Juni Khyat
ISSN: 2278-4632 Vol-1 Issue-1 2006

INCREASE IN DISINVESTMENT AND INCENTIVES IN INDIA IN POST REFORM PERIOD. (WITH SPECIAL REFRENCE TO KARNATAKA STATE)

H. S. VENKATACHALAPATHI *Research Scholar, DEP`T OF ECONOMICS S K UNIVERSITY, ANANTHAPUR*

Professor - G. SATYANARAYANA *DEP`T OF ECONOMICS S K UNIVERSITY, ANANTHAPUR*

ABSTRACT

Disinvestment is preferred in most of the economies after some business and economic reforms in a nation, earlier we Disinvestment in India is a policy of where the Government liquidates its assets in the Public sector Enterprises partially or fully. The main reason to disinvest is mainly to reduce the fiscal burden and bridge the revenue shortfall of the government. Many economists criticised that Government`s must not venture into some areas where the private sector can invest and also run the enterprises efficiently. Lot of emphasis was laid on market driven economies, rather than state administered economies, because post 1991 reforms in India made way for many private investment flow from many parts of the world, through increase in FDI (Foreign Direct Investment) and FPI (Foreign Portfolio Investment). Karnataka is one such state, which has shown an above average rate of growth in general and industrial growth in particular. However, this fast rate of economic growth could not be sustained due to limited progress of its industrial sector. Economic policy reforms initiated by the Indian government have differential impact across industrial economy of different states/regions. Some of the states/region registered high rates of growth comparable to the newly industrializing countries (NICs) and others lagged behind. In India the government chooses a disinvestment strategy to decrease the loss or the fiscal burden and increase or raise the money to meet the public needs. They may also be done to privatise the assets and Disinvestment policy can realise the long-term growth of the nation.

KEY WORDS: ***DISINVESTMENT AND ITS IMPACT, INCENTIVES IND ITS EFFECT, POST REFORM SIGNIFICANCE IN INDIA / KARNATAKA***

INTRODUCTION

By the mid of 1980s, in the globe, the pendulum of political economy option was swinging decisively towards that the proportion of the GNP (Gross National Product). Due to Government business and economic activity should be reduced to the extent possible. Where different countries earlier followed socialist policies, later this coincided with the belief that even for natural monopolies, effective regulatory surrogates for competition could be devised that would protect the consumers from the abuse of the monopoly power of these companies.
The collapse of the socialist economy of the Soviet bloc convinced the policy planners, around the world, that the role of the state should be that of a regulator rather than the producer. The resources deployed by the Government for undertaking commercial activities should be unlocked and deployed for the social activities.

- **What Is Disinvestment?**

Disinvestment is the action of an organization or government selling or liquidating an asset or subsidiary. Absent the sale of an asset, disinvestment also refers to capital expenditure (CAPEX) reductions, which can facilitate the re-allocation of resources to more productive areas within an organization or government-funded project. Whether disinvestment results in the divestiture or the reduction of funding, the primary objective is to maximize the "return on investment" ***(ROI)*** related to capital goods, labour, and infrastructure.

Ex: Companies considered being monopolies may be legally required to disinvest holdings to ensure fair competition. For example, after being found to be a monopoly after eight years in court, AT&T divested its seven regional operating companies in 1984. After disinvestment, AT&T retained its long-distance services, while the operating companies, referred to as the Baby Bells, and provided regional services.

REVIEW OF LITERATURE

Philip Jackson

Who has advised many governments on privatising their regulated industries and companies, privatization is a complicated process and a full analysis of the implications needs to be undertaken before acting on it. He stated that you needed clear regulation, good governance and sustainable dividends for the privatisation exercise to succeed.

KEY TAKEAWAYS

- Disinvestment is when governments or organizations sell or liquidate assets or subsidiaries.
- Disinvestments can take the form of divestment or a reduction of capital expenditures (CapEx).
- Disinvestment is carried out for a variety of reasons, such as strategic, political, or environmental.

NEED OF THE STUDY

1 To overcome the problems faced by the growth percentage in GDP, GNP in the country and economic reforms needed to overcome after reforms of 1991 in Karnataka and India.

2 To understand Government's policies like fiscal policy and monetary policy of the RBI (Reserve Bank of India) after reforms or post reforms time.

3 India has to implement properly government reforms like LPG (Liberalisation, Privatisation and Globalisation) because disinvestment and incentive reforms are the main needed tools to reshape the nation's growth.

4 To know the importance of national income and its income generating sectors and its contribution and growth by incentives.

OBJECTIVES

1. To enable substantial growth of GNP, GDP in India by increase in investment in private sector, even to focus on Karnataka state output after disinvestment after 1991 reforms.

2. To understand the impact of disinvestment on Indian national income, flexible trade and balance of payment.

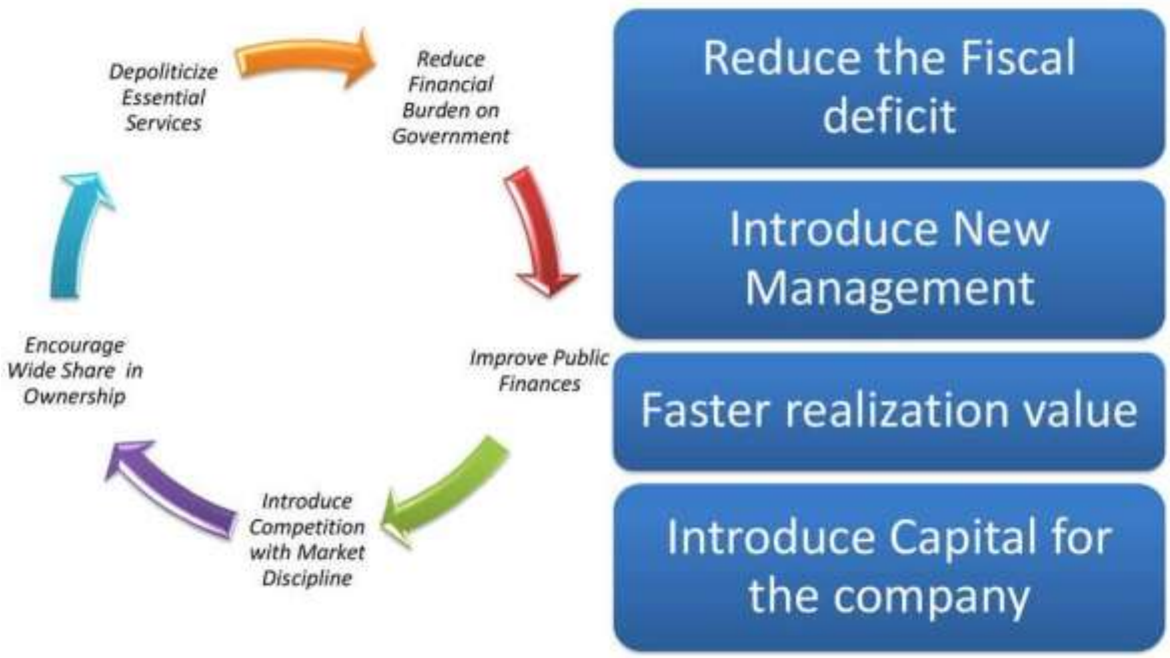
3. It understands the sustainable growth of the economy, in post reform period by increase in disinvestment.

RESEARCH METHODOLOGY

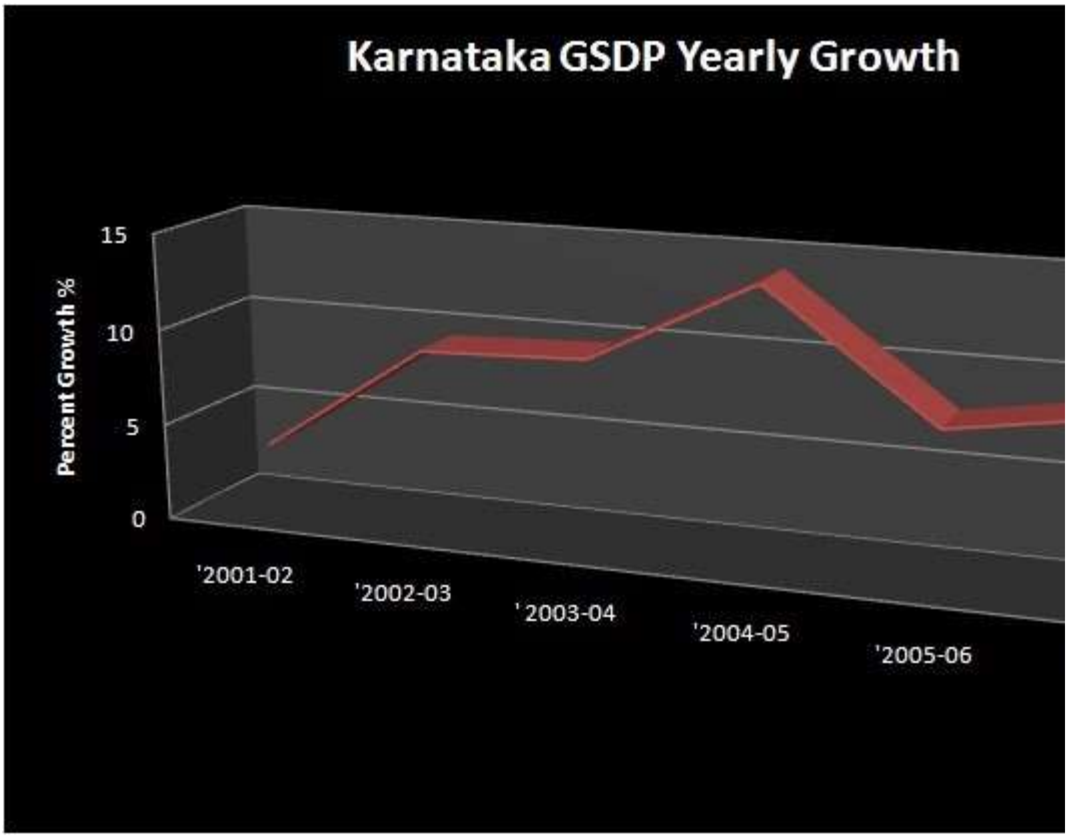
This research output is the outcome of an overview conducted on Post reforms and its impact on India`s disinvestment and incentives, opportunities to promote employment opportunities and making India stable growth Economy, with special reference to Karnataka, with strong financial and economic reforms in the Indian context experimental approach, during pandemic situation, it uses secondary data for analysis, discussion with expert part of research work.

DATA AND STATISTICS

- **DISINVESTMENT AND PRIVATISATION IN THE ECONOMY**



- **KARNATAKA SGDP GROWTH RATE IN THE NATION "INDIA" AFTER 1991 REFORMS.**



In the figure we can find that increase in the GSDP growth rate after reforms, i.e. 1991 reforms, led to increase in growth of privatisation, liberalisation and globalisation in India, Karnataka, where there was increase in disinvestment process in industrial and manufacturing sectors with service sector growth, due to disinvestment.

RESULT AND DISCUSSION

Post reforms has positive impact in India by increase in the growth of several sectors in India, and generated employment for large quantity of people, growth of several infrastructure, especially in service sector related growth, this made the decrease in monopolies domination in Indian states.

FINDINGS

1As unemployment is the major evil for the economic development in India; India can solve or decrease the unemployment percentage by disinvestment.

2 Disinvestment and Post reforms has led to the create job opportunities to the young population of India.

3 The Indian government has to focus on the sector wise growth of all three sectors of the economy, i.e. Primary sector, secondary sector and the tertiary sector. To sector related incentives and tax deadline extensions, but it is constraints for economic growth for Indian economy.

RECOMMENDATIONS

1 The three principal driving factors for this growth in India, disinvestment, incentives and rise in growth of GNP, during post reforms period has to stable, which can lead to growth of various states in India.

2 GOI can try to the needed reforms to balance the available resources like human resources and the needed performance for the industrial development of various states in India.

CONCLUSION

Industrialization is the central dynamic force in the process of economic growth of an economy. The development experience of advanced countries and the newly industrializing economies has shown that industrialization is the only way through which general level of living standards can be continuously improved upon. Their success story reveals the fact that the governments of the advanced and newly industrializing economies continuously developed and implemented appropriate policies that created a conducive and congenial environment for industrial progress. However, the development experience of the less developed countries, the backwardness and low-level of living in such countries, is a clear pointer to the lack of dynamism in the industrial economy in particular and low level of industrialization in general. By the statistics of growth and development, we can conclude that India as a mixed economy, after 1980`s in India, there was need for “LPG” (Liberalisation, Privatisation and Globalisation) in all the firms where there was no profit or loss in the government firms, industries in Karnataka, several Indian states. So post-reforms led to liberalisation and privatisation of several Government firms for economic transactions or economic value, Disinvestment and Incentives, was the major reforms done by Indian Government in Post reforms period, this was a positive sign for industrial and service sectors growth in Karnataka and several Indian states.

LIMITATION

1. Economic reforms have to be planned for the long-run process, because short run development projects can’t yield ample of profit for a longer duration.

2. India's national income (GNP) rise has to be given preference, because the main aim of disinvestment and incentives change is to increase the national income and its indicators.

4. Indian economy inflexible Fiscal and monetary policies, improper tax relaxations, may result in decrease in inflow of FDI and FPI (Foreign Portfolio Investment).

SCOPE OF THE STUDY

India's major concern after independence was to generate income and create employment with increase in GNP, GDP in the Indian economy, especially in the service and industrial sector, because there were only few government firms working in Banking, educational and industrial and manufacturing sector, so India wanted to privatise many of these industries, Indian 1991 reforms paved the way for the disinvestment, which led to increase of profit share in secondary and tertiary sector. Increase in FDI, FPI, after reforms can be taken as one of the impact of post reforms in India. Unemployment and decrease in profit was one of the major constraints in India from the time of independence, Disinvestment and incentives after 1991 reforms led India to produce industrial products domestically, India can still try to depend more on domestic production, increase exports may lead to create employment to large unorganised migrants or domestic labourers of the country, flexible "fiscal and monetary policies" may try to narrow the trade imbalance, increase in GDP growth, development of all the sectors of the economy providing job security, so even private sectors plays a major role in creating employment, raise in national income through disinvestment and privatisation in the country.

Reference:

K. Gayithri, Who Benefitsfrom Industrial Incentives: A Study of Capital Investment Subsidy in Karnataka, ISEC Working Paper 124, 2003. Also see, K. Gayithri, "Fiscal Distress in Karnataka: Some Issues", Journal of Social and Economic Development, ISEC, Vol. 5, No. 2, 2003.

"https://www.investopedia.com › terms ›disinvestment"

New Economic Policy of India since 1991 (Reforms)

Disinvestment in India: Modalities, Objectives and Fiscal Ramifications

Disinvestment of Public Sector Enterprises in India

Economy of Karnataka – Bharathpedia

