

## Calcutta Notebook

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Standard and poor's has changed its outlook on India's sovereign rating from positive to negative—from BBB+ to BBB-. It has said that the BBB rating will be withdrawn, maybe within two years, if the government does not take steps to put its act together—specially getting the increasing fiscal deficit under control. One reason for the Government's inability to control the fiscal deficit is its failure on the disinvestment of Public Sector Undertakings. There is a need to revisit the issue.

Fundamental problem of the PSUs is control by the Government which necessarily entails political interference. Buying of ONGC shares by LIC does not solve this problem. Control of the PSU remains in hands of the government, only the control will now be exercised through LIC instead of directly.

For example, oil companies are buying crude at high price but selling it cheap in accordance with directives of the Government. Such would never be done by private players. Nevertheless the basic principle of Government control appears to be valid because PSUs are provided with various especial benefits by the same Government. The LIC, for example, had monopoly on personal insurance business for long years. LIC has made profits for many decades and invested the same in real estate and shares. LIC is obtaining huge incomes from this investment today. The costs incurred by the PSUs due to Government interference have to be set off against the benefits obtained by them due to such largesse. Even otherwise the very logic of setting up a PSU with public money is to attain a social objective. Therefore, political interference cannot be decried.

Basic problem of PSUs is that they are not accountable except very remotely to the Ministers. And politicians in this land are accountable to the voters every five years. Private businessmen are accountable to the share market. But the PSU bureaucracies are not accountable to any such independent entity. Indeed, the Comptroller and Auditor General audits their accounts. Secretaries to the government review their performance. But these are all part of the same bureaucracy. Just as the Minister's accountability to the cabinet is unreal while his accountability to his constituency is real, likewise the accountability of PSU bureaucracy to the CAG is unreal.

PSUs are not bad or anti-people. Certainly private enterprises are equally, if not more, cruel towards the people. But there occurs a three-way friction between the consumer, Private Corporation and government regulator in the case of private sector. Say a Private Corporation is stripping a company of its assets. A private investor or a social activist can approach SEBI and seek action. There is a three-way friction between the Private Corporation, social activist

and the regulator. It would be difficult to get a similar action in case of PSU. A social activist will have to approach the Minister in charge who is the beneficiary of the stripping of assets. One would have to complain to the Minister who is, possibly, beneficiary of the asset stripping. The Corporation and the regulator are merged into the same entity of the Minister. There takes place only two-way friction between the consumer and the PSU-Regulator bureaucracy. The consumer can appeal to the government regulators against malpractices by private sector and these are, generally speaking, looked into. Not with the public sector. The PSU executives pose as having authority of their parent Ministries and are less afraid of regulators because they are part of the same government machinery. This absence of regulation leads to misuse of authority by PSU executives and to losses.

This is not to decry the positive role of the PSUs in nation building. The foundations of India's industrialization were laid by the steel plants at Durgapur and Bhilai. Tractor was made first by Hindustan Machine Tools. Turbines were made by BHEL. Private entrepreneurs lacked the ability to establish such facilities at that time. But times have changed. The role of PSUs must be redefined now.

Fundamental reform of the PSUs should be placed on the national agenda. Nehru had thought that the command of the national economy will be in hands of the PSUs and role of the Private sector will shrink with time. The global experience of last 60 years has disproved this approach. The collapse of Soviet Russia can be traced, in part, to the inefficiencies in the PSUs which were run by Moscow-based autocracies. Cost of production of Russian goods increased and they were priced out of the global market. China has attracted FDI in a big way only because its leaders recognized that PSUs cannot deliver. □□□