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

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ABSTRACT

Significant private sector growth, unencumbered by state control, is a hallmark of India's economic reforms. Considering how important it is to national investment and prosperity, the public sector here requires updating. Some economists, politicians, and academics in the 1960s and 1970s advocated for public control of industries over private enterprise. Public policy shifted away from favoring governmental control over the means of production and distribution of goods and services by the late 1980s. State failure, as defined by the World Bank, includes factors such as ineffective provision of public services, loss-making state-owned enterprises (SOEs), excessive public debt, and low economic growth. Accordingly, privatization became popular in many nations as a means to promote efficiency, attract investment, and release public resources for use in infrastructure and social programs that boost economic development and distributional equality. However, privatization has been criticized in recent years. Privatization is widely panned because of concerns that it would inevitably lead to the misuse of market power and a reduction in public good. Most citizens in developing nations believe that the wealthy profit most from privatization, while the poor suffer most. Consequently, the purpose of this research is to objectively investigate the claims and counterclaims about the effect of privatization on economic development and wealth inequality in developing nations. Eighty developing nations with successful privatization programs between 1991 and 2002 make up the sample. The research found that privatization did not significantly affect GDP growth but did affect income distribution in diverse ways.

Keywords: Burke-Litwin model, organizational development, change management, emerging economies, privatization

INTRODUCTION

In economics, privatization covers a wide range of topics. It includes a number of processes, such as the infusion of private capital, the disposal of government-owned assets, and the establishment of a market economy. This leads us to the following three characteristics of privatization: there are (1) control measurements, (2) structure measures, and (3) function measures. The privatization of state-owned businesses is an example of an ownership reform. Administrative actions restricting the government's influence over publicly traded corporations. Methods for leasing and corporate restructuring fall under this category. Effective operational measures target the means through which government-owned businesses may be made more profitable and efficient.

There has been widespread support for privatization as a strategy in both rich and developing nations since the 1990s. Deliberately selling state-owned enterprises (SOEs) or assets to private economic agents is a common form of privatization. Issues including performance and the implications of privatization on the success of more efficient production systems, as well as the aims and motivations driving privatization, are often discussed. Privatization is generally seen as inadequate on its own to promote economic efficiency and flourish the economic environment, but the techniques and conditions matter much in judging the effects of privatization. Generally speaking, privatization strategies may be broken down into three categories: asset sales, liberalization/deregulatory reform of statutory monopolies, and franchising. To better understand whether and how privatization can improve economic efficiency and the economic stance of developing countries, this study aims to provide an overview of the economic literature on privatization policies, as well as the goals of and expected gains from privatization. The results will be used to assess the quality of empirical studies and statistical data collected in Hungary. The results of the evaluation are intended to provide light on the privatization process in India.

LITERATURE REVIEW

Mpho M. Pheko (2013) Organizational efficiency, public spending, the availability of direct ownership of productive assets, and the extent to which governments exert their influence may all improve via privatization. However, studies have shown that not all privatization initiatives are successful, despite the obvious benefits of privatization. The current paper integrates the existing literature in the Organizational Development (OD) field and suggests that OD interventions should be used to aid in effecting privatization, based on the belief that too much attention in the privatisation literature has been focused on economic and/or political reasons for failure. This study addresses the function of OD interventions in privatization design and implementation in an effort to bridge this apparent vacuum in research and to broaden the scope of current research and literature. To effectively assess the urgency of change and organize privatization initiatives in developing countries, the Burke-Litwin model is advocated. Change planning and implementation from a multidimensional and multilevel systems viewpoint are also explored as examples of how the model's multiple aspects may be utilized as tools for analyzing the need for change.

Sofiah Md Auzair (2011) The purpose of this research was to learn more about the prevalence of MCS (Management Control Systems) in Malaysian lodging establishments. Management control structure (MCS) was conceived as a set of opposing pairs: action/results controls, formal/informal, tight/loose, restrictive/flexible, impersonal/interpersonal, and financial/non-financial data. This approach acknowledges the importance of corporate strategy and the external environment (perceived environmental uncertainty - PEU) in determining an organization's MCS. In this study, we used a survey approach. Malaysian hotel executives were given questionnaires to fill out. Findings show that hotels with a cost leadership strategy have a more bureaucratic MCS, whereas hotels with a differentiation strategy have a less bureaucratic MCS. When people feel unsafe in their surroundings, they tend to have a more pessimistic outlook on life, which correlates adversely with a less bureaucratic MCS. There is a correlation between the hotels' chosen business strategy and the PEU, as shown by the statistics, and the kind of MCS they use.

Heather C Banham (2010) Companies of a smaller or medium size (SMEs) encounter different difficulties than larger corporations. For small and medium-sized enterprises (SMEs) to thrive, grow, and live up to the expectations that they will generate investment and employment opportunities, they must effectively navigate the current forces for change. Successful implementation of organizational change is essential for adjusting to changes in the technical landscape, consumer demands, supplier capabilities, regulatory climate, and competitive landscape. To help small and medium-sized enterprises (SMEs) do an environmental scan, estimate the effect of upcoming changes in the external environment, and adapt accordingly, the "Degrees of Turbulence" Model is offered as a self-assessment tool.

Mohamed Belkhir (2013) Subramanian and Megginson (2011) demonstrated that a country's decision to privatize state-owned enterprises is influenced by the extent to which the labor force is legally protected. We argue that this also affects the country's decision of whether to privatize through share issues in the public stock exchange or through asset sales to a small group of investors. We provide a number of reasons indicating that strong legal protection of labor influences the costs and benefits of workers, investors, and governments in a manner that favors share issue privatizations (SIPs) over asset sale privatizations. We put this theory to the test using a database of 4,400 privatization deals executed in 55 different nations between 1989 and 2008. We show that the better the legal protection of workers and the more likely a government is to utilize SIPs, using a variety of measures of labor protection and adjusting for political, legal, and economic variables.

Jung Wook Lee (2012) The federal government's approach to management reform has shifted to focus mostly on performance management (PM). Different federal agencies have had varying degrees of success with their attempts to adopt various PM initiatives in order to meet government mandates. This research investigated the factors that may impact the implementation of PM inside federal agencies on the basis of the concept of strategic fit, which states that a strategy can only be successful for an organization if it fits well with the organization's external and internal contexts. External political environments (structural insulation, influences from external political authorities), and managerial capacity, were the two primary categories taken into account in the study (strategic planning capacity, analytical capacity). The relevance of these criteria in PM implementation is backed up by data from across 103 federal agencies. The results are

reviewed in light of their implications for administrative reform and project management in government agencies.

METHODLOGY

The study is framed at the national level. To investigate how privatization affects GDP growth and income inequality, this research uses a cross-sectional methodology. The sample comprises of developing nations for whom information on their privatization efforts between 1991 and 2002 is available in the World Bank's Privatization Database. The effects of privatization on GDP growth and income inequality in low- and middle-income countries are analyzed using ordinary least regression analysis with interaction regressors. The information is a compilation of yearly observations from eighty different developing nations. We use cross-country regressions to examine the relationship between economic development and privatization since there is a lack of reliable time series data on the privatization variable for the sample of countries analyzed. To lessen the impact of random variation in the yearly data, we average the relevant variables across the duration of the research. For the study's empirical studies, we will be using the models outlined below.

Model Specification

The primary purpose of this research was to analyze how privatization affected GDP growth and income distribution. Previous research on privatization's effects on GDP growth serves as the basis for the study's empirical analysis. Below, we detail the primary steps of the regression analysis for the sample of 80 nations. The study makes the same assumptions about growth as other studies of privatization have made, namely that:

$$Y = \alpha_0 + \alpha_1 B + \alpha_2 Z + \alpha_3 M + u$$

where Y is the average annual percentage increase in Real GDP per capita and djS are the estimated coefficients. Stock of Human Capital (SEC), Economic Openness (OPEN), Initial Development (LGCAP), Population Growth (POP), Inflation (INF), and Foreign Direct Investment (FDI) are all components of B. (FDI). This economic strategy, privatization, is denoted by the letter M. (PR). Z is a collection of supplementary variables included to represent the circumstances of the nation, which the research believes affect economic development. Institutional or governance infrastructure and geographical circumstances (if a nation is landlocked) stand in for the actual conditions of a country, and u is the stochastic error term. We account for regional groups to see whether the effect of privatization in developing nations varies with the composition of the sample or with regional disparities. The following is the specification of the regional group controlling regression model:

$$Y = \alpha_0 + \alpha_1 B + \alpha_2 Z + \alpha_3 PR + \alpha_4 Di + u$$

Sub-Saharan Africa (SSA), Latin America (LA), Asia (AS), and the Middle East and North African Countries (MENA) make up D, which stands for "dummy" for regional groupings.

LA = [1 if Latin American country; 0 otherwise]

SSA = [1 if Sub-Saharan African country; 0 otherwise]

AS = [1 if Asian country; 0 otherwise]

The coefficient for PR indicates how privatization affected the control group, whereas the coefficient for PRD indicates how privatization affected the area under study relative to the control group. Finally, the research on privatization implies that the impact of privatization on economies varies by nation, depending on factors like institutional framework, openness, and FDI inflows. The following model tests the veracity of this assertion.

$$Y = \alpha_0 + \alpha_1 B + \alpha_2 Z + \alpha_3 PR + \alpha_4 I + u$$

where I am a collection of interaction terms consisting of zero, one, or more terms. We employ three interaction terms PR*FDI, PR*OPEN, and PR*GOV to describe the relationships between privatization and three different aspects of the governance infrastructure. The assumption behind the inclusion of the interaction term is that the influence of one independent variable on the dependent variable is conditional on the value of a second independent variable. This implies that one variable's impact is conditional on the value of another. Multiplying the privatization variable by any one of the other three yields the interaction terms (Stock and Watson, 2003). We estimated four simple regression equations for the growth regressions, and these estimates hold true for the income inequality regressions as well. We employ measures of income inequality as dependent variables in multiple regressions, as shown below.

$$INEQ = \alpha_0 + \alpha_1 B + \alpha_2 Z + \alpha_3 M + u$$

$$INEQ = \alpha_0 + \alpha_1 B + \alpha_2 Z + \alpha_3 PR + \alpha_4 Di + u$$

$$INEQ = \alpha_0 + \alpha_1 B + \alpha_2 Z + \alpha_3 PR + \alpha_4 Di + \alpha_5 PRDi + u$$

$$INEQ = \alpha_0 + \alpha_1 B + \alpha_2 Z + \alpha_3 PR + \alpha_4 I + u$$

where INEQ is a measure of income inequality (INEQ 10% or INEQ 20%) that will be the dependent variable in two different regressions. The meanings of the other notations (a, B, PR, Z, I, PR*Di, and u) are the same as those found in the expansion regressions. To account for the non-linear nature of the link between income inequality and development, we include the square of the measure of development as one of the B variables. This reasoning is consistent with the conventional Kuznets' (1955) theory, which states that income disparity rises at the outset of development but falls as a result of it.

DATA ANALYSIS

The most important economic indicators are summarized in Table 1. Statistics reveal that between 1991 and 2002, growth rates for different nations ranged from -3.22 for to 9.78. Sub-Saharan Africa is home to both the top and worst privatizers in terms of privatization proceeds as a percent of GDP during the time period. Average privatization revenues as a proportion of GDP are as follows: 3.64 for Sub-Saharan Africa; 5.29 for Latin America; 2.18 for Asia; and 0.0 for the Middle East and North African nations (2.96). Seeing that there is a considerable degree of variance in both the inflation rate and the starting GDP per capita, it was necessary to modify both variables (using a log transformation) to account for this variation and therefore eliminate any potential bias. The corruption index ranges widely as well, from -2.12 in Angola to 2.65 in Chile. Consequently, the sample includes both high- and low-scoring estimates of a country's institutional infrastructure. Chile's score is over the maximum of 2.5 since the numbers stated for the governance index are the primary component values.

Table 1: Summary Statistics

Variable	Number of observations	Minimum	Maximum	Mean	Std Deviation
Rate of inflation	80	.17	891	38.85	131.22
Log INF	80	-.77	2.95	1.03	.57
Growth	80	-3.22	9.78	3.31	2.33
Privatization revenues in GDP	80	.00	24.26	3.84	4.98
Income Inequality (10%)	60	6.60	105.00	27.15	21.97
Income Inequality (20%)	60	4.30	57.60	13.15	9.45
Population	80	.44	7.35	1.95	.89
Foreign Direct Investment	77	-1.60	14.94	2.73	2.84
Trade share in GDP	80	21.83	204.54	71.74	35.29
Log GDP per capita	77	2.69	4.21	3.38	.36
Square of LGCAP	77	7.26	17.76	11.57	2.48
Secondary school enrollment	80	5.55	97.82	46.97	25.87
Governance	71	-2.12	2.65	-.049	.933

At the 1% level, the coefficient for the governance indicators is between 0.403 and 0.898, as shown in the initial correlation matrix (Table 2). Due to multicollinearity issues, it is not possible to apply all six markers in the same regression. Therefore, a summary measure is taken from the first main component (GOV) as proposed by Globerman and Shapiro (2003). The strength of the connection between governance and economic growth and income inequality is tested by using the various metrics in independent regressions.

Table 2: Correlation Matrix for Governance Indicators

	VOICE	POLST	GOVEFF	REG	LAW	CORR
VOICE	1.00					
POLST	.530	1.00				
GOVEFF	.403	.698	1.00			
REG	.604	.569	.752	1.00		
LAW	.425	.674	.898	.737	1.00	
CORR	.440	.671	.883	.678	.898	1.00

RESULTS

Privatization and Economic Growth Regressions

For this analysis, we used Ordinary Least Squares (OLS) with interaction regressors to look at how privatization influences GDP growth and income distribution. Table 5 displays the findings of a regression analysis on privatization and economic expansion. The correlation between privatization and economic growth is negative and marginal (Columnl). This result differs from that of the majority of the research included for this evaluation. However, while Plane (1997) and Barnett (2010a) find a positive correlation between privatization and economic growth, Cook and Uchida (2003b) report a significant negative effect of privatization on economic growth. Thus, the regional groupings are controlled for, and the results are reported in Column 2, so that we can determine whether the negative insignificant effect of privatization on economic growth is due to a specification error or the omission of region-specific factors. There is no change in the coefficient of the privatization variable, hence the negative impact is not attributable to a

misspecification owing to geographical variation. All geographical variables in column 2 are negatively correlated with growth, although only the Latin American dummy's coefficient is statistically significant at the 5% level. In the case of Sub-Saharan Africa and Latin America, privatization is associated with economic growth through an interaction with the regional dummies, whereas in Asia, it is associated with a negative growth rate (Column 3).

However, the impact is negligible everywhere. In addition, the effect of privatization on the control group (countries in the Middle East and North Africa) is captured by a negative but statistically insignificant privatization variable (PR). The results suggest two major inferences. In the first place, the impact of privatization is the same in both Asia and the Middle East and North African nations, and in Sub-Saharan Africa, Latin America, and the countries of the North African Gulf. Secondly, research conducted on the effects of privatization on economic development in developing nations between 1991 and 2002 found no statistically significant results. As shown in Columns 1 through 3, there is a negative and statistically significant correlation between the initial real GDP per capita and growth across all model specifications. This finding lends credence to the idea that developing nations are able to quickly catch up to more advanced economies through rapid economic development (Barro, 1991; Datta and Agarwal, 2004). Although there is a positive relationship between economic growth (Column 1) and the human capital variable (SEC), the SEC coefficient turns negative when regional dummies are included. With or without regional controls, the LGINF inflation variable has a weak negative correlation to GDP expansion. The population growth rate is positive, and it correlates significantly (at the 5% level) with growth both with and without the regional dummies.

Evidence from this study suggests that the population growth rate was a factor in the development of developing nations between 1991 and 2002. When controlling for regional groups, foreign direct investment is positively correlated with growth (Column 1) at both the 5% and 1% levels of significance (Column 2). In regressions with and without the geographical classifications, openness has a negative but negligible correlation with growth. As a result, openness was shown to have no appreciable effect on development over the course of the investigation. There is a negative and statistically significant (at the 1% level) relationship between the landlocked variable and economic expansion (Column 1). This suggests that landlocked nations have a growth rate discount of -1.92 percentage points, compared to non-landlocked nations. Since the negative growth impact of being landlocked is not sensitive to regional location, the coefficient on the landlocked variable remains significant at the 1% level when the regional blocs are accounted for (Columns 2 and 3). The research also found that being landlocked significantly reduced economic development even once institutions were accounted for. When institutional factors are taken into account, location should have no influence on economic development, but this finding disproves the claims of Rodrik et al. (2004) and Easterly and Levine (2002). However, findings comparable to those presented here have been reported by Bosker and Garretsen (2006), Redding and Venables (2004), and Sachs (2003). At the 10% level of significance (Column 1), the governance variable is positively connected with growth. However, when the regional blocs are taken into account, the significance rises to the 5% level (Columns 2 and 3). Table 6 shows the findings of using the separate indicators rather than the overall governance score to test the reliability of the correlation between good governance and economic development. At the 5% level of significance, three indicators—government efficiency (Column 6), rule of law (Column 8), and corruption (Column 9)—were found.

Table 3: Privatization Growth Regressions

Significant at the 10% level; ** Significant at the 5% level; ***Significant at the l% level

	1	2	3
PR	-.007 (-.049)	-.000 (.049)	-.150 (.130
LGCAP	3.148*** (1.102)	-2.652** (1.127)	-2.410** (1.176)
LGINF	-.679 (.503)	-.333 (.512)	-.442 (.524)
POP	1.057** (.463)	1.125** (.470)	1.263** (.483)
SEC	.0008 (.014)	-.002 (.016)	-.003 (.016)
FDI	.258** (.112)	.321*** (.115)	.332*** (.116)
OPEN	-.001 (.009)	-.014 (.009)	-.015 (.009)
GOV	.695* (.356)	.800** (.352)	.812** (.360)
LLOCK	-1.926*** (.668)	-1.839*** (.655)	-1.917*** (.667)
SSA		-1.106 (.923)	-1.920* (1.126)
LA		-1.793** (.849)	-2.385** (1.083)
AS		-.299 (.938)	-.005 (.278)
PR*SSA			.205 (.151)
PR*LA			.153 (.153)
PR*AS			-.005 (.278)
Constant	13.115*** (3.765)	12.24*** (4.164)	12.022*** (4.412)
F-test	3.357	3.140	2.630
N	75	75	75
R^2	.317	.33	.324

Table 4: Growth Regression with Individual Governance Indicators

Significant at the 10% level; ** Significant at the 5% level; ***Significant at t le l%level

	4	5	6	7	8	9
PR	.014 (.050)	-.003 (.049)	-.012 (.048)	.002 (.053)	.014 (.049)	-.008 (.047)
LRGCAP	-2.515** (1.118)	-2.603** (1.075)	-3.149*** (1.066)	-2.769** (1.139)	-3.439*** (1.097)	-3.13*** (1.081)
LGINF	-1.021** (.485)	-.825 (.496)	-.470 (.511)	-.936 (.505)	-.471 (.511)	-.684 (.481)
POP	.778 (.468)	.973 (.465)	1.077** (.449)	.815* (.456)	1.190 (.462)**	1.114** (.453)
SEC	.002 (.009)	-.001 (.015)	-.007 (.014)	.001 (.015)	.019 (.014)	.003 (.014)
FDI	.265 (.115)	.266** (.113)	.245** (.110)	.260** (.115)	.272** (.109)	.244** (.110)
OPEN	-.009 (.009)	-.012 (.009)	-.009 (.009)	-.009 (.009)	.011 (.009)	-.009 (.009)
LANLOC	-1.812** (.694)	-1.865*** (.675)	1.811*** (.654)	-1.869*** (.685)	-1.985*** (.656)	1.846*** (.653)
VOICE	-.096 (.408)					
POLST		.521 (.57)				
GOVEFF			1.488*** (.585)			
REG				.318 (.539)		
LAW					1.549** (.613)	
CORR						1.514** (.594)
Constant	11.415** (3.897)	11.684*** (3.733)	13.288*** (3.676)	12.315*** (3.958)	14.173*** (3.757)	13.862*** (3.722)
F-Test	2.781	3.100	3.767	2.826	3.756	3.771
N	75	75	75	75	75	75
R^2	.278	.300	.343	.281	.342	.343

CONCLUSIONS

For India, a growing country, privatization is not without its share of benefits and drawbacks. All the important aspects of privatization have been discussed in this study. Both the profit-making objective and the social responsibility agenda may be satisfied if public firms are run as effectively as private sector organizations without actually privatization the enterprises. However, the study's findings suggest that country conditions, such as good governance infrastructure, are more likely to promote growth and contribute to a reduction in income inequality. This finding suggests that country-specific characteristics may be more important than economic policy per se in promoting growth and reducing income inequality. Obviously, the quality and effectiveness of economic decision making is dependent on the quality of governance. In its 1992 study "Privatization: The lessons of experience," the World Bank admitted that poor governance was a major factor in the failure of many of its initiatives. makes a similar argument, arguing that the lack of an adequate infrastructure to support privatization in situations where local buyers lack finance and expertise and government has had to extend protection and subsidies has been the problem in many developing countries, not political reluctance or commitment. To address these concerns and assure the success of policy changes being adopted by most nations in the area, privatization has to be a gradual process that allows developing countries time to learn and establish the necessary institutional infrastructure. This research and others like it have shown conflicting results, highlighting the need for a thorough examination of privatization as it has developed in different parts of the globe.

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