

TRICKY BUSINESS

## Why Disinvestment?

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THE GOVERNMENT PROPOSES to disinvest part of its shareholding in general insurance companies. Two crucial questions have been sidelined in this. One, why are they not privatizing these companies? Two, what will the money so garnered be utilized for? Unless these two questions are settled, mere disinvestment will be a retrogressive step.

Condition of public sector insurance companies is fast deteriorating after entry of private companies. This is not clearly visible though. Reason is that public sector companies have earned huge profits in the past when they had monopoly on the market and could charge high rates for their services. These profits earned in the past have been invested. Now they are giving huge returns. The main business of issuing insurance policies is running in huge losses but this loss is overshadowed by profits earned from past investments.

The United India Insurance Company, for example, has shown a profit of Rs 707 crores in its Balance Sheet for 2009-10 despite it having incurred a loss of Rs 900 crores in the insurance business. The Company earned a profit of Rs 1,688 crores from past investments and this more than covered the current losses. Similar is the situation of other public sector companies. All are running up huge losses in their insurance businesses. Condition of private insurance companies is better in comparison. Seven out of 13 private companies have earned profits in 2009-10. These profits have mostly been earned from the insurance businesses because these companies were not in existence earlier. The fact is that public sector companies are not able to face competition from private sector companies due to inherent inefficiencies and corruption and are, therefore, not able to stand up in competition against private companies.

The Government has found a strange solution for this problem. It has decided to sell part of the shares held by the Government in these companies. More than 51 percent shares will remain with the Government and control over the working of these companies shall continue to vest with the Secretary of the Ministry. The Government will have majority in the Board Meeting. Such person alone will be appointed as Managing Director who has blessings of the Secretary and the Minister. Difference will be that few independent directors will have to be appointed after listing of the shares on the stock markets. However, these 'independent' directors too will be chosen by the Secretary and only such persons will be appointed who have history of toeing the Government line.

Another difference after disinvestment will be that shares will be listed on the stock markets. Working of the Company will be scrutinized by the investors. It will become difficult to hide the losses and inefficiencies from public scrutiny. This change will yet fail to change the working of

the companies because control will still vest with the Ministry. Fate of State Bank of India is there. The Company was listed more than a decade ago. Yet it has been recently downgraded because of bad quality of its loan portfolio. Reason is that decline in share prices can be explained by the Ministry and business-as-usual can continue.

The correct solution is to privatize these companies instead of merely divesting part of their shares. The management must be handed over to private businessmen so that they run the company for profit. Instead of making this true solution, the Government is only making a whitewash of reforms via disinvestment.

Disinvestment means that the bureaucracy retains the controlling shares of the PSUs. There will be no change in the management of these companies. Only some shares will be sold to raise money. Yes, listing of these shares will increase accountability but only nominally. The country will know when a PSU is sinking as its shares slide on the bourses. But the people will be helpless nevertheless. Disinvestment is a money-raising exercise rather than an efficiency-creating one. This money will go into the government kitty—to be spent in the same wasteful way that people have been doing till today.

Economic Reforms were meant to reduce the role of bureaucracy in the economy. Privatization takes this process forward in two ways. One, by transferring the management of the PSUs to private business it truncates the powers of the Ministries. Two, if the money generated is used to pay off debt or other such purposes, it reduces the tax burden on the common man and gives him a breather from the tax collectors. Disinvestment does neither. By retaining management of the PSUs with the government, the powers of the Ministries are not reduced one bit. Manmohan Singh has very beautifully turned economic reforms into its opposite. The reforms were supposed to lead to a 'lean' government. It has been turned into exactly its opposite.

Even mere privatization won't do. What is needed is for the proceeds of such disinvestment to be used for moving the grassroots economy. Money raised by the state must reach the common man. It has to be used to build roads and canals, provide speedy justice and repay the debt in order that taxes can be lowered. If on the other hand, the money so raised is used for financing wasteful populist schemes that never reach the poor, or siphoned off to the Swiss Banks, then the people of this country would be well justified to oppose such a move.

Originally, privatization was sold to the people so that moribund PSUs would get advanced technology, better service and lower prices for their products. But disinvestment does none of these. No technology is infused. Services are not improved because the bureaucratic ways of the management remain intact. And there is no decline in prices. Prices charged by the 'disinvested' State Bank of India are higher than some of the wholly government owned banks.

Moreover, the money raised from the sale of the PSUs has 'disappeared'. It is to be used for controlling the fiscal deficit. This means that the Government has first indulged in making expenditures beyond its means and now is selling the family silver to make its ends meet.

Disinvestment has meant more concentration of wealth in the hands of corrupt ministers and officials. Money raised from disinvestment has come along with contraction of government expenditures on infrastructure. Indeed there has been increased expenditure on welfare schemes such as NREGA, targeted PDS, 6% expenditure on primary education and cheap diesel, but the final amount that has trickled down to the beneficiary has been small. □□□