Public Good or Private Gain?

In our country the more things change, the more they remain the same! We have had interminable debates on the merits and demerits of public sector *vs* private sector for two decades now. Meanwhile global economy has changed beyond recognition. Most countries, which subscribed to state monopolies and government ownership altered their policies radically. USSR collapsed, and east Europe has been liberated. China is almost entirely market driven, and state is retreating from business functions rapidly. And yet, our Union cabinet dithers on disinvestments! Let us examine a few facts.

First, the efficiency and competitiveness of public sector, vis-à-vis private sector. Disinvestment ministry has quoted a NCAER study to conclusively establish that public monopolies cannot effectively respond to changed conditions. Comparisons of factor productivities, profitability and cost structure - all show the dynamism of private management and inertia of state control. As the total factor productivity in private sector recorded 3.4% growth since 1985, in public sector there is a negative growth of – 1.1%. Manufacturing PSEs continue to show losses, while manufacturing private sector shows decent profits. From resource utilization point of view and competitiveness, the most critical comparison relates to cost structure of power and fuel, wages and interest as a ratio of net sales. In 1990-91, the public sector (minus oil sector) spent 37.7% of net sales on these three heads, as opposed to private sector's cost of 21.7%, with a net saving of 16 %. Amazingly, by 1997-98, this difference in cost incurred has increased to 38.3% of net sales, with public sector spending 54.5 % of net sales on these three items, and private sector 16.2 %! Increased competition and open markets forced private sector to reduce costs to a tune of 5.5 %, whereas public sector costs went up by almost 17 %! There cannot be a more severe indictment of public sector management. The managers are not at fault; the same personnel in private environment produce excellent results. We must recognize that even if all else is equal, public sector culture does not foster the best management practices. With the economy opened up, and competition growing, continued insistence on government controlling PSEs will only erode their assets, and eliminate them from the market.

Second, the debate on strategic sale *vs* diluting government's equity. Again data shows that sale of shares yielded public exchequer a PE ratio of 4.4 to 6; whereas the strategic disinvestments in the last 2 years yielded a PE ration of 11 to 89. Earlier, a sizeable part of the equity was picked up by public sector financial institutions, and indirectly contributed to UTI's losses. And government control is only continuing the hemorrhage of public funds. In 1997-98, the total liability of government on PSEs (budgetary support, guarantees and waivers) was Rs.13,065 crores, as opposed to dividend of Rs.3,609 crores. In 2000-01, the liability mounted to Rs.25,377 crores, and dividend is Rs.8,260 crores. Over the past two years, equity of Rs.891 crores was divested through strategic sale yielding Rs.11,315 crores to the government. The saving to government (10 % interest on borrowings, and annual losses) on this equity was Rs.1,257 crores per annum, while lost dividends amount to a meager Rs.52 crores ! And how did the capital market respond? From January to May 2002, the PSE shares index in BSE rose by 73.5%, as opposed to 14 % rise for the total BSE index! Once the disinvestments blues became evident, the PSE shares took a beating of 4 to 26 %! Can there be any doubt about the best method of disinvestments?

Finally, the champions of state control and mere dilution of government equity without change of management must answer a fundamental question. Have people elected them to govern, or to run businesses? Socialism took roots as a moral philosophy based on compassion and concern for equity at a time when predatory capitalism of robber baron variety led to extreme degrees of oppression and misery. But today's market economy adapted the best features of humanism, welfare and sustainability. Resort to outdated arguments and shibboleths, and criminal waste of scarce public resources at the cost of justice, rule of law, education, health care and decent infrastructure is cruel to the poor and disadvantaged. Quality schooling, accessible health care, speedy justice and security net for the indigent are the best anti-poverty programmes. A government which cannot provide these has no moral authority to take upon itself other burdens, and discharge them incompetently. Ministerial office and bureaucratic sinecures have become private fiefdoms, and loss of patronage and control unnerves those in authority. But equating self-interest of those in power with public interest is an insult to the intelligence of the long-suffering people of the country, and a cruel irony in a society impoverished by bad policies and worse governance.

The considerable political skills and energies of the opponents of disinvestments should be deployed to set the right priorities for public expenditure, and get good value for citizens for every rupee spent.

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