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CONCEPT OF PRIVATISATION ON INDIAN ECONOMY GROWTH

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Abstract:- Private ownership or Privatization characterised as the transition to private individuals of state-owned enterprises, is becoming a popular device of monetary policy around the globe. A debatable problem is the trend towards privatisation. Even so, the debate has been underway for the past four to five decades between both the dominance of the private and public sectors. The research initially focused on how economic growth was influenced by the scale of the public sector determined by the size and scope of government consumption.

Keywords: *Government; Public sector; Privatization; Monetary Policy*

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I INTRODUCTION

Research results from several studies have shown that privatisation does not lead to prosperity, but tends to minimise income inequality. Inflation has significantly contributed to both economic growth and revenue equalisation. On the other hand, a number of analysts have pointed out that privatisation, a process of reallocating public sector properties and roles to the private sector, plays a critical role in economic development. Recently, several different political structures have embraced privatisation and it has spread to every area of the world. By formalising and defining property rights, the privatisation process can be a good way of bringing about fundamental systemic reform, which directly generates strong individual incentives.

A free market economy relies primarily on well-defined property rights, where individuals make individual choices in their own interests. Privatization, according to experts, will enhance productivity, provide financial relief, raise broader ownership, and improve the accessibility of private sector credit.

II RESEARCH METHODOLOGY

The present study is explanatory cum descriptive in nature. It depends on secondary data, gathered from different journals, sites, books and online articles.

Objective

To find out how the size and scope of public sector consumption has influenced economic development.

The key causes of privatisation are:

a) Investor transparency
b) To decrease unwanted interference
c) More disciplined manpower.
d) Elimination of the burden on the government
e) The enhancement of competition
f) Changes in Public Finance
g) To finance the development of infrastructure

In solving the problem of externalities, the private sector has successful policies by costless negotiation, guided by individual incentives. According to the Coase Principle, individual parties will take part in a cost-benefit analysis directly or indirectly, which will inevitably result in the most effective solution. The private sector reacts to rewards in the economy as opposed to the public sector. The public sector, on the other hand, also has non-economic priorities. The public sector is not strongly motivated to increase productivity and efficiently distribute capital, leading the government to operate low-income, high-cost enterprises. Privatization specifically transfers the emphasis from political objectives to economic objectives, contributing to the market economy's

growth. As bad government policies and government corruption can play a big, negative role in economic growth, the downscaling aspect of privatisation is a significant one. The role of the government in the economy is simplified by privatisation, so there is less chance for the government to affect the economy negatively.

Privatization could have a positive effect on the economic situation of a nation. In order to fund new government spending and pay off potential loans, privatisation should not be used. Instead, privatisation helps countries to pay off a portion of their current debt, thus decreasing interest rates and raising investment levels. The government decreases overall spending by reducing the size of the public sector, and starts collecting taxes on all the corporations that are already privatised. This mechanism will help to put an end to a vicious cycle of national debt over-borrowing and continuous growth. Depending on the initial circumstances of the country's economy and the economic values of the political party in power, nations around the world have adopted distinct methods of privatising state properties. The selling of state-owned companies to private investors is the primary form of privatisation. The state will essentially determine which organisations should be privatised, and private investors would purchase shares in each company through the use of the market process. The benefit of this privatisation strategy is that it produces the state's much needed revenues while placing privatised businesses in the hands of investors who have the incentives and the means to invest and reform. Another privatisation process is called the privatisation of vouchers. Universally, the government distributes vouchers to its deserving citizens that can be sold to other buyers or exchanged for privatised shares of other institutions. Although this strategy does not produce income for the state, in a short period of time it does privatise state-owned businesses.

The next form of deprivation, also known as employee or management buyout, is called internal privatisation. State-owned businesses are sold (at an exceptionally low price) to managers who are already acquainted with the business and its structure, but there are limited profits produced for the state. This approach provides certain incentives, but when companies are sold to strategic buyers, the incentives are much greater. Moreover, new owners also do not have the means to spend and restructure, which is desperately needed in underdeveloped countries for a large percentage of state-owned firms.The improved competitive characteristics it gives to businesses that prove to be fruitful for both the company and the nation are one of the visible characteristics of privatisation. Nonetheless, privatisation contracts are significantly affected by combining conditions and even global problems and are organised on the basis of government and private entities being manipulated along with the administrative authority.

Privatization can be divided into three components:

i. **Divestment:** The government relinquishes liability.
ii. **Displacement:** The private sector expands and the government body is steadily replaced.
iii. **Delegation:** Government assumes accountability and private sector oversees the distribution of goods and services in whole or in part.

Privatization is undoubtedly advantageous for the growth and survival of state-owned companies.The benefits of privatisation can be evident in the microeconomic and macroeconomic impacts of privatisation.

Microeconomic benefits:

a) Privatization brings in fundamental systemic shifts in competitive industries that provide momentum.

b) Privatization, along with the management and encouragement of the best human resources to promote sustainable competitive advantage and improvised resource management, contributes to the adoption of global best practises.

c) State-owned firms are normally competitively outdone by private corporations. It produces better performance in terms of income, quality and productivity as compared to the latter. Privatization will, therefore, give the underperforming PSUs the requisite drive.

Macroeconomic benefits:

a) It helps improve the industry's efficiency benchmarks in general.
b) Initially, it can have an undesirable effect on workers, yet eventually, in the long run, it can prove beneficial for employee development and prosperity.
c) Privatized companies provide consumers with better and quicker services and further boost the country's overall infrastructure.
d) Privatization has a positive influence on the financial development of the formerly state-dominated sector by reducing deficits and debts.
e) Via privatisation, the net transfer to state-owned companies is reduced.

Privatisation provides numerous benefits; it has many drawbacks:

i. In particular, the private sector focuses more on maximising benefit and less on social goals that are different from those of the public sector that initiates socially sustainable changes in the event of emergencies and criticalities.

ii. In the private sector, there is a lack of transparency and stakeholders do not obtain full details about the functionality of the company.

iii. Privatization has given government and private bidders with needless funding for collusion and illegal means of achieving licences and business deals. The common problems that undermine the realistic applicability of privatisation are lobbying and bribery.

iv. Privatization loses the company's mission and the profit maximisation scheme facilitates malpractices such as the manufacture of poorer quality goods, secret indirect costs, price inflation, etc.

v. Privatization results in a high turnover of workers and a lot of investment is needed to train employees and even make the current PSU workforce compliant with the new business practises.

vi. There can be a conflict of interest between stakeholders and the management of the buyer's private business, and initial resistance to change can impair the company's results.

vii. In general, privatisation intensifies price inflation as privatised businesses do not obtain government subsidies after the agreement and the pressure of this inflation affects the average citizen.

Private Sector Review with regard to the Indian economy:

The Government of India has opted for a mixed economy in which both the public and private sectors have been allowed to work. The private sector had to work within the framework of the Industrial Growth and Regulation Act. 1951 and other related legislation. In that setting, as specified in the Industrial Policy Resolution 1956, industrial enterprises in the private sector must necessarily be part of the social and economic policy of the State and will be subject to supervision and guidance in the form of the Industrial Development and Regulation Act and other applicable legislation. The Government of India recognises that it would be beneficial to allow such undertakings to grow as freely as possible, consistent with the goals and goals of the national plan. Reports have shown that, despite the rapid growth of the public sector during the planning period, the private sector is the main sector of the Indian economy.

Numerous new industries have been developed in the private sector since many decades. Significant consumer goods industries were set up in the pre-Independence era. Examples include the cotton industry, the sugar industry, the paper industry and the edible oil industry. These industries have been set up in response to the opportunities presented by market forces. They were highly suitable for the private sector, because they offered good returns and needed less capital for establishment. Although the engineering industries were not developed in the pre-Independence era, Tata had begun work in the field of the iron and steel industry in Jamshedpur. After independence, a number of consumer goods industries were developed in the private sector. At present, India is essentially self-reliant in its requirements for consumer goods. According to the 1956 resolution, 'Industries supplying intermediate products and machines should be established in the private sector.' As a result, chemical industries such as paints, varnishes, plastics, etc. and the manufacturing of machine tools, machinery and plants, ferrous and non-ferrous metals, rubber, paper, etc. have been established in the private sector. In India, businesses need to be privatised in order to improve their economic position. While the PSUs have contributed a great deal to the growth of the country's industrial base, they continue to suffer from a number of inadequacies, such as; Many PSUs have been incurring and reporting losses on a continuous basis. As a result, a significant number of PSUs have already been identified for unit failure. Multiplicity of authorities to which the PSUs are accountable. Delay in the execution of programmes leading to a rise in costs and other effects. Management inefficiency is inefficient and extensive. Many PSUs are over-staffed, resulting in lower labour efficiency and weak industrial relations.

There are a variety of examples of privatisation of companies in India, such as:

i. Hindustan Zinc Limited (HZL)
ii. Hotel Company Limited India (HCL)
iii. Bharat Aluminium Company Limited (BALCO)
iv. The Lagan Jute Machinery Company Limited (LJMC)
v. Videsh Sanchar Nigam Limited (VSNL)

Privatization in the infrastructure sector began in October 1991 by amending the related legislation to allow private companies to join the electricity generation sector. The reforms in the telecommunications sector have been quite good. Value added services were opened to the private sector in 1992, followed by the enunciation in 1994-1995 of the National Telecom Policy, which opened up basic telecommunications services to competition. Foreign equity participation of up to 49% was allowed in the case of a joint venture between an Indian and a foreign company.

The Indian Telecom Regulatory Authority (TRAI) was founded in 1997. In order to distinguish the service-providing role of public telecommunications undertakings and the policy-making role, both of which were initially with the Telecommunications Department, a distinguish Telecom Services Department was formed in 1999-2000. The two service providers in the public sector were corporate in 2000-01. International long-distance market, which was a monopoly of the public sector, was opened to unlimited entry in 2002-03.Infrastructure improvements are also taking place in the road sector. Significant reform was the development of a major new source of funding for national, state and rural road construction, called the Central Road Fund (CRF) under the 2000 Central Road Fund Act. The CRF-funded National Highway Construction Project is one of the largest single highway projects in the world. It involves almost 6,000 km of Golden Quadrilateral (GQ) linking the four metropolitan cities of Chennai, Delhi, Kolkata and Mumbai and 7,300 km of the North-South and East-West Corridors.

The big effect of privatisation on the Indian economy is as follows:

It frees up energy for more efficient use.

a) Private interests tend to be profit-driven and open in their functioning as private owners are often geared towards gains and the removal of sacred cows and bumps in traditional bureaucratic management.
b) Since the system becomes more open, all underlying corruption is reduced and owners have a free rein and an incentive to increase income such that they strive to get rid of all free loaders and vices inherent in government functions.
c) Deletes job inconsistencies, such as free loaders or over-employed departments, which reduce the pressure on resources.
d) To reduce the financial and administrative burden of the government.
e) Efficiently minimises corruption and optimises performance and functions.
f) Private companies are less tolerant of capitulation and annexation of government agencies, and thus appear to have the right human capital capacity that meets the needs of organisations, and can cause opposition and dissatisfied workers who are accustomed to benefits as government officials.
g) Enable the private sector to contribute to economic growth.
h) Development of general budget capital and diversification of sources of revenue.

III CONCLUSION

Study shows privatisation is a process of transfer of ownership, which may be of a permanent or long-term nature, of a state-owned or public-owned property once and for all, to individuals or organisations who plan to make use of it for private gain and operate the institution to generate revenue. Privatization is an important mechanism for improving efficiency and competitiveness, as well as attracting foreign direct investment.

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