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A STUDY ON PRIVATIZATION IN INDIA

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Introduction

Privatization have been one of the mainstay of the counter-revolution against development economics and government activism from the 1980s. Many developing countries were forced to accept privatization as a condition for support from the World Bank while many other countries have embraced privatization, often on the pretext of fiscal and debt constraints.

Privatization generally refers to changing the status of a business, service or industry from state, government or public ownership to private control. It sometimes also refers to the use of private contractors to provide services previously delivered by the public sector.

Privatization can be strictly defined to include only cases of the sale of 100%, or at least a majority share of a public or state-owned enterprise (SOE), or its assets, to private shareholders. The definition of privatization in some contexts is so broad that it includes cases where private enterprises are awarded licences to participate in activities previously the exclusive preserve of the public sector.

Why the turn to privatization?

The balance of payments problems arising from oil shocks in the 1970s and the US Fed's increase of the interest rate to well over 20% precipitated sovereign debt crises in Latin America and elsewhere from the early 1980s, forcing many developing countries to seek credit support from the International Monetary Fund (IMF) and the World Bank.

The World Bank and IMF's 'neo-liberal' policy prescriptions involved liberalization, deregulation and privatization. Collectively, they later came to be known as the Washington Consensus to refer to the common position of three Washington DC based institutions – the US Treasury, the IMF and the World Bank.

Main arguments for privatization

Privatization was advocated as an easy means to:

1. reduce the 'financial and administrative burden of the government', particularly in undertaking and maintaining services and infrastructure;

2. ‘promote competition, improve efficiency and increase productivity’ in the delivery of public services
3. ‘stimulate private entrepreneurship and investment’, and thus accelerate economic growth;
4. help reduce ‘the presence and size of the public sector, with its monopolistic tendencies and bureaucratic support’.

Public or consumer welfare

Since a significant portion of state-run activities are public monopolies, privatization will hand over such monopoly powers to private interests likely to use them to maximize profits. The privatization of public services tends to burden the public, especially if charges are raised for privatized services which may not improve with privatization.

Private interests are only interested in profitable or potentially profitable activities and enterprises. Thus, the government will be saddled with unprofitable and less profitable activities, reinforcing the impression of SOE inefficiencies. Consequently, privatization may worsen overall enterprise performance. ‘Value for money’ may go down, despite improvements used to justify higher user charges.

Privatization in many developing and transition economies has primarily enriched a few with strong political connections who ‘captured’ lucrative opportunities associated with privatization, while the public interest has been increasingly sacrificed to such powerful private business interests. This has, in turn, exacerbated problems of corruption, patronage and other related problems.

Adverse consequences

Some other adverse consequences of privatization include:

- The social and political implications of two types of services, i.e. one for those who can afford more costly, private – including privatized – services, and the other for those who cannot, and hence have to continue to rely on subsidized public services, e.g. medical services and education.
- The effects of minimal long-term investments by private owners narrowly focused on maximizing short-term profits.
- Increased living costs as well as poorer services and utilities – especially in remote and rural areas – due to ‘economic costing’ of services, e.g. telecommunications, water supply and electricity.
- Reduced jobs, overtime work and real wages for employees of privatized concerns.

Flawed arguments

Arguments for privatization can be refuted on the following grounds:

- The public sector can be more efficiently run, as demonstrated in Singapore, Taiwan and South Korea.
- Greater public accountability and a more transparent public sector can ensure greater efficiency in achieving the public and national interest while limiting public-sector waste and borrowing.
- Privatization may postpone a fiscal crisis by temporarily reducing fiscal deficits, but the public sector would lose income from profitable public sector activities, and be stuck with financing and subsidizing unprofitable ones. As experience shows, the fiscal crisis may even deepen if the new owners of profitable SOEs avoid paying taxes with creative accounting or due to the typically generous terms of privatization.

- Privatization gives priority to profit maximization, typically at the expense of social welfare, equity and the public interest. It tends to adversely affect the interests of public-sector employees and the public, especially poorer consumers.
- Public pressure to ensure the equitable distribution of share ownership (e.g., 'voucher privatization') may inadvertently undermine pressures to improve corporate performance since each shareholder would then only have small equity stakes, and would therefore be unlikely to incur the high costs of monitoring management and corporate performance.
- By diverting private capital from productive new investments to buying over public sector assets, economic growth would be retarded rather than enhanced.

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