

Privatization is a broad concept and its meaning goes slightly different in different countries. Privatization generally refers to inducing private sector participation in the management and ownership of Public Sector Enterprises.

In a narrow sense, privatization implies induction of private ownership in state owned enterprises. It is the process of transferring ownership of a business, enterprise, agency, public service or public property from the public sector (a government) to the private sector, which usually operates for a profit.

Privatization in the global context

Privatization was a global trend in the late 1980s and early 1990s to reform the loss making and inefficient public sector enterprises. In countries with many state-owned enterprises, including developing countries, post-socialist countries, and countries of Western Europe, privatization is the transfer of enterprise ownership in whole or in part from the state to private hands. This is often referred as denationalization and "destatization".

Why there is the need for privatization?

One of the main arguments for the privatization of publicly owned operations is the estimated increases in efficiency that can result from private ownership and business practices. The increased efficiency is thought to come from the greater importance that the private firms make on profit maximization.

Privatization in India

India is a mixed economy with both the private sector and the public sector performing various activities in accordance with regulations. But the public sector was affected by inefficiencies and incompetence in a non-sustainable manner by 1991. The New Industrial Policy of 1991 contained several reform measures for the public sector. Some of them are selling of loss making units to the private sector, inviting private participation in PSEs, and strategic sale. Some of these reform measures included privatization in a low degree.

In India, hence privatization was in a unique form in accordance with the priorities of our mixed economy and as well as by considering operational aspects of the PSUs. Privatization in the country was launched mainly to enhance the efficiency of the public sector enterprises as well as to concentrate the operation of the public sector in priority areas.

The degree of privatisation in India

Following the industrial policy of 1991, the government has adopted disinvestment, strategic sale of minority shares to private partners and selling of loss making units to the private sector. Some of the chronically loss making units were either sold –off, or closed after all workers got their legitimate dues and compensation. Selling of loss making units and strategic sale imply full privatization as the company's ownership is transferred to a private entity. But the main form of inviting private participation was disinvestment which results in transfer of minority shareholding to the general public, at the same time the government maintaining 51% share. The sale of minority stake to private sector has enabled the government to inject competitive and efficient private sector