Infrastructure Policies – Privatization is no Panacea

The recent paralysis of public transport in AP on account of the RTC employees strike once again brought to the fore the debate between public sector and private sector. That we need competition and private initiative for improving productivity and quality of consumer goods and services is by now well-established. While there may have been a case for public investment in sectors like steel, government dabbling in business did more harm than good in the long term. Scarce public resources were diverted from education and healthcare to industrial investment; monopolies led to sloth, inefficiency, shoddy quality and high prices; and public sector became the proverbial golden goose for the greedy politician and corrupt bureaucrat.

But market fundamentalism is sometimes as counterproductive as socialist orthodoxy is ineffective. Even an avowedly free-market US government is now intervening decisively to help the airline industry, which is in deep distress. More importantly, the infrastructure sector requires highly calibrated, situation-specific approach. Ham-handed deregulation of power sector in California led to grievous consequences. Only a cash-rich State, an extremely sound economy and fortuitous good weather helped to overcome the crisis.

Much of the debate on privatization has been focused on central PSUs. The Minister for Disinvestment Mr. Arun Shourie is making valiant efforts to implement declared policies. But in States there is no serious debate or effort to improve productivity or inject competition. And where attempts are made, they are ham-handed and counterproductive. The experience in power and transport sectors illustrates the difficulties in evolving and implementing rational and effective infrastructure policies.

The failure of power sector privatization is evident in the plight of independent private projects (IPPs). For long, it was known that power generation is not the problem area. NTPC and SEBs have done an excellent job of building and operating power stations. BHEL has been producing reliable equipment at low cost, and even now NTPC is able to put up power stations at around

Rs. 3 crore per megawatt. Vijayawada thermal power station in AP has many records to its credit - minimum gestation period, low cost, high plant load factor and operational efficiency. On generation front all that SEBs needed was capital and credit. BHEL could have been strengthened to enhance capacity and SEBs could have been provided equity. Much of the credit to the IPPs anyway came only from Indian financial institutions (FIs). Instead of building on past successes, we went in for privatization on a cost plus basis, unthinkingly. So-called fast-track projects have been approved hastily and scores of IPPs have been licensed after competitive bidding. The net result is very few projects came up; project cost is around Rs. 5 crore per megawatt or more, with impact on future tariffs; fuel linkage has been a chronic problem; and corruption has been institutionalized. Except in Tamil Nadu, there has been no real progress. The nation lost valuable time, and neither capital has been raised from abroad, nor efficiency improved. In fact the exposure of FIs is so great in some mega projects that there is a real risk of a few institutions collapsing.

The real problem in SEBs is on the distribution front. Thefts and technical losses of 35-50% and uneconomic tariffs for lift irrigation have been left unaddressed. Even at this late hour, the State's response is to attempt wholesale privatization of distribution. Again the problem is not of technology or even credit. Plugging leakages and corruption at local level needs efficient management below the substation level. Decentralized distribution management and realistic tariffs are the answer. Orissa experience of power sector reforms showed that large distribution entities cannot be efficiently managed by private sector in our complex political economy. Andhra has not shown any real improvement in the share of non-agricultural power metered and sold even after several years of reform effort. Private management has a role, but only if the management is transferred at the local substation level.

The plight of RTCs reveals similar problems. RTC in AP has been relatively well-managed for decades. But discrimination against RTC (15% tax as opposed to 7% on private vehicles); enormous corruption and inefficient regulation of untaxed, illegal private operators; and transferring the burden of populist policies (free transport to a variety of groups) to RTC led to a crisis. Now, privatization is projected as the panacea. But what we need is a level playing field for RTCs along with real competition through elimination of State monopoly. Otherwise

India will go the US way in public transport. Europe, with its efficient, reliable and integrated public transport should be our model. There is no efficient modern democracy without proactive role of State in public transport.

Deng Xiao Ping was right when he said that it did not matter whether a cat is white or black as long as it caught mice. There are no ready prescriptions in infrastructure management. Strong public sector presence, no entry barriers to private investment, and true and fair competition provide the right balance. Our misgovernance and unthinking knee-jerk responses have been playing havoc with our infrastructure and vital services. Government should promote investment and competition, but cannot, and should not, abdicate.

Dr Jayaprakash Narayan

(*The author is the Campaign Coordinator of Lok Satta movement.Email:* loksatta@satyam.net.in*;* *Website:* www.loksatta.org