CHAPTER-V

CONCLUSION

Throughout the history of state formation, economic crises marked critical junctures for the reorientation of the role of the state in the economy. The unfettered faith in the "invisible hand" of markets, able to function most efficiently when left undisturbed by regulatory or protectionist forces, was finally debunked with the stock market crash of 1929 and the Great Depression that followed. Keynes's market skepticism fueled a new set of policies toward managed capitalism in which state intervention was key to correcting the imbalances that economic downturns ignited.

The post World War II Bretton Woods system aimed at international monetary stabilization and the development of financial globalization. The effort was initially restricted by the pervasiveness of what Ruggie (1996) terms the "embedded liberalism compromise", that is, economic liberalization accompanied by domestic social policies to balance the distributional effects of trade opening. Incrementally, however, the market oriented reforms supported by Margaret Thatcher in the United Kingdom and Ronald Reagan in the United States gained prominence in developing countries as well. Policies such as trade liberalization, privatization, fiscal austerity, and financial
deregulation were largely taken on by Latin American and Eastern European leaders in the 1990s. The effort then was quite ambitious: to transition to or try to consolidate new democratic regimes and, at the same time, implement bold economic reforms, so strongly supported by international financial institutions that they became known as part of the Washington Consensus" (Williamson 1990). Those reforms were at the heart of neoliberalism, which became the new development mantra, a road map embraced by legions of foreign trained technocrats in developing countries (Biersteker 1995; Fourcade-Gourinchas and Babb 2002), were trial and error in fighting rampant inflation had by the early 1990s exhausted political and social resources in vain.

Moreover, neoliberalism at the time was a vigorous critique of and systematic reaction against state interventionism (Krueger 1990), discredited by both the failure of communist command economies in Eastern Europe and right wing capitalist profligacy in Latin America (where it culminated in the debt crisis of the 1980s). Of the developing regions, East Asia was where economic growth had been most striking. The contrast with Latin America’s “lost decade” of the 1980s led to the conclusion that instead of import substitution industrialization, export oriented growth was a more solid path to development (see Haggard 1990). Trade expansion, indeed, was a core element of market (or neoliberal) reforms in the early 1990s. With the United States heralding the virtues of the global economy. Most developing countries
joined the band wagon of globalization, eager to put their comparative advantages so well identified by neoclassical economists to their systematic economic benefit.

The component of financial liberalization in the neoliberal agenda was far from an easy ride, however. Financial crises in the 1990s adversely affected capital flows, domestic credit, and, ultimately, output in place such as Mexico (1994-95), Asia (1997), Russia (1998), and Brazil (1999), with effects that later compounded the Argentine crisis of 2001. More disturbingly, crises did not remain confined to their epicenter. Rather, “contagion” effects were felt throughout countries known as “emerging markets” through herd (or mimicking) behavior on the part of international investors. Despite these severe economic downturns, and the costly adjustments different economies underwent, developing countries did not shun neoliberal policies. More populist rhetoric grew in countries such as Argentina, Bolivia, Venezuela, and Malaysia, to name a few. Nonetheless, overall, governments from Brazil to China moved forward with open trade policies, creating newer and broader links with advanced and emerging economies, while following a more mixed model to economic growth than wholesale laissez faire (Rodrik 2006).

These dynamics fueled a vast literature on global political economy and globalization, which since the 1990s has been keen on parceling out the role of
the state in the current phase of capitalism. Studies that claimed the state was withering away gave room to more focused analyses of states as negotiators, trying to intersect national law with foreign actors (Sassen 1999), especially through competitive deregulation or reregulation linked to the preference or imperatives of foreign capital (Cerny 2005; Moran 2002; Vogel 1996). Although the scope of states autonomy to control monetary and fiscal policies was constrained by economic globalization, in order to profit from this process, the state (especially in developing countries) increasingly facilitated its development. States core purpose became the promotion and institutionalization of global economic policies and practices aimed at increasing competitiveness and the potential for foreign capital attraction (Cerny 2005). To this end, states have endured internal transformations. Sassen (1996) suggests that state participation in implementing this global economic agenda entailed the ascendance of what became strategic agencies within the government apparatus, namely, central banks, treasuries, and regulatory agencies. If this was true of the initial phase of intense financial deregulation, it is bound to be even more of a prominent trend at the present time, when the financial crisis initiated in 2007 has gained historical proportions. Most Western governments have been detecting as culprits unregulated financial tools that created interlinks within the system, promoting contagion among different sectors of the economy, as if in a domino fall (see Datz 2009). The reaction from governments in most of the advanced
economies has been to try to contain the credit crisis through large fiscal stimulus efforts and partial nationalization of major financial institutions. India is no stranger to these experiences.

Privatization: Analysis and Implications for India

During the last decade there has been a burst of interest in the idea of privatization. It has been praised by some who call it “wave of the future”. Other either throw cold water on the idea that privatization can make a useful contribution to economic prosperity, or maintain that the subject is still surrounded by intellectual confusion.

The broad reason for this burst of interest in privatization is that most governments are searching for new ways to mobilize resources and for ways to use more effectively the resources they have. The privatization response can be considered as a reaction to the world-wide growth of government. Data available with the International Monetary Fund (IMF) reveals that public expenditures in most countries rose in real terms, by 2 to 3 per cent annually, registering particularly high rates between 1960-1975, while in the early 1970s, only 13 countries monitored by the IMF were spending 30 per cent of the gross domestic product (GDP) in the public sector, by the end of the
decade about 40 countries were spending more than one-third of their GDP in the public sector.\textsuperscript{1}

In effect, a quiet revolution had occurred in the shifting of resources into the public sector in the decade of the 1970s. In the less developed countries (LDC), this was characterized by the growth of state owned enterprises (SOE). To cite a few instances, in Mexico at the beginning of the 1960’s there were about 150 SOEs, by now they have risen to 600. in Brazil, there were 150 SOEs at the beginning of the 1960s, by the beginning of the 1980s they had increased to 600 or 700.\textsuperscript{2}

What is true for GDP is also applicable for capital investment. SOEs are estimated to be responsible for between 20 and 60 per cent of total investment spending in the less developed world. The trend towards establishing SOEs had cut across ideologies, economic systems and geographical differences. At that time the raison d’etre for SOEs was that they were going to be the leading edge of modernization, generate resources for further investment, provide employment, “command the heights” of their economies and take away the control from the much resented foreign interests. These SOEs were to herald self sufficiency in industrialization food supplies and services

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Generally the governments in all countries have gone beyond the provision of public goods and services such as national defence, law and order or street lighting. They have invested in and promoted the production and distribution of a variety of private goods through the allocation of public resources and the creation of public organizations. Private goods are items such as food, clothing or medical care whose consumption by one person denies its consumption by another. When such goods are supplied by the state it is based inadequate if left to the private sector. Some of the reasons for this belief are the rudimentary state of the private sector, small number of entrepreneurs, small size of businesses, inability of the private sector to raise resources and a wish to promote a particular distribution of income. Sometimes the public sector has been bloated by politicians and bureaucrats in search of power and prestige.

The phenomenal growth of public investment is reflected in India too. Public sector investment has gone up from Rs.1560 crores during the first plan to Rs.84000 crores during the sixth plan period. This represents an average annual increase of 151 per cent. It has also been pointed out that there are about 240 public enterprises in the country now as against merely five in 1951. Total investment has shot up from Rs.29 crores in 1951 to about Rs.60,000 crores. Public sector undertakings, including the petroleum sector, had shown a profit of Rs.19 crore during 1980-81 and Rs.2,000 during 1985-86. However
if the petroleum sector is excluded then a loss of Rs.211 crores in 1980-81 and Rs.171 crore during 1985-86 has been made. It is clear that by and large the public sector enterprises were not making profits.

Disillusionment with the performance of SOEs is common in developed as well as developing countries. The general impression seems to be that they have failed in their objectives. They are viewed as being more of a drain on the nation’s budget than as generator of new resources. In most countries unbridled state expansion has led to economic inefficiency in the productive activities of the public sector with high costs of production, inability to innovate and costly delays in the delivery of the goods produced. It has also caused ineffectiveness in the provision of goods and services including the failure to meet intended objectives, diversion of benefits to elite groups and political interference in the management of enterprises as well as rapid expansion of the bureaucracy, straining the budget, furthering labour problems within the public sector, inefficiency in the economy and adverse effects on the whole economy. Far from removing market distortions, they have given rise to new ones. They have given employment, but many of them suffer from being overmanned. When measured from indicase like capacity utilization or profitability ratios, they fall for behind their counterparts, if any, in the private sector.
The impact of these views has been most obviously felt in on privatization programme for state owned industries and state provided services. In the United States placing a greater reliance on the private sector had been the centerpiece of the Reagan Administration’s programme of accelerated and sustained growth through market oriented economic policies. Consequently, the administration in its 1987 budget requested proposed among other things, to sell off some of the government’s assets, terminate support for some essentially commercial activities expecting savings of $52000 million over a five year period.

Approaches to and definitions of privatization vary according to the objectives it sets out to achieve, the methods by which it is implemented and the environment in which the policy is executed. Privatization is most commonly defined as the transfer of government owned industries to the private sector implying that the predominant share in ownership of assets on transfer lies with private shareholders. The second form of privatization is the wholesale privatization of welfare services as an alternative way of allowing the market to penetrate the major welfare services notably through the policy of partnership between the public and private sectors. Privatization is also generally used to mean the formation of a Companies Act company and the subsequent sale of at least 50 per cent of the shares to private shareholders. However, the underlying idea is to improve industry performance by
increasing the role of market forces and/or restructuring the nationalized industries in the present context of this study the term privation is employed to mean what is stated in the second form of privatization of welfare services through partnership.

However, the term “privatization” in recent years has been used to describe any shift in activity from the public to the private sector. This may involve the introduction of private capital or management expertise into a public sector activity. The prime justification being to improve the efficiency of the enterprise. Some analysts include under “privatization” any process which gives a greater role to the privates sector. Their perception envisages general liberalization or deregulation of private sector activities. This overlaps with the view that any process which reduces the involvement of the State or the public sector in the nation’s economic activities is a privatization process. But much more practical is the view that privatization is neither a panacea nor a general tonic. It is a practical measure, a specific medicine which will cure some of the country’s economic ills and accelerate the process of growth and achievement of its objectives.
Indian Experience;

In India where a number of private enterprises have a significant institutional holding, the situation described above may readily appeal to the government. Profit making units could be considered for a partial sale of assets that would let the government have the controlling interest. The resultant revenue will give budgetary support. Moreover the government will continue to be able to use the internal resources generated for plan investment. However the “dominance” of the public sector may well be reduced by this process. Government may also sell shares initially to a Development Financial Institution with the specific understanding that the latter will later sell the holding to private investors. Such a transaction of course becomes the first phase of a divestiture and whether the Financial Institution is in the public or private sector makes no real difference.

There is much more to privatization than divestiture. Under India’s Industrial Policy Resolution certain industries are ‘exclusively reserved’ for development in the public sector. Any relaxations in the industrial policy of a country which curtails the involvement of the public sector by permitting the entry of private sector entrepreneurs in areas reserved earlier for the public sector. In fact the then Finance Minister Mr.N.D. Tiwari had once again reiterated that the government will not hesitate to take the extreme step of
privatization of loss making, inefficient public sector enterprises. A process of liberalization had taken place under Rajiv Gandhi as far as the industrial policy resolution was concerned. In fact in an industrial policy trends in the 1980s study India had been listed as one of the countries where reforms after 1956 have taken place in the form of two deregulations in 1982 and 1986. However, some economists feel that no real move towards financial deregulation has been made. They advocate the introduction of positive real interest rates and flexibility interest rates operations of commercial banks. These two measures which influence interest payments and increase growth in non plan expenditure. Financial deregulation will of course never reach the scale in England or America committed as we are committed to a mixed economy.

Governments may also contract out services they have planned and specified to other organizations that produce and deliver them. Franchising authorizing the delivery of certain services in designated geographical areas is common in utilities and urban transport. The action taken by the government in breaking the strike of the workers of the Delhi Transport Corporation was indicative of its future privatization plans. The case for subcontracting of urban transport is quite strong. Contracting is also common in public works, defence, road construction and maintenance in India is common. An innovation is the giving of vouchers to subsidize consumers for items like
food, health care and education. In Chile, Ivory Coast and the Dominican Republic private contracts play shortage of water in many parts of the country this activity can be considering in India.

Government could also withdraw from the provision of many goods and services and leave them wholly or partly to the private sector. Often the introduction of competition brings about efficiency and innovation. For instance, there is no need for the government to run hotels or be in the business of bread making. Such activities could well be leased out to the private sector generating profit for the government rather than making continuous losses. Most significant here is the recent announcement that the government owned Hotel Corporation of India would be privatized.16

Moreover voluntary organizations often augment the work of the state in education and health services. Farmers' Co-operative deliver a range of services in India, Argentina and Chile. Private tube-well irrigation has also been successful in India and Pakistan. A major problem will be however to get private supplier to provide services to remote rural areas where the poor live and take a long term view of customer needs, rather than maximizing their short term gains.
Privatization policies may also be involved in the decision to abandon or stall proposals either to start new SOEs in specific areas or to expand or diversify activities of the existing SOEs. The National Textile Corporation remains one of the largest losers among the public corporations. There seems to be confusion over a decision whether or not to nationalize any more textile mills. While State Textile Corporations and in Maharashtra had earlier announced plans to divest some of their property in the form of flats and buildings to raise their own funds, recent moves by the Sharad Pawar government owned textile mills in Bombay and Maharashtra are on record.

To rationale for the public sector has till recently received a general consensus. Of late there seems to be a steady trend towards further deterioration in its functioning. It would be highly desirable to bring about an improvement in its manner of functioning and slow down any further expansion. The major problems of the public sector include mounting losses (with a few exceptions), locational imbalances, poor project planning, delay in execution of projects, neglect of completed projects as well as the operation of sops to buy political support. A major problem is also atrophy in the management. In fact a study had revealed, that as many as 24 positions of chief executives and 52 of directors had been vacant in public sector undertakings. The earlier government, even one which claimed to work
faster could hardly expect the public sector to excel it if was denied even leadership.

There have been attempts at ‘privatization’ of various types among the public sector in India. In 1975 Scooters India was the first public sector enterprise to undertake privatization. Under a decision by the then Industry Minister T.A. Pai the company sold a part of its stake to the general public as equity shares. Going by this, privatization began in India before it did in England. But it was an isolated instance and was more an extension of the joint sector mechanism, than the beginning of a phase of partial disinvestment in the public sector.

Another illustration of a different type was Mr. Mohan Kumaramangalam’s bringing in of Mr. Wadud Khan in the early 70s of the Tata Group to head a newly formed holding company for public sector steel industry SAIL. This was injection of talent and expertise from the private sector. Mention has already been made of the West Bengal Left Front’s Webel Experience”. The Rajiv Gandhi government’s “liberalization” drive resulted in the unloading of a part of the equity of selected public sector undertakings. Various bonds issues had been offered at a very attractive rate of 10 per cent tax free interest.
Privatization Not a Panacea

Remedy for the present disturbing state of affairs of public sector enterprises, as advocated by a section of public, lies in the gradual privatization of these enterprises. Mounting operating losses, low productivity, poor utilization of capacity, high prices and scarcity of commodities produced by such enterprises seem to be the reason d'tare for such demand. It is alleged that in the name of social profitability, the scarce resources of the country are going down the drain through the recurring losses incurred by the public enterprises. It cannot be denied that the public enterprises have made valuable contribution to the modernization of the economy, building up infra structure for development and import substitution, but the resentment of the public is mainly against the failure of these enterprises to generate adequate surplus to finance the development projects and the wide gap between the expectations and actual performance. Even in the matter of bringing about redistribution of income and welfare, the achievement of public enterprises is not appreciable as these enterprises being capital intensive in nature have generated new economic inequality and social instability.¹⁸

The nation had high hopes from the public sector enterprises which are evident from the various plan documents. The first plan stated that “the state
must itself raise through the surpluses earned on state enterprises a considerable proportion of the savings needed.\textsuperscript{19}

In the view of the fact that the public enterprises should generate surpluses for further development, the Third Plan mentioned that, “when public enterprises run efficiently and follow a proper price policy for their goods and services the results of their operations must be reflected in larger earnings and surpluses. In a developing economy these constitute a ready and increasingly important sources for financing investment either for the expansion of the enterprises which yield these surpluses or elsewhere in the economy. It is, therefore, incumbent on public enterprises which should be earmarked for further development.”\textsuperscript{20} Considering the rapidly rising the volume of investment in the public sector, the Fifth Five Year Plan stated the, “It is necessary that these enterprises contribute to the domestic savings in magnitude commensurate with the investment made.”\textsuperscript{21} During the Seventh Plan, the public enterprises have been assigned the major responsibility of generating surpluses of the order of Rs. 35,385 crores and a substantial part of the central plan is expected to be financed through these surpluses. Long term fiscal policy document stated that the contribution of public sector undertakings is expected to increase from 2.9 per cent of the Gross Domestic Product in 1985-86 to 4.1 per cent in 1989-90 and emphasized that “This order of increase poses a formidable challenge to our public enterprises. But in view
of the enormous resources the nation has invested in these units, these expectations are fully justified." 22

Instead of privatizing, the public sector enterprises are to be allowed greater autonomy coupled with accountability to manage their affairs. Their objections have to be spelt out. The principle of punishment for the poor performance and reward for the good achievement has to be rigorously enforced.

A competitive environment has to be created for efficient functioning of the public enterprises. Budgetary support being continued indefinitely has killed initiative and enterprise of the public enterprises and consequently they are not striving for excellence. Private sector enterprises may be allowed to enter core sector in a selective way to inculcate a sense of competition in the public sector management.

Economic administration as a specialized field of government activity has marked a significant turning point in response to the liberalization policy.

**Restructuring General Administration**

However, our concern in this study is more of General Administration restructuring. Indian government during liberalization period till November
1996 when reform issues concerning administrative institutions came on the 
scene in Chief Secretaries Conference held for the said purpose. It was 
followed by Chief Ministers Conference on Action Plan for Effective and 
Responsive Administration held under the chairmanship of the Prime Minister 
on 24th May, 1997.

In response to the Chief Ministers Conference and resolution adopted 
therein, various initiatives have been taken by the Ministries/Departments of 
GOI and by the States and Union Territories. The Department of 
Administrative Reforms and Public Grievances (DARPG) has compiled 
information about these initiatives in two reports entitled, Initiatives and Best 
Practices of Government of India for Effective and Responsive Administration 
and policies, initiatives and Best Practices in the States/UTs.

The reform measures mentioned in the first report are classified into 
three subjects:

1. Accountable and Citizen-friendly government;
2. Transparency and Right to Information; and
3. Improving the performance and Integrity of Public Services.
The aim of new initiatives in the field of general administration is to provide effective and responsive administration. A close look, however, on these measures suggests that these initiatives have also not succeeded in fulfilling the laid down objectives. Initiative wise progress reported as under confirms this statement.

Accountable and citizen friendly government has been promised through the mechanisms of: a) Citizens' Charter; b) decentralization of power; c) redressal of public grievances; and d) review of laws, acts and regulations.23

The Citizens Charter patterned on the U.K. model consists of the Citizens entitlement to public service, wide publicity of standard of performance, quality of service, access to information, simplifying procedure for complaints, time bound redressal of grievances, and a provision for independent scrutiny of performance. The Citizens Charters have been framed by about 70 Ministries/Departments/and public sector organizations.24

However, a close look at the rhetoric and prospects of the Characters suggests that these are a set of statement of good intentions not accompanied by necessary in built mechanism to achieve them. The empirical evidence reveals that even after a couple of years of existence the Citizens Charters have not made any dent on the quality and delivery of public services as most of
the Charters have simply remained on paper and have not reached the doorsteps of the citizens.

The rhetoric of redressal of public grievances is at variance with reality. Mere setting up of the machinery for the redressal of public grievances does serve the intended purpose. Display of information about the grievance redressal machinery, name of the functionary/contact person and timings and place of his availability, courteous behaviour of the officials, and time bound redressal of the grievances are some of the important factors which determine effectiveness of the machinery set up for the purpose.

In the case of transparency and right to information the Ministry of Personnel, public grievance and pensions is coordinating efforts such as the processing of the bill on the freedom of information, information and facilitation counters and computerization. It has been observed that progress in the field of transparency and right to information has mainly confined to computerization of government operations. In public organizations the culture of highly confidential or top secret is still dominating. The consumer Coordination Council (CCC) which conducted surveys regarding citizens charters on behalf of the department of Administrative Reforms and Public Grievances reveals that necessary information for the study was not provided by the officials. The direct intervention of the DARPG was sought by the
CCC to get the relevant information. The guidelines which have been framed for prompt and flawless services are not made public and contrary to their mission the guidelines are interpreted against the interests of the users of the service.26

Improving the performance and Integrity of Public Services for the new initiatives include combating corruption of ethical standards and adherence to basic principles of the Constitution in public service delivery, outsourcing of public services and simplification of forms. However, the aim of improving the performance and integrity of public services during the period after accepting liberalization seems far away from reality.

Outsourcing of services in public organization and simplification of forms fail to improve the performance of public services in the absence of explicit benchmarks against which performance can be measured.

A further look on new initiatives and best practices of Government of India particularly that of citizens charter for providing effective and responsive administration reveals that these reform measures cover broadly those services/areas which mainly cater to the needs of the elite having resemblance with the Western world in terms of problems, values and expectations.
If this trend goes unarrested, it seems that major impact of liberalization on governance in India would be expansion of the politician bureaucrat coalition by accommodating the elite in it.

Thus Globalization, liberalization and privatization policies have been exercising considerable influence on governance across the globe. It has been found that in advanced capitalist economies liberalization policy have been changed the contours of governance very promptly and evenly across various sectors/areas. However, in developing countries like India, governance has responded both slowly and unevenly to economic liberalization. It is mainly due to the fact that liberalization policy in India has not evolved indigenously through the participation of political, bureaucratic and other institutions of governance.

The new initiatives covering general administration are recent origin. Their response to globalization, liberalization and privatization is very slow. A perusal of the change in governance which either have been experienced or have been proposed have not followed the stage model. This suggests that only limited success is in store for these initiatives.

Thus the story of privatization is one that which has seen many up’s and downs.
In case of the study in focus, the objective has been to understand privatization of public services that were under Municipal corporation which are actually civil amenities to be provided by the local authorities as their obligation.

Having done a through study of this, if one were to quickly go through some of the inference one would find that in the past four chapters the reader is introduced to the subject of research from a critical perspective and the inference of such a study however is as follows;

1. That the process of privatization of public services is very clearly socialized as a policy of the HDMC.
2. And the experience of this privatization though not to a very large extent is quite satisfying (44%)
3. That the level of privatization has earned a mixed reaction with greater number being satisfied.
4. Nearly 50.8% of the total respondents are clear about the services that are privatized and nearly 75% of them are satisfied with it.
5. Nearly 80% agree that privatization is a step is the right direction but fail to substantiate it with the performance of HDMC before privatization of services.
6. When it comes to delivery of these services there is a large scale disillusionment (55.6%) and have reservations about the whole Idea of privatization.

7. Nearly 50.8% feel that privatization is merely an old concept in a wine bottle and feel that public services must be in government hands.

8. This contradiction is clear in Table 17 where the choice of privatization is very selective.

9. The study shows that there is an effect of privatization on issues of governance but it has actually not fuelled efficiency but increased blame game.

10. It is agreed that privatization in thrown would bring about changes in the behaviors of the functionaries but in practice that has not set in.

11. Vested interest have infested privatization and discouraged social justice which is alarming (Table 22).

12. Unlike service orientation is government services, it is profit that matters and hence services are seen and measured from the perspective of profit, which is contrary to the spirits of local governments.

13. Privatization thus, reduces the role of elected representative's influence over local areas and runs contrary to age old Idea that local governments nourish grass root leadership.

14. Thus, many would agree that this privatization of public services in HDMC is at an experimental stage and not full-fledged.
15. One would agree to the view that there is a lot of disconnect between privatized services and follow-up action.

16. That this whole process falls short of a designated or desired goal, thus, dampens its spreading.

Thus this study exemplifies the success and limitations of public services being privatized.

Suggestions to this study are minimal; It stems from the LPG Idea itself;

a) The consumer in such systems will have to be proactive.
b) We need intermediary control agencies.
c) We need the elected body the power to supervise and recall the private parties if they fail to deliver or fall short of it.
d) Grievance redressal system will have to be more sensitive and impartial.
e) Privatization pre-empts civilian vigilance for which citizens committees are formed, but they seem to non-functional.
f) Lastly it is essential that in a public private partnership like this the responsibility is more on the public organization to see that subordinate private agency delivers.
Thus, this study proves all the hypotheses, and helps to form the theory, that privatization of public services is not a license for quality service or welfare, but a means under supervision of the government to achieve intended goals through adequate control and direction.
End Notes:


