is transferred from the government to the private sector. The ownership of the entity or business is transferred from the government. Privatisation, alternatively referred to as the acquisition of a publicly-traded corporation by a select group of individuals, encompasses the process under discussion. The firm's stock is currently delisted from the stock exchange, hence prohibiting public ownership of shares in the company. The organisation has relinquished the designation 'limited' and has opted to use 'private limited' as part of its surname.

Privatisation is widely regarded as a means to enhance stability inside a corporation, a concern that may not be prioritised by government-owned enterprises. The introduction of the term privatisation in India coincided with the formulation of the new economic strategy in 1991.

Privatisation is a complex and expansive concept. The statement posits that it enables the liberation of economic liberties and facilitates the exercise of individual initiative and enterprise. Conversely, privatisation has faced criticism due to its inherent emphasis on efficiency and reason, which has been deemed essentialist, as well as its potential to undermine democracy and community.

Our nation has been selected as a subject of analysis due to its significance as a representative example of several developing countries that have undertaken the transition towards liberalising their economies and implementing privatisation measures throughout the past decade. Furthermore, India is an intriguing case study, as its democratic system has not only endured for almost half of the twentieth century but has also demonstrated resilience and significance. Privatisation encompasses a range of activities, including the infusion of private capital, the divestment of government-owned assets, and the shift towards a private-oriented economic system.

Despite the varied interpretations surrounding privatisation, it generally refers to a scenario when the government exercises significant authority over the ownership of a corporate entity. Every government is inherently obligated to exercise proactive and proficient stewardship in order to generate value. Various types of value can be attributed to a particular entity, encompassing economic value, social value, sustainability value, livelihood value, and other relevant dimensions.

- *Need for Study/Statement of Problem-*

Push of the current government towards the privatization of major sectors of the Indian economy has led to diving deep into question how it is the need of the hour. The Air India Airlines after it was nationalized ran into debt of rupees 60,000 crores and last year it was facing loss of rupees 20 crores daily before it was privatized back to save it from sinking. Article 38 of the Indian Constitution provides state shall strive to promote the welfare of the people. The public sector undertakings were formed with social objectives and profit making was not the primary agenda for them. Is privatization identical to handling over nation's wealth to some oligarch's? whether disinvestment is not the alternative option for the same? Due to fear among the masses of loss of jobs, profit driven nature etc. there has been resistance towards its adoption. This critical analysis into the topic will suggest the probable method most appropriate to the Indian economy by way of comparison from the past success and the models prevalent in other economies of the nation.

- *Scope and Limitations-*

The research focused on total privatisation, not diverse approaches' influence on economic progress. Several studies have found varying effects of privatisation approaches on economic development (Bennett et al., 2004; Earle, 2002). The sort of privatised businesses may impact economic performance. Furthermore, Privatisation is a process by which the government hands over the right to be the exclusive party in a sector to private entities making it free for everyone

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to join the sector provided they fulfil all the requirements as imposed by the government. Due to the sheer number of private entities in many sectors, it was not possible to cover such vast data and, therefore, this paper has failed to cover such aspects of privatisation.

➢ *Research Methodology-*

This research paper employs a qualitative research methodology to gather information and facts from secondary sources, such as various journals, educational literature, articles, websites, as well as data from multiple research studies. The purpose is to analyze the implications and impact of privatisation on the Indian economy.

Qualitative research, in general, tends to perform The analysis of non-numerical data and is conducted with the purpose of comprehending persons' social reality, encompassing their attitudes, beliefs, and motivations.

➢ *Research Objectives-*

The objective of this study is-

- To understand what is privatization and analyze its advantages and disadvantages.
- To study the ongoing process of the Privatisation of the Indian Economy.
- To study the impact of Privatisation on the Indian economy.
- To critically analyze the recent trends in privitisation of the Indian Economy and suggest alternatives to smoothen the process of privatization.

II. LITERATURE REVIEW

The following topic will present an overview of the various previous works and theories related to Privatization and will give a review of them accordingly-

➢ *"Privatisation in India" by Y. Venugopal Reddy-*

This is a chapter taken from the book "Privatisation in Developing Countries" that compiles various works of different authors on the impact of Privatization on their countries. The following passage discusses the implementation of privatization in the Indian Economy as a multilayered effort by the Government that slowly started the process of Privatization right from the 1991 and continues to do so till the current date. Apart from all this the passage also tells us how the Public sector was developed in India before the advent of Privatisation in a 4 layer process starting right from the independence of our nation.

➢ *"Principal- Agent Theory"-*

The "Principal-Agent Theory" posits a key argument supporting the higher efficiency of private enterprises. This argument is rooted in the notion that the owners, who serve as residual claimants to a firm's income, are incentivized to exhibit efficient behaviour. The separation of ownership from control might be considered an effective organisational structure compared to organisations that integrate the roles of risk-bearing and decision-making. According to Fama (1980), it has been observed that rivalry from other firms typically works as a disciplinary mechanism for a firm, leading to increased efficiency.

➢ *"An Introduction to Privatisation | Economic Reforms in India"-*

The following article gives a brief Introduction of Privatisation as an economic process and also states the various processes related to Privitisation such as Delegation, Disinvestment, Displacement, etc. Other than this, the articles also elaborates on the various advantages of Privatisation such as-

- Increased Independence in the Economic Sector of a Country.
- Reduction in the burden of the Government
- Increased Competition among private enterprises

➢ *"Impact of Privatization on Indian Economy"*

The following Article gives us an idea how Privatisation is transforming India's economy. Government revenue plummeted during Covid, making privatisation the key to economic recovery. However, excessive privatisation may lead to market monopolies.

A further detailed analysis conducted in the article shows that Central Public Sector Undertakings (CPSUs) have helped India's economy since 1951. They were founded to boost economic growth and independence. By 2018-19, there were 348 CPSUs with ₹16.4 trillion invested, up from 5 in 1951 with ₹29 crores. They started losing money and currently cost 0.16% of our GDP. New industrial policy in 1991 shifted the government towards disinvestment. Since then, disinvestment policies have evolved and privatisation is spreading in India.

➢ *Public-Choice Theory-*

Public Choice Theory posits that the argument in favour of privatisation is based on the belief that government failure exists, meaning that public policies are likely to hinder the effective operation of markets (Yarrow, 1999). According to Ghosh (2001), government failure or the public choice argument constitutes a fundamental aspect of the neoclassical counter-revolution against the interventionist state characterised by unrestricted authority. Government failure is a term used to describe the inability of government policies to effectively allocate resources, redistribute them in a targeted manner, and stabilise the economy during periods of stagflation (Tanzi and Schuknecht, 2000). The fundamental premise of public choice theory posits that individuals are driven by self-interest, possess rational decision-making abilities, and want to maximise their utility (Buchanan and Tullock, 1962) which is considered one of the driving forces for Privatisation in Developed countries.

III. ANALYSIS/FINDINGS

➢ *Historical Background that Led to the Implimentation of Privatisation-*

Since independence in 1947, India has faced poverty, high illiteracy and unemployment, poor GDP, and sickness. India's necessity led to the creation of SOEs after

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independence. India adopted suitable industrial policies and launched SOEs to address economic, social, developmental, and industrial issues, a crucial step towards developing the nation. The five-year plan1 in India aims to build a socialistic society based on economic growth, self-reliance, social justice, poverty alleviation, and the elimination of all developmental hurdles. Thus, the five-year plan created a mixed economy that respected and provided for public and private sectors. The government administers nationalised enterprises like public utilities, railways, and communications because they create revenue. Due to high risk and low returns, knowledge deficit, and private enterprise reluctance, the country has built state capitalist firms from defective product and factor markets. The Indian government has created hundreds of manufacturing and service SOEs. Many state (provincial) administrations have launched hundreds of public firms since independence. The Indian government has demonstrated increasing interest in SOEs after independence for several reasons. The British regime's industrial policy in India slowed industry expansion, suggesting that the rulers only wanted to keep India as a market for British goods. Thus, the state had to meddle in economics. The then-Indian National Congress and its committee advocated governmental engagement in all economic activities, including SOEs. The Dhar Committee noted that the Burma Oil Company established the first British Government-sponsored oil refinery in Digboi in 1921. In modern Assam, tea plantations and coal mining were key industries.

- *LPG Reforms in India (1991)-*

During the early 1990s, India experienced a significant economic crisis, which was subsequently exacerbated by a foreign exchange shortage, resulting in a decline in the overall economic performance. The nation depleted its stocks of foreign exchange. In response to the crisis, the government implemented a series of economic changes through the introduction of new reforms.

The aforementioned reforms were commonly referred to as 'structural adjustments'. On July 24, 1991, the government made an official declaration about the implementation of a New Economic Policy. The prevailing nomenclature for this contemporary framework of economic reforms is widely recognised as the LPG model, an acronym for Liberalisation, Privatisation, and Globalisation.

The Indian commercial economy encountered and assimilated a novel hemisphere characterised by the introduction of liquefied petroleum gas (LPG). LPG refers to the three interconnected processes of Liberalisation, Privatisation, and Globalisation. The Indian government possessed knowledge regarding the global commerce sector, characterised by unhindered operations and seamless functioning. In order to implement similar measures within our nation, the Indian Government adopted a strategy of liberalising its control over international commerce and capital, initiating the transfer of underperforming public sector units to private organisations, and fostering increased reliance on the global trade economy. In summary, the Indian Government made a strategic decision to bring liquefied petroleum gas (LPG) into our economy, thereby facilitating our integration into the global trade network. This initiative has played a significant role in attracting substantial economic prosperity, fostering the development of talent, and enhancing the reputation and prestige of our nation.

- *Recent Trends in Privatisation -*

The fact that public sector undertakings (PSUs) in India have demonstrated subpar performance is a commonly acknowledged phenomenon. However, it is enlightening to delve into the inherent issues that contribute to this situation. The government policy, as reinforced by clear court judgements, has undergone a transformation to fully embrace the concept of privatisation. Additionally, there exists a well-structured and transparent administrative framework for the privatisation process, which involves open and competitive bidding. However, over the course of its fifteen-year existence, the privatisation program has achieved rather limited advancements. Remarkably, despite the potential contribution of workers to the opposition against privatisations, it appears that labour was not the primary impediment. Rather, it is the people who are swayed by the comments of others thinking privatization is a harmful element for the nation.

The government has privatized various sectors such as heavy machinery, automobile industries, etc. that have not only allowed foreign companies to come to India, but also created a path for the emergence of many Indian companies that have not only achieved great success in India, but also in foreign nations. Sectors that were kept reserved for the Government such as railways, airports, defense goods, etc. are also being Privatised slowly, such as-

- *Railways-*

The Indian Ministry of Railways manages the fourth largest railway network in the world, with 21000 trains and 115000 kilometers. Over its history, the Railway has undergone significant technological and administrative paradigm transformations. Early on, eight railway corporations managed the railways and paid the government 5% of their revenues as dividends. Since they couldn't pay the dividend, the Indian government took over the railway under its name. Everyone knows the Indian Railways are in terrible shape. When we think of Indian Railway, we think of awful platforms, late trains, and people lingering Covid-19 had a terrible impact on the Indian Railways nationwide, stopping trains and halting one of the world's largest rail networks. Operating the largest rail network requires a lot of labour and resources, which is difficult to manage. The prime minister of our country rightly said that the government has no business to be in business, so the author fully supports the privatisation of the Indian Railways because it will create many jobs and improve the service to provide world-class service to travellers. Running and maintaining Indian Railway is difficult due to its 1,15,000-kilometer network. The waiting list prevented 8.84 crore travellers from travelling in 2018–2019. India has billions of people, thus we need a new model to meet passenger needs. The train speed is 160km/hr while Indian railway trains travel at 100km/hr, therefore tracks need to be upgraded.

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Private players have also now joined this frey with the emergence of slowly privatizing parts of railways. An example of this can be the famous Tejas express that is said to be the first privately owned train to ever run on Indian tracks. The train is privately owned by IRCTIC(Indian Railways Catering and Tourism Corporation) which at the end is a subsidiary of the Indian railways. Although it is under the control of Indian railways, what makes it different is it being the first train to not be owned directly by the Indian Railways. Other than this, the services provided by the train are world class. In a n interview with the Government leaders, it can be said that this train has been released as an experiment in order to see how the country would react to privately-owned railways. So India may see more private industries making their footing onto this sector by the end of the decade.

- *Airports-*

The initiation of airport privatisation in India took place in September 2003 under the tenure of the National Democratic Alliance government led by Prime Minister Atal Bihari Vajpayee. The initial airports to undergo privatisation were the ones located in Delhi and Mumbai, which are the largest airports in the nation. In accordance with a government directive, the privatisation of airports was intended to follow a public-private partnership (PPP) model. The Airports Authority of India (AAI) would hold a 26 percent stake in the joint venture (JV) established for this purpose, while the remaining 74 percent stake would be held by a private company selected through an open and transparent competitive bidding process. The privatisation of the two primary metropolitan airports situated in the political and financial hubs of the nation occurred relatively recently, specifically in 2006. This process of privatisation was characterised by its protracted and intricate nature, marked by the withdrawal of numerous foreign firms due to the frequent alterations in the established objectives. The privatisation of the airports in Delhi and Mumbai has demonstrated beneficial outcomes, as seen by the substantial increase in passenger traffic at both locations. In the following years, noteworthy growth in passenger traffic was observed at the privately created Greenfield airports in Bengaluru and Hyderabad. Currently, the construction of a second runway, along with a new terminal, is underway at Kempegowda International Airport in Bengaluru. This development is necessary due to the complete saturation of the existing infrastructure at the airport.

➢ *Advantages of Privatisation-*

Privatisation entails several advantages. To begin with, it is well acknowledged that the level of incentive in private corporations consistently surpasses that found in governmental enterprises. The executives and administrators of a privately-owned enterprise typically exhibit caution in their decision-making processes, as their financial remuneration is directly linked to the company's performance. In contrast, this motivating factor is absent inside public organisations. As a result, the process of privatisation leads to increased operational efficiency inside the organisation. Furthermore, the presence of significant political intervention within a public enterprise poses a hindrance to the company's ability to make economically advantageous decisions. In contrast, private enterprises typically maintain a separation between political issues and their operational performance. Thirdly, it is worth noting that the objectives pursued in this process tend to be of a short-term nature, as the administration frequently seeks to garner increased popular support and, consequently, displays a keen interest in the forthcoming elections. Political decisions frequently serve as the foundation for the company's long-term objectives. Ultimately, the process of privatisation has the potential to bolster the competitive prowess of a company inside the market, so leading to advantages for customers.

➢ *Disadvantages of Privatisation-*

Nevertheless, privatisation is not without its drawbacks. This approach places a greater emphasis on the objective of maximising profit, yet India holds the distinction of being the largest democratic nation globally. The extent of social responsibility initiatives undertaken by private enterprises is very limited in comparison to state-owned enterprises (SOEs). Transparency is often undervalued by private sector firms, leading to a lack of information provided to stakeholders. In order to attain their aims, private corporations employ many strategies, including but not limited to, incentivizing corruption, engaging in illicit means of completing goals, engaging in lobbying activities, and so forth. An examination of the privatised status reveals that the implementation of privatisation leads to elevated rates of employee turnover, downsizing, reduced remuneration, and other related factors, hence contributing to a discernible societal imbalance. Privatisation and price inflation are closely interconnected. Numerous additional inconveniences, disadvantages, difficulties, setbacks, and troubles have persisted throughout and subsequent to the privatisation of State-Owned Enterprises (SOEs) in India.

IV. CONCLUSION AND SUGGESTIONS

In a nutshell, privatisation is the act of transferring ownership of a once-public or state-owned asset to private persons or organisations with the intention of utilising the asset for private gain and operating the company in such a way that it generates money. This transfer of ownership can take the form of either a permanent sale or a long-term lease. Increasing one's productivity and competitiveness, as well as luring FDI from abroad, are all goals that may be accomplished through the privatisation process.

The Indian government is already burdened by the overflowing number of responsibilities it has related to the country. As the fifth-largest economy on planet, it is time to let go of some sectors in order for the economy to further prosper in the right directions. Of course, sectors like firearms and defense equipment should be kept away from the private sector, but other sectors such as the railways should be further privatized in order for the economy to prosper to new heights.

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