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Disinvestment of Public Enterprises, Tax Revenue and Economic Growth Trilemma: In Looking into Evidence from India

Sovik Mukherjee

INTRODUCTION

To start off with, there is a thin line between privatization and disinvestment. When the prerogative of the Government is to sell less than 50 per cent of its equity in a public enterprise, it is simply disinvestment and in such a case, the control and the management of the enterprise remains with the Government. On the contrary, when disinvestment or sale of government's equity capital goes beyond 50 per cent resulting in the transfer of ownership and the control of management to a private entity, it results in privatization. Countries being actively involved in the implementation of privatization programmes include the likes of Argentina, Czech Republic, Chile, Peru, Estonia, Egypt, etc. (Alexander & Corti, 1993). In contrast, a handsome majority of the countries, which includes India as well, have adopted privatization in more of a stop-start manner. Thus, everything boils down to the burning issue of whether to go for privatization or not. If privatization augments growth and increases corporate tax revenue, then why it is being held up? The line of attack this paper takes up is the following, to begin with, it highlights as to whether privatization can promote growth theoretically and the related issues. The issue related to the empirical verification of the disinvestment-growth (not privatization *per se*) linkage in the Indian context comes next.

In this setting, the rest of the paper is organized as follows. Initially, a brief evaluation of the select literature on the relationship between the focus variables of this model has been carried out. In section 3, a mixed-oligopoly based theoretical model has been developed. I have briefly described the data, methodology and the associated econometric theory underlining the empirical exercise in section 4. An empirical investigation has been carried out in section 5 to comprehend the disinvestment-growth relationship and the associated causality pattern in the Indian context. Finally, the paper ends with a conclusion in section 6.

Brief Literature Review and Objectives

The review will try to explore the gaps in the existing literature and where there is a possibility for further research. The literature on privatization and disinvestment begins with the theoretical works of De Fraja and Delbono (1989) on mixed oligopolies under a game theoretic situation.