● STATE IN BUSINESS

ACHIEVING PUBLIC OBJECTIVES DOES NOT NECESSARILY REQUIRE DIRECT STATE INTERVENTION OR INSTALLING PUBLIC SECTOR ENTERPRISES TO FRUCTIFY THE OBJECTIVES AT WHATEVER COST

Reimagining divestment

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AIR INDIA, OR AI—after 69 years of pleasant as well as turbulent journeys—is back in the Tata hangar. The ongoing National Asset Monetisation Pipeline (NAMP) is yet another decisive economic step taken by the government. The most important of such steps on disinvestment, however, is the decision to divest of Life Insurance Corporation of India (LIC) through an Initial Public Offer (IPO)—though the offer for sale (OFS) is of only 5% form the government stake. These are no ordinary disinvestment decisions. They should go down in history as an inflexion point on the approach to disinvestment. They are bold, paradigm-shifting changes that impact the direction and philosophy of economic policy—from the era of public sector domination to the era of market-imposed discipline, opportunities and uncertainties.

Public Sector Enterprises (PSEs) have been the 'commanding heights' of the Indian economy for long. Propelled by deep-rooted scepticism of the market and an unbridled faith in the State as the only efficient arbiter of resource allocation, PSEs progressively occupied the central vistas of our economic policies and planning since the 1950s.

This article is not a fault-finding mission. Such an approach to policies steps taken in a particular socioeconomic context, and that too in retrospect, is unfair and amounts to intellectual arrogance. However, it is important to ask whether policies have been changed when the context has changed dramatically and when the world has travelled through revolutionary changes in economic policies and political philosophies. Policy-makers should ask the question, like John Maynard Keynes did, "When the facts change, I change my mind. What do you do, Sir?"

Though, compelled by the economic crisis in the early 1990s, several economic reforms had been undertaken, faith in the PSEs continued, albeit at times without the reverence of the past. No major efforts had been made in fundamentally changing the static discourse of the left-of-centre adoration of PSEs as the benchmark for social/collective ownership. Generally, unless compelled by crises, Indian policy pendulum has somehow swung 360 degrees, not 180, to start the process of change!

Therefore, the approach of the day continued to embrace a PSE till it decisively turned into an albatross hanging heavily on the weak financial neck of the exchequer. Or, at least till questions such as whether government should be in the business of hospitality become too loud for comfort. These marginal questions, coupled with the desperate need for more money for the exchequer, led to a number of small-sum disinvestments of least resistance since the mid-1990s. Depending on the attention of the regime of the day, the market conditions, and the strength of the opposing forces, varying degree of success had been achieved in terms of the amount of money mobilised. By these yardsticks the periods of 1997-99 and 1999-2003 stand out.

However, the fundamental questions on the need for direct participation of the State in producing goods or providing services needed considerations of market failure, and core strategies. Again, such considerations should be applied dynamically because a case of market failure in 1947 may be a shining example of market success a few decades later if the market forces were unlocked at the right time. Classic cases are that of telecom and automobiles on which much has been written. Similarly, strategic requirement has to be defined in a manner that would give divestment the desired degree of rigour and seriousness, instead of making it a casual mention—quite unlike the stand taken by various governments, that the shares of a private sector bank, a tobacco and hospitality company and a private construction company held by the Specified Undertaking of the UTI [SUUTI] were 'strategic' holdings. The lines between strategic and other considerations must be very clear and transparent. Evidence of 'strategic' public-private cooperation is available aplenty from countries like the US where even the defense sector relies on mutual support. This is a realisation that seems to have dawned on India of late.

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Achieving public objectives does not necessarily require direct state intervention or installing a PSE to fructify the objective at whatever cost. Take the case of air connectivity as a desired goal. Private airlines can be encouraged or even compensated for operating a few uneconomical routes. The cost of that would have been much lower than the cost of running a full service airline. If the connectivity requirement is in mere episodes, like an evacuation or essential supplies during emergencies, etc, that also can be met through the services of private players. States do have the powers of even attachment during times of emergencies. Therefore, after more private players have been permitted, and regulatory authorities have been strengthened, continued existence of PSEs in non-strategic areas, where market—with or without regulation—can achieve the objective in normal times defies logic. Attention of the State on an updated duties of the sovereign is essential to productively utilise the limited public resources.

Air India's sale should be judged by the amount of money the exchequer would save and the extent of efficiency enhancement it will achieve in the coming days. LIC IPO will be judged by the various efficiency parameters post-listing. These are the benchmarks for evaluating privatisation and part-share sale, not just the amount of money raised through divestment, which is the standard but static measure. Major divestments must be measured in dynamic terms: in terms of the direct costs and benefits as well as an opportunity cost-benefit analysis. Only then the significance of Air India/LIC -type sale/divestment events will be fully understood.

How previous efforts at some of these initiatives had been obstructed by entrenched interests are legion. This tells the degree of difficulty faced in reaching the stage of successful culmination of these divestment efforts overcoming strong resentments still existing in some quarters against 'privatisation' and 'selling family silver'.