

Government-ownership must end

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SummaryThe economy will move forward faster if PSUs are privatised and the government develops infrastructure with the earnings

The UPA government spawned many good ideas, such as the PPP, urban renewal (JNNURM), rural employment guarantee (MGNREGA). Each of these was an innovation in a so-called socialist economy. Through PPP, the Indian economy was opened up from domination by government-owned enterprises in key areas (coal, oil & gas, steel, petrochemicals, civil aviation, roads, metro rail, etc). Rajiv Gandhi opened many of these areas to private investment, and private entrants flourished even as the state enterprises declined.

Vajpayee began to privatise them. He achieved additional revenues to the government by sales. By improving their efficiency under private ownership, the sold enterprises added to the GDP. PPP is a good idea but poorly executed. Poorly drafted contracts, long periods of ‘levellised’, i.e. more or less fixed tariffs, delays by government departments in giving clearances, aggressive bidding at unviable tariffs by private parties, and the faults in implementation are legion. The result was poor progress with the new enterprises in adding to production, and with the high debt allowed to them, huge unproductive bank advances.

To work, it must be carefully redesigned. Apart from the contracts being redrafted, the fixed tariffs must be for a maximum period of 12 years, as required by the lenders. All government departments that have to give clearances must be set time-limits and pay penalties for

delays. A statutorily-created regulator must clear each contract and monitor that the terms are not violated.

The government invested in heavy industry and infrastructure in the 1950s and 1960s because private enterprises could not raise funds. Foreign investment was taboo because the government was afraid of being dominated by the West. By the time Lal Bahadur Shastri became the PM, the conditions had changed and the government should have stopped investing in new industries; it should have begun to exit from those it had entered. Instead, it continued on the same path, and took over private enterprises in some sectors. These enterprises were controlled by bureaucrats. In many cases, they were the CMDs. In others, there might be a career professional in charge but he was heavily subservient to the ministry.

Even R&D was largely under the government. Modest successes apart, the government-owned laboratories contributed little. They might have been better off if they had worked under the Boards of private sector managers. The worst perhaps is the case of the DRDO. Hugely wasteful, delay prone and inefficient, it cost the nation both in the massive funds it needed, and in compelling imports of items it should have been able to design effectively for local manufacture.

There is another cost to the economy because of state ownership. In most states, IAS officers run electricity distribution enterprises. They have no career interest in the enterprise and are posted there for short periods. You have 30-year-olds bossing over grey haired superintending engineers with vast experience which the top man cannot understand. These enterprises have in the last few years accumulated almost R2,00,000 crore in losses. They are a drain on government finances and on the citizen. They prevent needed expenditure on infrastructure, health and education. We can generalise to say that every state-owned enterprise can do much better under private ownership.

Government ownership leads to diversion of funds to privately benefit the top people running the enterprise. Air India is the best example where planes are bought without planning utilisation, valuable routes

are given up, government officers get special benefits, maintenance of planes is atrocious, there is over-staffing and indiscipline, but the government continues to pump in large funds to continue the airliner. We see this incompetence also in the AAI, which builds atrocious airport terminals and provides poor service. The NHAI held back India's progress because of delayed and poor quality roads and highways.

The UPA government planned ambitiously to raise the nuclear power generation capacity from less than 5,000 MW to 20,000 MW by 2020. There has been practically no progress. This is not only because of the Nuclear Liability Act that imposes undefined liabilities on foreign equipment suppliers. Nuclear energy generation requires vast investment. Our government cannot find these funds. Our nuclear scientists and the bureaucracy have consciously kept private and foreign investment out of nuclear generation. Targets will not be met. If others, including the US, can have private nuclear generation, why can't we?

Coal output is held up because of incompetent management, no adherence to contracted supplies and with no penalty for default by suppliers, unregulated coal prices, backward technologies, and no accountability of bureaucrats and managers.

Gas production shortfalls have stranded over 15,000 MW of generation capacity. Private parties in collusion with government departments have cost the country much output and money. Defence equipment supplies are largely imported. This is because of inefficient R&D, and import agents who ensure that bureaucrats and politicians are motivated to stall domestic production and foreign investment. The list of government incompetence and disinterest in taking the country forward is endless.

We must open all areas to domestic and foreign investment and have bodies with wide scope and powers (not separate ones; for instance, in energy, separate ones for power, nuclear energy, etc, but combined), and with strong penal powers like those with the CCI. These bodies must be staffed by young, energetic, independent,

courageous people, to regulate quality, prices, technology and distribution. It is possible for the economy to move forward if the government disbands state-owned enterprises, privatises them, regulates them independently, and uses the funds it gets for investments in infrastructure and human development.

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