EXPLORING THE CONSEQUENCES OF GRADUAL PRIVATIZATION IN SPECIFIC SECTORS SUCH AS TELECOMMUNICATIONS, AVIATION, BANKING, AND POWER

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ABSTRACT

Privatization has emerged as a prominent economic policy tool globally, with India being no exception. This paper delves into the intricacies of privatization in the Indian context, focusing on the imperatives that drive the gradualist approach adopted by the government and the consequential impacts on various sectors and stakeholders. India's journey towards privatization has been characterized by a cautious and incremental approach, owing to the complex socio- economic landscape and the legacy of a mixed economy. The imperatives behind this gradualist strategy include the need to balance economic efficiency with social equity, address concerns about unemployment and inequality, and navigate political sensitivities. Examining the consequences of this gradualist approach reveals a mixed bag of outcomes. On one hand, privatization has led to increased efficiency, productivity, and innovation in sectors such as telecommunications, aviation, and banking. On the other hand, it has also raised concerns about job losses, inequality, and the concentration of wealth in the hands of a few. Furthermore, the paper explores the role of privatization in addressing fiscal deficits, improving service delivery, and attracting foreign investment. It also discusses the challenges and limitations associated with the process, including regulatory hurdles, corporate governance issues, and resistance from vested interests. In conclusion, while privatization in India holds the promise of unleashing economic growth and development, its success depends on striking the right balance between market forces and social objectives. A nuanced understanding of the imperatives and consequences of gradualism is crucial for shaping future privatization policies that are both effective and equitable.

Keywords- Disinvestment, Privatization ,PSU, Government

INTRODUCTION

For nearly a decade since the onset of economic liberalization in India, a key component - privatization – remained dormant. The usual explanation has been that weak governments could not overcome the many vested interests, from rent seeking bureaucrats and ministers to public sector trade unions. In addition, ideational resistancein India's elites has also been attributed to the virtual absence of privatization in India's economic reforms.

At last, Indian privatization emerged from the shadows. What does the current acceleration of privatization in India tell us about the strength of societal actors as well as the capacity of the state? This article contends that the protracted delay between the start of economic liberalization and privatization was not solely the result of "vested interests," but rather of institutional structures, particularly those ingrained in the court, parliament, and India's financial institutions. Nonetheless, there are two more instances in which the time variable has proved significant. For starters, the expanding domestic debt issue and the Indian state's fiscal problems have raised the opportunity cost of state-owned firms, just as the external debt crisis drove the first wave of economic reforms. Second, as time has gone on, India's conceptions of the role of the state as a "guardian of the public interest" and the relative efficacy of the state against markets in commercial activity have also seen substantial modifications. The extent to which privatization—de jure and particularly de facto—has been taking place in India is grossly underestimated by the privatization of state-owned firms. This includes the privatization of public spaces, education, and even bureaucratic processes that resemble privatization. We quickly review this problem and some of its consequences. Lastly, we provide some reflections on the path forward.

WHY GRADUALISM?

One dimension on which countries' privatization programs can be compared isthe speed with which they are implemented. Some countries, like Argentina or the Czech Republic, implemented privatization programs rapidly, with large chunks divested within 3-5 years of launching the effort (Alexander & Corti, 1993). But the vast majority of countries, including India, have implemented privatization much more gradually, in fits and starts. Although many observers have complained about India's slow privatization, in fact gradual privatization is the international norm and rapid privatization is the exception (Ramamurti, 1999).

Firstly, India was not a probable candidate for rapid privatization because it did not meet the two prerequisites of a strong executive that could force reforms through and a serious macroeconomic crisis, particularly significant inflation. Numerous developing nations met one of these requirements; for example, Brazil and Turkey went through multiple periods of macroeconomic turmoil, but they did not privatize quickly. Even nations meeting both requirements, such those in sub-Saharan Africa, either privatized gradually or not at all (Dia, 1992). A small number of Latin American nations and transitional economies—such as Argentina, Chile, Peru, the Czech Republic, Estonia, and others—met both requirements and privatized extensively and rapidly.

To be clear, India was experiencing a balance of payments crisis and turned to the IMF for support when it started implementing significant economic change in 1991. However, the crisis was soon followed by ten years of strong economic growth, especially by Indian standards. While imports consistently outpaced exports, remittances and service exports increased to keep the current account deficit to an average of 1.1 percent of GDP between 1992–1993 and 2000–2001. India's GDP grew at an annual rate of 6.1 percent, while inflation averaged 7.1 percent (Acharya, 2002). The nation's foreign exchange reserves increased to $55 billion by 2002 as a result of increased capital inflows. These outcomes were undoubtedly better than India's prior record and the record of the majority of other LDCs in the 1990s, even though they were not as impressive as the high-growth Asian economies in their heyday. Politicians have little motivation to ram through structural changes like privatization, which would encounter strong opposition from influential interest groups, given that fact.

Rapidly privatizing nations either did so in the face of extreme macroeconomic hardships, such as hyperinflation, declining GDP, and a dire balance of payments crisis, or they did so in the wake of a dramatic political upheaval that resulted in the overthrow of an existing regime (such as the fall of communism or a military dictatorship). Hard economic medicine was permissible in these conditions. Privatization was a handy means to raise foreign exchange, for example by selling state firms to foreign investors, and promote foreign direct investment (FDI) as part of that package of policies. It was also a way to control inflation by reducing the budget deficit (thereby restricting the monetization of the deficit). A protracted period of weak economic performance also culminated in the dire macroeconomic conditions. When President Menem took office in Argentina, for example, the government had already lost all credibility and was pursuing economic changes, which included extensive privatization. Central planning and state ownership were so despised in nations like the Czech Republic that broad privatization was politically highly acceptable. Conversely, the Indian economy endured decades of subpar performance but never had extremely high inflation or protracted periods of economic stagnation. Simultaneously, India's executive branch suffered during the 1990s.

Molano (1997) demonstrated that privatization was more likely in situations when the ruling party simultaneously held legislative authority, but his findings are only relevant to presidential systems. During the 1990s, governments were either coalitions with the ruling party never holding a majority on its own, or they had bare majorities. Menem had far more authority to enact laws in Argentina, even depending on presidential decrees for some of the most crucial measures. Both Prime Minister Klaus and President Havel had extremely broad mandates in the Czech Republic. They had an ideological commitment to privatization, which was equally significant. On the other hand, it makes sense that development was sluggish in India given its democratic environment and numerous institutional restraints. Moreover, a large portion of the Indian political spectrum only reluctantly supported the liberalization program.

As a result, there was a reluctance to publicly criticize prior policies or to persuasively and clearly explain why changes were necessary, even in the face of numerous changes in regulations and policies as well as a less antagonistic relationship between business and government. Too many times, reforms were implemented covertly (Jenkins, 1999). A lack of confidence resulted in a failure to effectively "market" reforms to the electorate. While certain officials and ministers may have taken this action, no prime leader has been willing to address the public and explain why this is the course of action that must be taken. India's privatization was therefore progressive.

ESCALATING COMMITMENT

Initially, the deregulation initiative gradually expanded the role of the private sector in the economy. The state's direct production of goods and services has decreased, partially due to intentional reductions and partially as a result of the financial strain on the state. This has started with manufacturing and progressed to services, infrastructure, and now even the social sector. Saying that the public's, and especially the elite's, opinion of the private sector is as positive today as it was forty years ago, and vice versa, may not be overly dramatic. It would not have been feasible even ten years ago to consider privatization, but the shift in public sentiment has made it more feasible. Second, and perhaps most crucially, the government's privatization initiative started out as a divestment program with the sole intention of lowering government shares by up to 20% in order to collect money to close the budget deficit. Accordingly, the program was labeled “disinvestment” and the term “privatization” assiduously avoided. The next stage of escalation was raising the amount that would be divested to 49 percent. Since this would still leave the government with majority ownership, the fundamental character of the enterprise would be unchanged, while on the other hand even more resources could be mobilized to plug the budget deficit, which at the onset of the reforms exceeded 9 percent of GDP. In the next stage, the government decided that it would sell up to 74 percent of the equity, since that would leave it with 26 percent—a level high enough to give it a strong voice in the enterprise, though not a controlling voice. Finally, outright divestment became acceptable, initially for loss making enterprises and later even for profitable enterprises. Thus, the government escalated its commitment from merely privatizing *ownership* to privatizing *control*. And during the 2000-01 budget debate, Finance Minister Yashwant Sinha actually used the term “privatization” to describe the government’s program for reforming SOEs.

A third dimension along which the government's commitment to privatization expanded was in the sectors in which firms could be sold. The term "strategic" was frequently used to describe those state-owned enterprises (SOEs) that the government intended to retain control over the long term. But the definition of "strategic" became progressively tighter, so that the number of SOEs that could be divested expanded. Initially, for instance, the Ministry of Petroleum argued that oil companies were strategic, but by 2000 the cabinet committee on disinvestment had classified it as non-strategic. Eventually, only nuclear power, defense and railroads were left in the strategic category, and everything else was eligible for privatization. And even in the last two, greater deregulation and outsourcing of activities is increasing the role of the private sector. To be sure, the debates on which sectors were strategic were contentious, but they ended with progressively narrower definitions, even though the party in power changed thrice. Although there has been a noticeable increase in the commitment to privatization after the BJP-led governments came to power, there has been more continuity than discontinuity in the privatization program.

Finally, the restrictions on the buyers also progressively declined. Initially the auction of shares was restricted to public financial institutions that over time wereexpected to offload them to private investors. By 1996 equity was being offered to foreign institutional investors. This followed three concomitant trends—the willingness of the government to sell SOEs to "strategic investors," that is, to private investors who would own a large block of shares (not necessarily 51 percent) and would enjoy management control, the liberalization of rules governing foreign direct investment, and the opportunity to list Indian firms on foreign stock exchanges through ADRs and GDRs. Thus, potential buyers of Air India included Singapore Airlines in partnership with the Tatas, and Air France in partnership with a local Indian group, while foreigners owned portions of VSNL and MTNL through ADRs traded on the New York Stock Exchange.

IMPLICATIONS OF GRADUALISM

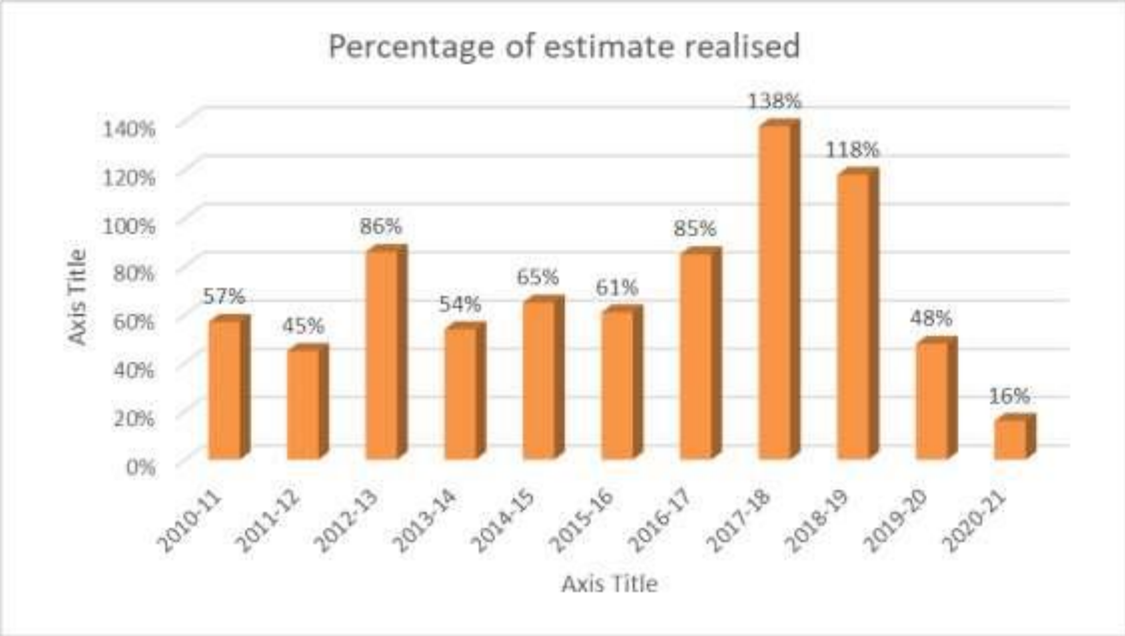
Therefore, it is evident that India's methodical approach to privatization did, in fact, result in a stronger commitment to it. First, we will look at the ramifications of the gradual approach, and then we will address the subject of how gradual privatization might be hastened. Its drawbacks, which are genuine and significant, are often highlighted by international organizations such as the World Bank (see, for instance, World Bank 2014). However, they fail to consider the possible benefits of a phased privatization.

Disadvantages

Slow privatization has the drawback of giving program opponents more time to plan their opposition, which can cause the program to move more slowly. Workers, labor unions, government officials, clergy, and opposition party members are typically considered opponents. Institutional issues also played a significant role, as we will explain later, even if there is evidence in the Indian example that such opposition slowed down the privatization initiative. Such opposition may finally cause the program to fail altogether, turning gradualism into inaction. Opponents of the program can easily derail it with any mistake made by the government. This was the case in 1992 when the first block of shares in SOEs was sold to government-owned mutual funds and was involved in a major financial scandal known as the "Harshad Mehta scam," and again in the mid-1990s following the disastrous auction of telephone licenses. There was a pause in privatization after each of these errors (see to Table 1). Only three fiscal years since 1991–1992 have seen divestment proceeds surpass the budgetary target (1991–1992, 1994–1995, and 1998–99). It is crucial to note, though, that merely hitting goals is not that significant, as this could be accomplished through distress sales and subpar hiring practices, both of which have detrimental long-term effects. From the below table disinvestment target vs receipts are given for following ten years.

Disinvestment targets vs receipts (2010-21)			
Year	**Budget Estimate (in Rs crore)**	**Actuals (in Rs crore)**	**Percentage of estimate realised**
2010-11	40,000	22,846	57%
2011-12	40,000	18,088	45%
2012-13	30,000	25,890	86%
2013-14	54,000	29,368	54%
2014-15	58,425	37,737	65%
2015-16	69,500	42,132	61%
2016-17	56,500	47,743	85%
2017-18	72,500	1,00,045	138%
2018-19	80,000	94,727	118%
2019-20	1,05,000	50,304	48%
2020-21	2,10,000	32,886	16%

Source: Actuals for 2020-21 taken from Controller General of Accounts



Variance in Targets and Actuals: There is a significant variance between the budget estimates (disinvestment targets) and the actual receipts for most years. For example, in 2017-18, the actual receipts surpassed the target by 38%, while in 2020-21, they fell short by 84%.

1. **Inconsistency in Achievement**: The percentage of estimate realized fluctuates widely across the years, indicating inconsistency in achieving the set targets. For instance, in 2012- 13, 86% of the target was achieved, whereas in 2019-20, only 48% was realized.

2. **Trend Analysis**: Over the years, there seems to be a mix of years where the actual receipts exceed the targets (such as 2017-18 and 2018-19) and years where they fall significantly short (like 2020-21).

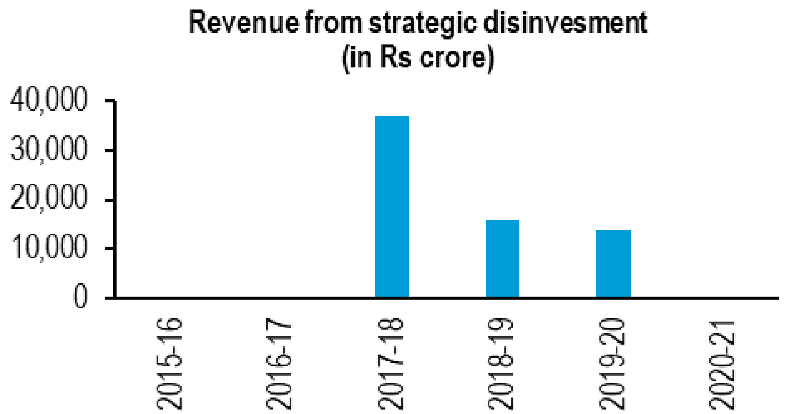
3. **Impact of Economic Conditions**: Economic conditions and market factors likely play a significant role in the achievement of disinvestment targets. Years with favorable economic conditions might see higher receipts, while downturns could lead to lower-than-expected disinvestment proceeds.

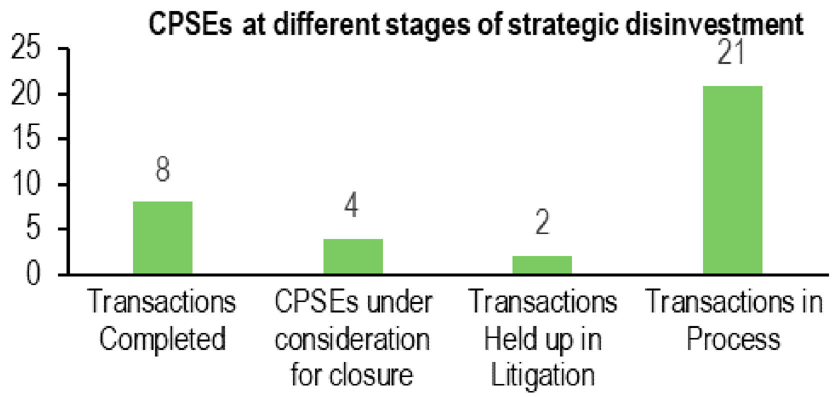
4. **Policy Implications**: The government may need to reassess its disinvestment strategies and policies based on the observed performance. It could involve more proactive measures during years of underperformance and prudent management during years of overachievement.

5. **Need for Realistic Targets**: Setting realistic and achievable disinvestment targets is crucial to maintain credibility and transparency in fiscal planning. Unrealistic targets can lead to skepticism among investors and stakeholders.

Overall, the data highlights the importance of continuous monitoring and adjustment of disinvestment strategies to ensure alignment with fiscal goals and economic realities.

Strategic disinvestment has not involved privatisation and has been affected by delays





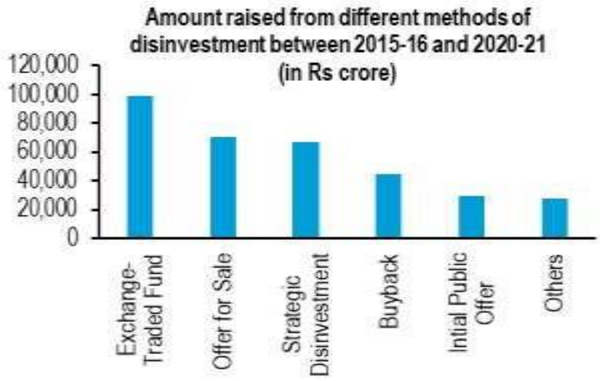
Note: Includes Air India. Does not include IDBI Bank which was cleared for strategic disinvestment in May 2021.

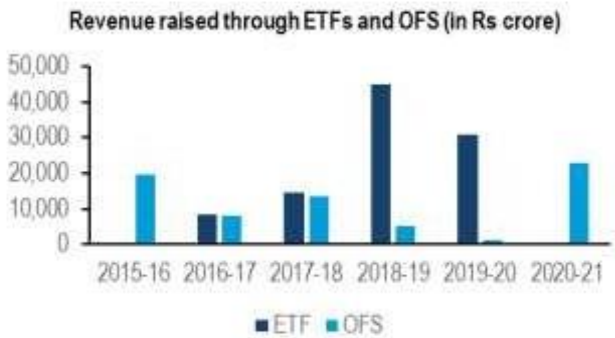
- Strategic disinvestment involves sale of a substantial portion of the government's shareholding in a CPSE (up to 50% or more) along with transfer of management control.
- In the last six financial years, all the transactions where the government sold more than 51% of its shareholding in CPSEs, along with transfer of management control, have involved another CPSE picking up the government's stake. In 2017-18, the government raised Rs 36,915 crore from the sale of HPCL to the state-owned Oil and Natural Gas Corporation Limited. Similarly, in 2018-19, the government received Rs 14,500 crore from the sale of REC Limited to Power Finance

Corporation Limited which is another state-owned company in the power sector.

- Several strategic disinvestment transactions have been in the pipeline for a long time. For instance, sale of Bharat Petroleum Corporation Limited, approved in November 2019, is yet to be concluded.

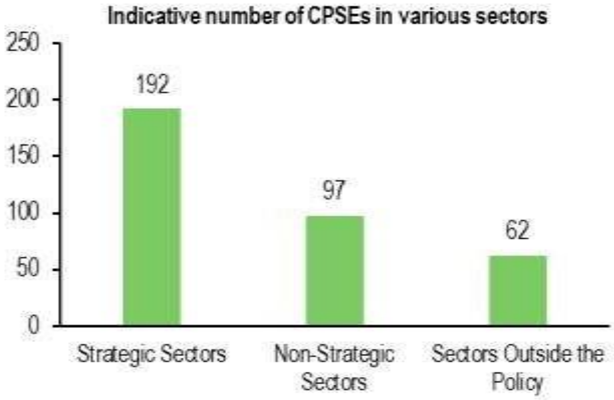
Exchange-traded funds have brought the maximum disinvestment receipts for the government





- The government uses various methods for disinvestment. In the last six years, the most significant modes of disinvestment have been exchange-traded funds (ETFs), offer-for- sale (OFS), strategic disinvestment, buybacks, and initial public offer (IPO).
- An ETF is a basket of stocks. The government has two primary ETFs: (i) CPSE-ETF and (ii) Bharat 22 ETF. Between 2015-16 and 2020-21, the government raised the maximum disinvestment receipts from ETFs.
- OFS involves the sale of government's shareholding in listed CPSEs in the stock market. However, even this has involved CPSEs buying significant stake in other government companies. For instance, in 2015, Life Insurance Corporation of India (LIC) picked up 45% of a 10% OFS in Coal India Limited. In March 2013, LIC bought 71% of 5.82% stake sale in Steel Authority of India Limited.

New Public Sector Enterprise (PSE) Policy aims to privatise CPSEs across sectors



- According to the new PSE policy, the central government has divided most sectors into strategic and non-strategic.
- In strategic sectors, the government will maintain a bare minimum presence. The remaining entities will be considered for privatisation, merger, subsidiarisation or closure. Sectors categorised as strategic include: (i) atomic energy, space and defence, (ii) transport and telecommunication; (iii) power, petroleum, coal and other minerals, and (iv) banking, insurance, and financial services.
- CPSEs in non-strategic sectors will be either privatised or closed.
- Certain sectors such as development financing/refinancing institutions, major port trusts, and CPSEs providing support to vulnerable groups have been kept out of the framework.

Financial Year 2023-2024						
S. No	**Title**	**Name of CPSEs**	**% of GoI's Shares Disinvest ed**	**Method of Disinvestment**	**Receipts(in Rs. Crore)**	**GoI's Shareholding Post Disinvestment**
1	Others (Remittance from SUUTI)	Others (Remittance from SUUTI)	0	OTHERS	1810.33	0

2	HINDUSTAN AERONAUTICS LTD.	HINDUSTAN AERONAUTICS LTD.	0.01	EMP OFS	9.3	71.64
3	COAL INDIA LTD.	COAL INDIA LTD.	3	OFS	4185.31	63.13
4	COAL INDIA LTD.	COAL INDIA LTD.	0	EMP OFS	0.379	63.13
5	RAIL VIKAS NIGAM LTD.	RAIL VIKAS NIGAM LTD.	5.36	OFS	1365.61	72.84
6	RAIL VIKAS NIGAM LTD.	RAIL VIKAS NIGAM LTD.	5.36	EMP OFS	0.0024	72.84
7	SJVN LTD.	SJVN LTD.	4.92	OFS	1348.47	55
8	SJVN LTD.	SJVN LTD.	0	EMP OFS	0.8	55
9	HOUSING & URBAN DEV. CORPN. LTD.	HOUSING & URBAN DEV. CORPN. LTD.	6.64	OFS	1049.95	75.17
10	INDIAN RENEWABLE ENERGY DEVELOPMENT AGENCY LTD.	INDIAN RENEWABLE ENERGY DEVELOPMENT AGENCY LTD.	10	IPO(O.F.S portion of 10%)	858.36	75
11	IRCON INTERNATIONAL LTD.	IRCON INTERNATIONAL LTD.	8	OFS	1191.13	65.18
12	IRCON INTERNATIONAL LTD.	IRCON INTERNATIONAL LTD.	0.01	EMP OFS	2.09	65.17
13	NHPC LTD.	NHPC LTD.	3.5	OFS	2452.59	67.45
14	NHPC LTD.	NHPC LTD.	0	EMP OFS	35.86	67.45
15	HOUSING & URBAN DEV.	HOUSING & URBAN DEV.	0.17	Open Market Sale	68.47	75

	CORPN. LTD.	CORPN. LTD.				
16	NLC INDIA LTD.	NLC INDIA LTD.	7	OFS	2128.64	72.2
Total Sum					**16,507.29**	
NINL						
NOTE 1: NINL was a Joint Venture company, in which 4 CPSEs namely MMTC, NMDC, BHEL and MECON and 2 State PSUs of Odis						
NOTE 2: The highest bid of M/s Tata Steel Long Products Limited for 93.71% of shares of Joint Venture partners of 4 CPSEs and 2 O						

Above table provides details of the disinvestment activities for the financial year 2023-2024, including the percentage of Government of India's (GoI) shares disinvested, the method of disinvestment, receipts generated, and the GoI's shareholding post-disinvestment. Here are the conclusions that can be drawn from the provided data:

Diverse Methods of Disinvestment: The disinvestment has been carried out through various methods such as Offer for Sale (OFS), Employee Offer for Sale (EMP OFS), Initial Public Offering (IPO), and Open Market Sale. This indicates a strategic approach to divestment, leveraging different mechanisms based on the nature of the CPSEs and market conditions.

Significant Receipts Generated: The total receipts generated from the disinvestment activities amount to Rs. 16,507.29 crore. This signifies a substantial inflow of funds to the government, which can be utilized for various developmental and fiscal purposes.

Reduction in GoI's Shareholding: The disinvestment resulted in a reduction in the Government of India's shareholding in the respective CPSEs. This indicates the successful execution of the government's divestment strategy to reduce its stake in public sector enterprises.

Focus on Key Sectors: Sectors such as coal, railways, housing and urban development, renewable energy, and infrastructure are targeted for disinvestment. This suggests a strategic approach to divestment, potentially aimed at enhancing efficiency, competitiveness, and private sector participation in these sectors.

Importance of Employee Participation: Employee Offer for Sale (EMP OFS) is utilized in some cases, ensuring employee participation in the disinvestment process. This can foster a sense of ownership among employees and align their interests with the company's performance and growth.

Continued Use of Various Disinvestment Channels: The use of different disinvestment channels like OFS, EMP OFS, IPO, and Open Market Sale reflects the government's flexibility in adopting diverse strategies to achieve its disinvestment targets efficiently.

In summary, the data indicates a well-structured and diversified approach to disinvestment, resulting in significant receipts while strategically reducing the government's stake in key public sector enterprises.

However, the Indian experience appears to have been different, because the period leading to privatization was marked by considerable policy uncertainty. Unlike Prime Minister Thatcher, who announced unambiguously her intention to privatize state enterprises outright, Indian prime ministers pursued privatization in small doses and almost by stealth, as discussed earlier. Therefore, neither the government, nor supervisingministers, nor the chief executives of SOEs had a clear mandate on what was to be accomplished in the run-up to privatization. Since the government was officially only looking to divest minority equity in these companies or to retain a loud if not controlling voice after disinvestment, managers of the firms also behaved as if the changes expected of them were incremental and marginal. The most important reform that gathered steam was initiatives to downsize the workforce through generous voluntary retirement schemes.

The fact that gradualism undermines investor trust in buying SOEs or their shares is a third drawback of the strategy. How to value SOE shares is a crucial question for investors. Investors value companies more if they think the government will eventually privatize authority over them; typically, they do this by applying standards that apply to private companies. However, they worry that the interests of minority private shareholders would be disregarded if they believe that the government wants to maintain control or a strong voice over SOEs (Boardman & Vining, 1989). Gradual privatization lowers the secondary market price of SOEs' stocks since it indicates a government's apparent reluctance to relinquish control over them. In the Indian case, the government’s credibility with private investors was considerably weakened when in 1998-99 large blocks of government equity in state-owned oil companies were sold to other oil companies.

From the foregoing, it can be seen that gradual privatization runs the danger of reducing the returns to the government from privatization, as investors may value SOEs less when they perceive a "government-control discount," and SOE performance may worsen in the lead-up to privatization. When privatization happens too quickly, like in Argentina, assets are sold under "fire sale" terms, which can reduce government revenue. However, slow privatization is also an option. The ideal duration of a privatization program might be five years from the point of view of optimizing proceeds to the Treasury. The privatization initiative in India gained traction more than a decade after it was first introduced.

Advantages

Gradualism has its advantages. It increases the likelihood that other efficiency- enhancing reforms, such as competition and deregulation, will be implemented before or alongside ownership changes. It gives policy makers time to build support for and consensus on privatization. And it provides the opportunity for policy makers to incorporate lessons from earlier rounds of privatization in later rounds. To be sure, none of these advantages of gradualism are automatic, in the sense that merely delaying privatization does not guarantee their realization. In the Indian case, the benefits were realized, despite changes in governments, because of two structural factors.

The first structural factor was the government's high budget deficit, running through the decade at 5-7 percent of GDP, which put constant pressure to raise additional resources. Therein lay privatization's universal appeal to finance ministers—it held the prospect of turning money-sucking SOEs into money contributors. Thus, every finance minister projected some revenues from privatization each year. The other structural factorpromoting privatization was globalization. India had committed to opening up the economy, especially after the Uruguay Round, and steps had to be taken to modernize SOEs and promote private investment in the economy. Once again, privatization was seen as part of the answer. For these two structural reasons, every government in the 1990s, regardless of ideology, took incremental measures to privatize SOEs. Thus, Narasimha Rao's Congress government issued the initial policy statement on disinvestment, the Janata Dal government constituted the Disinvestment Commission, the NDA replaced the Commission with a Department of Disinvestment and a CabinetCommittee on Disinvestment, and so on.

The most important advantage of gradual privatization was that it afforded time toimplement policy reforms that complemented privatization—reforms that countries privatizing in a rush generally did not implement or implemented poorly. The experiences in Eastern European countries and the former Soviet Union where many western advisers encouraged these countries to privatize firms quickly under the assumption that market institutions would develop once firms were privately owned, proved painfully erroneous. The consensus now is in favor of establishing an institutional framework conducive to promoting competition before privatizing firms. In a recent study focused on the telecommunications sector Wallsten (2002) found that countries thatestablished separate regulatory authorities prior to privatization saw increased telecommunications investment, fixed telephone penetration, and cellular penetration compared with countries that did not. He also found that investors were willing to pay more for telecommunications firms in countries that established a regulatory authority before privatization. This increased willingness to pay is consistent with the hypothesis that investors require a risk premium to invest where regulatory rules remain unclear. We will illustrate the point about the importance of reforms that complement privatization with three examples: reforms that deregulated sectors in which Indian SOEs operate, reforms that phased out subsidies in industries dominated by SOEs (e.g. oil), and reforms that downsized the workforce in SOEs. In theory, all of these reforms can and should be done simultaneously with privatization, but countries that privatized quickly usually struggled to implement these complementary policy reforms for several yearsafter privatization. We would argue that implementing such reforms after privatizationcan be very difficult, because the new private owners of SOEs will view such reforms as changing the "rules of the game" after the fact. In several Latin American countries, SOEs were privatized first and deregulation of their sectors was postponed to a future time, because SOEs could be sold more quickly—and for a higher price—if they were sold as monopolies (for examples from telecommunications and transport, see Ramamurti1996). Experience has shown that private owners will fight deregulation later on, making it harder to create effective competition in the long run. This carries a substantial social cost, because competition spurs productivity gains more effectively than ownership changes per se (Yarrow 1992). Gradualism increases the likelihood that competition- enhancing policies will be implemented prior to privatization.

This is not to say that gradualism is a prerequisite for labor downsizing. Argentina, which privatized rapidly, sharply downsized the SOE workforce in railroads, for instance, prior to privatization, but it did not do so in the case of telecommunications, its first major privatization. But without the macroeconomic crisis that he was purportedly fighting, President Menem would probably not have been able to take on the unions. Likewise, President Salinas of crisis-ridden Mexico confronted unions early on to pave the way for labor downsizing and privatization. In the absence of an economic crisis, and with prime ministers who were much less powerful than presidents of countries like Argentina or Mexico, labor could not have been downsized rapidly in Indian SOEs. Had privatization somehow been implemented rapidly in the Indian case, almost surely it would have resembled the Malaysian approach, wherein SOEs were sold with the condition that workers would not be fired for five or more years (Jomo, 1995). The result then is ownership change with limited improvement in labor productivity.

ACTORS AND INTERESTES

Most analysis of the political economy of privatization puts the onus on the nexus of self- interested rent-seeking politicians, bureaucrats and labor unions. The politician- bureaucrat nexus has long been viewed as a critical actor that seeks to block reforms that undermine its rent-seeking capacity. There is little doubt ministers, who would stand to lose the many benefits of departmental enterprises, have repeatedly tried to scuttle disinvestment of PSUs under their administrative charge and this has also been the case with the current government. Sharad Yadav, as Civil Aviation Minister scuttled the saleof Indian Airlines and in the case of IPCL and Hindustan Zinc Ltd (HZL) the two concerned ministers (Ram Naik and Ram Vilas Paswan) allegedly tried till the very endto put a spanner in the works. In IPCL's case, ONGC which was legally bound to supply the firm with gas until 2006 irrespective of ownership, suddenly changed its position when the IPCL sell-off process began. This despite the fact that the same ministry supervised both ONGC and IPCL and 14 months earlier the cabinet secretary had met the petroleum secretary and they had decided that ONGC would abide by the contract. But when the sale deadline neared the government did not have a formal assurance and Naik cited the possible non-availability of gas to IPCL to try and postpone the sell-off. Paswan insisted until the last minute that that HZL should not be sold off until a 'controlpremium' was added to the overall price. Minister for heavy industry, Manohar Joshi, (now Speaker) had been unwilling to let go the control of some of the companies under his ministry, including Maruti Udyog Ltd. He raised objections claiming that Maruti would seek recourse to component imports at the expense of domestic automobile component manufacturers. And Joshi like virtually all Ministers who want to delay sales, justified his opposition on the grounds that a delay would result in better valuation and they were simply to trying to safeguard workers' interests. On two occasions the Minister stalled critical meetings claiming the file on Maruti's divestment had been "misplaced".

INSTITUTIONAL CONSTRAINTS

Political compulsions, fiscal and market realities are necessary but not sufficient conditions for economic policy change to occur. While the gradualism that underlay India's economic reforms also characterized privatization, a combination of leadership and institutional factors accelerated the process. In Arun Shourie the government had a privatization minister who was not just unabashed about the case for privatization, but a strong champion. The combination of self-confidence and pecuniary integrity led to perhaps the most transparent procedures of a major government program being put into place. From the selection of advisors to the final selection of the strategic partner, open competitive bidding has been the norm. Once transactions are completed, all files are handed over to the Comptroller and Auditor General's office.

Still, this does not necessarily mean that the greater influence of the Indian courts is a good thing. The Indian court system's unusual generosity—a Trojan Horse with far-reaching political, social, and economic ramifications—has been its predilection for stay orders. The opportunity costs of delay are especially high on economic matters because of the disconnect between the speed at which market forces act today and the pace at which judges render decisions.

The challenge was both legal and political in that a state government was frontallytaking on the federal government on matters that concerned central PSUs. Ironically, the challenge was the best thing the opponents of privatization could have done for accelerating the program. In December 2002 a three-judge Bench of the Supreme Court not only upheld the sale, but in a landmark decision unequivocally silenced the critics. More importantly, in laying down far-reaching principles that will influence the tenor of jurisprudence on economic affairs, the significance of the judgement far transcended the specifics of the BALCO transaction.

THE "PRIVATIZATION" OF THE INDIAN STATE ?

Up until now, the conversation has concentrated on a limited interpretation of "privatization," which is the lawful transfer of state assets into private hands. Even while this has only partially occurred thus far, it is increasing. But in a looser sense, the Indian context has seen a significant increase in the power of privatization. The trends are clear-cut: they include the privatization of public space through the rise of gated communities, the expansion of private social service providers, the expansion of private security services, the replacement of public transportation with private modes, the privately appropriated use of public assets, such as in the power industry, and the "sale" of public employment. With their own electricity, water, and sewage infrastructure, private townships and buildings have left the public sector. There has been an increase in the outsourcing of government labor to private organizations as the state is unable to obtain work from its own workforce. The finance ministry in Delhi has outperformed itself when it comes to maintaining its restrooms, whereas the public works department in Hyderabad and Chennai has privatized street cleaning. Even security is being supplied by private security companies in many of Delhi's bhavans. Local committees in Madhya Pradesh have taken control of the management of government hospitals, reportedly with substantial improvements in service. Laws and bills are also being outsourced. Outsourced to a private law firm (Nitish Desai Associates), with consulting inputs from CRISIL, the development of 'The Andhra Pradesh

Infrastructure Development Enabling Act, 2001'—arguably a milestone piece of infrastructure-enabling legislation—was done. An rising number of previously public limited corporations are delisting from stock exchanges and going private! Elites in India are leaving the public sector, which is a development that can be both good and bad. They are advantageous in that they take up less of the limited public resources. Negative in that the state is even less motivated to perform when the powerful go.

Conclusion

In conclusion, the journey of privatization in India has been marked by a cautious and gradualist approach, driven by a combination of imperatives and constrained by various factors. The imperatives behind this strategy include the need to balance economic efficiency with social equity, address concerns about unemployment and inequality, and navigate political sensitivities. However, this gradualist approach has faced significant challenges, including resistance from vested interests, regulatory hurdles, and fiscal constraints.

Despite these challenges, privatization in India has yielded both advantages and disadvantages. On the positive side, it has led to increased efficiency, productivity, and innovation in sectors such as telecommunications, aviation, and banking. It has also generated significant revenues for the government, which can be utilized for developmental purposes. However, privatization has also raised concerns about job losses, inequality, and the concentration of wealth, highlighting the importance of addressing social implications alongside economic gains.

Moreover, the data presented underscores the importance of continuous monitoring and adjustment of disinvestment strategies to ensure alignment with fiscal goals and economic realities. While various methods of disinvestment have been employed, including offer for sale, employee offer forsale, initial public offerings, and open market sales, the government needs to reassess its strategies based on observed performance and market conditions.

Furthermore, the broader trend of privatization extends beyond the transfer of state assets to private hands. It encompasses the privatization of public space, provision of social services, security services, and even public jobs, reflecting a larger transformation in the Indian landscape. While this trend may alleviate some pressures on the state, it also raises concerns about equity and accountability in service delivery.

In navigating the complexities of privatization, it is crucial for policymakers to strike a balance between market forces and social objectives, ensuring that economic gains are accompanied by inclusive growth and equitable distribution of benefits. Moreover, institutional transparency, procedural integrity, and leadership commitment are vital for legitimizing privatization efforts and building public trust in the process. Ultimately, a nuanced understanding of the imperatives, challenges, and consequences of privatization is essential for shaping future policies that promote sustainable development and social well-being in India.

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