

DISINVESTMENT: WHY & HOW?

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1. I would like first to express my gratitude and appreciation to the organizers and sponsors of this Conference, viz. Project for Economic Education and Friedrich Naumann Stiftung, for inviting me once again to talk on the subject of privatisation. I say "once again" because, as Mr. Raju mentioned, I had talked about the same subject about fourteen years back under the auspices of the same organization. The Project for Economic Education even published a booklet based on that talk, "Privatisation – Myths and Realities" in 1988 or 1989. So the subject is being talked about for at least 14 years. In fact I remember that I started talking about it four years before that date. The first occasion for me was a major international Conference on "Privatisation- Policies, Methods & Procedures" convened by the Asian Development Bank in Manila in February 1985, when I was an invited speaker.

2. I am sorry to say that after 14 years – in my case after 18 years – of talking, not much water has flown down the Ganges. Several of the questions, which we discussed at that time, are still being discussed. The major difference is that the word "privatisation", which was simply a bad word for many years after I first publicly uttered it, is no more a bad word. Perhaps for the first time, the Finance Minister's budget speech this year has a full paragraph titled "Privatisation". We used other words, "disinvestment", "divestment" etc. and I will come to it in a moment. Any way, the psychological blocks seem to have been broken.

3. The broad scheme of my presentation will be something like this:

* First, I would touch upon what I understand to be the meaning of "Privatisation" and "Disinvestment."

* Next, I will consider the "Role of Privatisation and Disinvestment," mainly in the Indian context.

*Thirdly, I will plead that the idea of public sector was not bad ab initio; it was in fact a felt need then in the Indian context. So, disinvestment is not to be justified on that ground

*Fourthly, I will dwell on the disinvestment issues in case of VSNL and Tatas. The whole subject happens to be rather close to my heart.

*Fifthly, I will discuss the rationale of disinvestment.

* Finally, I will conclude with some guidelines for policy, some Do's and Don'ts for the future.

4. It looks like a longish agenda. Frankly, I am not sure, if I will be able to adhere to the limit of 45 minutes, so correctly declared by the Chairman for all speakers. But I will stop at that limit, give you a wake-up call, and leave any balance unsaid, if necessary.

5. Travelling in the plane from Mumbai yesterday, I was reading The Economist. There is a review of a book and the Economist quotes George Orwell saying: "Some ideas and opinions are so foolish that you have to belong to the intelligentsia to believe them." That quote placed me in a little paradox: If all of you consider yourself to be intelligentsia – I am sure you do and I do myself – and then if I persuade you into believing in some of the ideas which I will be propounding, the ideas have to be sufficiently foolish! If they are not foolish, and still you are inclined to be persuaded by some of them, you disqualify yourselves from being called 'intelligentsia.' Nevertheless, I am going to put forward some ideas that may appear to be controversial indeed, Orwell notwithstanding. I derive consolation from the fact that most ideas, which are one day translated into practice, are considered foolish when they are born.

[1] The Meaning of Disinvestment & Privatisation:

6. In my view, the privatisation process is any process, which results in reducing the role of the government or the public sector in the economic activities of a nation. In this context, we will see that all disinvestment is not privatisation. For example, when the Finance Minister proposes cross sales of government's equity in different oil companies, it may disinvestment from government's point of view but it is no privatisation at all. Similarly all privatisation does not involve disinvestment. For example, there are several PSUs where some services are hived off to the private sector: e.g. some government departments or companies may decide that travel arrangements would not any more be done departmentally; they would be given to an independent travel agent, or, say, catering will be given to an outside party. There is no disinvestment involved, but it is certainly privatisation. Similarly, disinvestment implies investment in the first place. If the government decides to abandon taking up a new public sector project and to leave it to the private sector, there is no disinvestment involved because there was no investment in the first place; yet, the decision is very much a case of privatisation. These are small illustrations, but should give you an idea.

7. In my opinion, the policy accent should be not on disinvestment but on privatisation. What we should be talking about and looking for in future, is privatisation and not disinvestment. Unfortunately, as I said, the word privatisation has been so bad that nobody dared to use that word. Instead, we have been using some strange words like 'divestment', 'disinvestment', 'financial restructuring of public sector undertakings' and all that, whereas what we really meant was privatisation. So let us at least now stop brushing the issue under the carpet, and talk about privatisation, because that is what we really have in mind.

8. In disinvestment, the emphasis is on monetary returns. When government disinvests, in fact, government is selling its own financial stake or share in a particular undertaking and receiving some funds. The funds are then used for something else. So disinvestment need be not only of good, profit-making PSUs; it could be as well of stakes in poorly run PSUs. We sell family silver; we also sell old newspapers stacked up in the house. We do either in order to receive some funds out of it. Ditto in case of disinvestment. In contrast, privatisation is more philosophical. Privatisation starts with the idea that business is the business of business. Business is not the business of government.

[2] Role of Privatisation

9. To explain my idea of the role of privatisation, let me use a simile. Privatisation is to a developing economy, what a specific medicine for a disease is to an individual. It is not a basic need, nor a general tonic nor a panacea. An individual needs air, water, food, clothing, and shelter. These and such others are his basic needs. But if he has an ailment, by injury or illness, he will need an effective and specific medicine. Depending on the seriousness of his ailment, the particular medicine may have to take precedence over his normal basic needs. The patient has to be saved. So the family would spend less on the basic needs like housing, food etc. and spend more on the medicine until he is cured. Hence, simply because it is a specific medicine, it does not necessarily imply that it has a low priority as compared to basic needs.

10. Similarly, for a developing country, the basic objective of economic policy may be, say, the removal of poverty, increase in employment opportunities etc. But the pursuit of these policies itself may land economies of several countries into such serious distortions that continued pursuit of the objectives will be self-defeating unless the economic ills are first given priority treatment and brought under control. Privatisation is an effective medicine if the economy is suffering from certain such ailments.

11. Views can differ of course. Some countries, Malaysia for example, I remember, many years ago issued a statement saying that privatisation was the guiding principle of their economic policy. Maybe; good luck to them, I am not criticizing anyone. But my way of looking at it is that we in India at any rate, should look at it as a specific medicine; see what are the ailments from which our economy is suffering, discuss whether this medicine is good for those ailments and if so, correctly administer that medicine. In my opinion, large doses of the privatisation medicine have become necessary for the Indian economy for a long time. . Unfortunately we have been too late and too niggardly in administering it. But that is too large a subject in itself.

12. I must say, privatisation has proved to be a very versatile medicine. Of all the countries that have practised privatisation, there is hardly any country I know of which has been sorry about its economic merits. They all have praised privatisation. Yesterday, Mr. Minoo Shroff referred to Hungary. I agree. I had that same experience. I spent some time in that charming country about two years ago. I was repeatedly told that they had completed the privatisation programme. They started it in 1985, completed it in 1995. In ten years flat. In our case, though a few had started talking about it obliquely, by 1995 nothing much was done, and at best a modest progress is on record even now after these several years

13. A question does arise, then that if it is such a versatile medicine and badly needed one, why is it that countries like India and some others do not administer it. There may be quite a few reasons. Continuing my simile, I would say that sometimes the patients do not know that they are suffering from a particular ailment. They continue to live in ignorance, until one day when they go to the doctor, and he tells them of their ailment. Sometimes people may know that they are suffering from a particular ailment, but they may not know that there is a medicine for it. They accept the ailment as a part of life. There are still others who may know that there is a medicine but who for various reasons do not like that particular medicine. They insist on living with the aggravating ailment rather than taking that medicine. I think we in India come in this last category. We do not seem to like even the name of that particular medicine. Happily, our resistance is considerably reduced and therefore now we have started looking at privatisation not from a shallow ideological point of view but as a practical issue. Again, as Mr. Minoo Shroff and some others have mentioned, the Bombay Plan, which was produced by J.R.D. Tata and G.D. Birla and others in 1944, also talked about the idea of privatisation, though the word was un-coined then. I notice from an article that is circulated to all of us here, that Prof. B. R. Shenoy too, supported privatisation. Actually, Adam Smith talked about it two hundred years ago. So it is not a new idea at all. It has not been given due respect in India in the sense that it has been given in many other countries.

[3] **Public Sector was a Need**

14. It was in 1988 or 1989 that I was invited by the Forum of Free Enterprise to give a talk on "Public sector – Problems and Prospects" at a public meeting, in the Bombay House auditorium. Mr. Minoo Masani himself was presiding. I think the proceedings were also widely published. It was during that talk that I first elaborated my viewpoint on India's public sector. I remember also that Mr. Minoo Masani said in his presidential address after my talk, "Pendse is very moderate and he is trying to put things tactfully; but I believe that everything should be privatised."

15. What I wish to reiterate is that public sector was a compelling need in India when we embarked on the course of planned economic development. The idea of public sector itself was then neither bad nor wrong. We started with the public sector and the idea of commanding heights for the public sector came later. But initially, government started developing the public sector not for any ideology but simply because it was a dire necessity. When we started planning, even the Tatas which was the largest industrial house at that time were not in a position to attract foreign investment in massive projects, e.g., oil refining. We wanted world giants like Burma Shell, Standard Vacuum and Caltex to come to India. But they seemed not inclined to collaborate with any Indian private sector. Perhaps in their view, the private sector in India was not good enough and strong enough for them to collaborate. They would collaborate only with the government. And what is "collaboration"? It is not a usual collaboration; it is a treaty. These oil companies entered into a treaty with the Government of India at that time! They thought that this country was so backward that they could only have a treaty with the Government to enter oil business. That was the situation. We cannot therefore say that we should have then left the development of the economy to the private sector. The world giants were not willing to work with our private

sector for any large projects. It was an absolute necessity for the Government to enter into various areas of business.

16. Steel industry was another example. The government rightly decided that instead of the country going without steel or having to import steel for ever, it were best for the government itself to go into steel making. So steel, oil. Similarly hotels: Ashoka Hotel. Before it was constructed, we had so many foreigners coming here generally for discussions with the Government agencies, but there was not one single hotel good enough for foreigners to stay in Delhi. They were reluctant. Now we have dozens of first-rate hotels in Delhi. But there was not even one at that time and the government was obliged to set up a hotel in Delhi for the foreigners to stay properly. These are all need-based investments in my opinion. It is far too easy to blame the public sector. True, the PSUs did not give results expected of them. That is another matter. But what I am trying to say is that the public sector was an absolute necessity in India's case. Let us not go into blaming the very idea of public sector from Day 1.

17. It is also fashionable to lament that the public sector has failed the people and failed the Government. I do not subscribe to that view. I am convinced that it is the other way round. It is the Government itself and the selfish among the politicians, the bureaucrats and the trade union leaders that have failed the public sector in our country. Though a discussion on the subject is relevant in the context of disinvestment, I will not go any deeper into it today, because my agenda even otherwise is long enough.

18. Even accepting the dire need for the setting up of the public sector initially, the need for privatisation today rests on solid foundations: **First**, the financial results have in most cases turned out to be dismal. **Secondly**, the private sector has come of age. There are today many Indian private sector companies that can take up large and complicated projects. There is hardly any manufacturing or service industry in the world which Indian industrialists are not capable of participating in, if they wanted to. **Thirdly**, the economy has grown. When the public sector was given the dominant role, the economy was much much smaller and narrower. It is like a child growing. When a child grows, the old clothes don't fit the child. It is not the fault of the child. Nor is it the fault of the clothes. We have to change the clothes and we don't blame the child because the clothes don't fit him, and we don't blame the clothes that they don't fit in. We require new clothes. Therefore privatisation can also be considered as new clothing for many of the industries and other activities in the public sector. That is how we should look at the process, instead of just be blaming the public sector.

19. I am never tired of giving a quotation of Lord Keynes of 1926. That was when even very old persons like me were not born. The subject of his speech was " *The End of Laissez-faire*". Imagine Keynes talking about the end of laissez-faire in 1926! He said:

" The important thing for government is not to do things which individuals are doing already and to do them a little better or a little worse: but to do those things which are not done at all."

20. This is an important viewpoint. When we started the emphasis on the public sector in various industries, it was because those industries were not being developed at all though they were needed for the country. So the government entered into those businesses. Now

when these businesses can and are being run by the private sector, there is no point in government continuing to do those things even if government believed that it could run them better than the private sector. I subscribe to this viewpoint; and I think the government's approach to the public sector then implied that the government subscribed to it too.

VSNL & Tatas: Privatisation Par excellence.

21. I recently read a media report of the function, which was held in Mumbai to formally hand over VSNL to Tatas. I was not there at that time, but I read newspaper reports. Mr. Pramod Mahajan apparently talked about it as a marriage and talked about Ratan Tata as the son-in-law and all that. I was thinking about it all after that and felt that that simile fitted very well indeed to the idea of privatisation. Privatisation is like an arranged marriage. Government's activities can be broadly divided into two broad categories. . There are those functions of the government, which will always have to be done by the government alone – e.g. defence, or such other activities conducted by the various departments of the Government. Whether these functions are carried out well or not is not the question. I would call them the sons of the government. While the PSUs, which are started, often in the circumstances mentioned above, are like the daughters of the government. They have to be married. Hence the idea of marriage: the government, as a father of a marriageable daughter, looking for a suitable boy. . The more I thought about this simile in the context of what Mr. Pramod Mahajan said at that function, the more I was convinced that this simile explains the privatisation idea very well indeed.

22. The episode of VSNL and Tatas has, I believe, a message for our debate today. Introducing me, Mr. Raju mentioned that I have been the chief economist of the Tatas, advising J.R.D. Tata, Nani Palkhivala and other top directors for twenty years. Even if I retired more than 12 years ago, you must forgive me if my thoughts' process cannot remain very aloof.

23. In my view, it is not a 'take over' of VSNL by Tatas, it is a 'hand over' of VSNL by the government to Tatas, [something like the hand over of Hong Kong by Britain to China]. You will agree there is a basic difference here between a take over and a hand over. This actual hand over of VSNL to Tatas is perhaps among the best economic news to come from this country for a long time. For, as I said earlier, we were indulging in several practices of doubtful merit in the name of privatisation; it was not privatisation at all. There were cross sales and all sorts of things. I can give many other instances, which I need not because it will take much time. I think VSNL was the first significant case of privatisation par excellence This event is glory to the government and glory to Tatas.

24. It is glory to the government because the government was thus far avoiding the whole idea but trying to canalise funds into the treasury by dubious means. With the VSNL deal, the government got over an emotional block and showed a political will. If the government can show a political will in this, I think labour reforms and other deals are chicken feed. After this successful experience, the government must pick up courage. Yesterday again there was some discussion as to whether there is political consensus. Yes, after VSNL, we can say that there seems to be a fair political consensus. I am still not convinced about that, but there is as much of political consensus as perhaps we can hope to get. So government should make use of it, pick up courage and embark on the other difficult and long outstanding reforms measures like labour reforms and many other things.

25. It is also glory to Tatas. After my retirement in 1991, from time to time I read news that Lakme was given over, then that Tomco was given over. I used to feel a bit uneasy. Of course these must have been good commercial decisions. I do not doubt that. But I kept on feeling that Tatas, as a premier industrial group of India, should be acquiring companies and industrial units and not handing over parts of the group. Therefore for me it is great news that Tatas have acquired, first CMC and now VSNL in the open market with the blessings of the government. I am sure other industrial groups will take courage from this.

26. It is glory to Tatas for one more reason. We had this licence-permit raj for decades and decades. We also had a large number of Indian industrialists, a great many of whom found that their growth was impossible under that licence-permit raj. They had two alternatives: One, they must find some way of circumventing the system and prosper. Many unfortunately followed that path. But a small pack of industrialists, led by Tatas, with the leadership of J.R.D. Tata insisted that they this was not their alternative. I remember it was said in Bombay House many times that law may be an ass but we must accept the law as it is and abide by it. We must attempt to get it changed, but we must not break or circumvent the law. We know that the licence-permit raj was absolutely useless. [It is not the subject today.] But JRD's philosophy, followed by the entire Tata group was that even if the system were bad, we would have to get it changed and wait until then. We will make do with whatever little we can within the existing system. We will not circumvent it. So Bombay House took up the gigantic challenge of educating public opinion against the absurdity of numerous obnoxious laws and regulations, which were setting the country on a backward march; JRD through his superb leadership; his knack of finding and creating giants, and through his own, occasional, elegant but moderate statements; Nani Palkhiwala through his piercing logic and his mammoth public meetings, and some others. For twenty years, to me it often seemed a losing battle; until 1990 or so when the process of economic reforms was initiated. But the VSNL deal is a clear achievement – even earlier, the whole liberalization program is abundant evidence that Bombay House has won the battle of ideas. Government abandoned the old system, and accepted the new path. For example, Government repealed the absurdities of Monopolies Act after it had done huge damage to the Indian economy and industry. For full twenty two years, from 1969 to 1991, this Monopolies Act was a disaster.. I know it because I was personally involved in the economic implications of that Act as far as the Tatas were concerned. But that was repealed. Many other regulations have been repealed and we are now, happily, going in exactly the opposite direction, a direction that we should have taken 25 years ago. But we wasted 25 years, went in the wrong direction and now from that point we are going back. Anyway we have started going back. Therefore I think VSNL handover to Tatas is a great victory for the Tatas.

27. For Mr. Ratan Tata personally too, it is glory because it seems to fit snug into his ideas and his vision and synergies.

28. I was talking about the whole idea of privatising or handing over a PSU to a private sector group. And I chose to take up this VSNL instance to show how it could be a win-win situation.

29. We also suffered all those years because of all sorts of sedative slogans. For example, "Garibi Hatao." Of course we all know that we have to 'hatao' the 'garibi'. But please see the

manner in which we went about. Has poverty been removed? Or take another instance: "Curb the concentration of economic power to the common detriment " Yes, of course. But the way in which we started, was the concentration of economic power curbed? Similarly, "Commanding heights for the public sector." We tried to achieve that , but what did we achieve? Mr. Vasant Sathe himself said, "Instead of commanding heights, the public has sector achieved demanding depths!" Mr. Sathe said this while he was a minister in the Government. It took us twenty years to realize that we were not achieving commanding heights, but were sinking to demanding depths, and now we, at long last are privatising units in the public sector. We have lost such considerable energy, resources and time in our progress. These are the sorts of things, which had to be undone. The progress of privatisation and the VSNL saga are signals that the undoing has started.

30. The newspaper reports that I read about that function are very interesting. Mr. Pramod Mahajan said, 'Mr. Ratan Tata is our son-in-law'. [He even said, 'I have only one daughter and she is married. If I had another, I would have liked her to marry Ratan Tata' and all that. But that apart.] This excellent simile needs some modification Ratan Tata is not the son-in-law. He is the father of the son-in-law. Pramod Mahajan is the father of the daughter. It is an arranged marriage between the daughter of the government and a son from the Tata group, [technically a S.P.V.], That is how we can pursue the simile. Then Pramod Mahajan said, 'I am giving over my very dear daughter to you and I hope you will take good care of her.' And Mr. Ratan Tata said, 'Of course we will take good care of her, she is an excellent girl and she will flourish in all her virtues in the Tata family'

31. Then there was this highly publicised news of dividend stripping. Just about the time, after the contract was made, apparently, government gave itself an interim dividend of Rs.700 crores or more from VSNL. And people asked Mr. Ratan Tata (I read it from the reports), 'What do you think of it?' Among the Hindus there is custom of '*salankrut kanya daan*.' When the daughter is given away in marriage, she wears some ornaments. All those ornaments go with her to the new family. Some reporters asked him: 'what do you think? Don't you think that the Government offered you a bride with some ornaments and by the time she came to your home, many of them had been taken out?' So Ratan Tata replied: 'We are not worried about it; she is so capable that she will earn much more than that amount in no time after she comes to us.' Those were the sorts of fine sentiments that were expressed.

32. am impressed by this simile. I think we should carry this simile further to see how it fits in with other particular cases or privatisation.

33. But there are one or two lessons to be learnt too. There has been this controversy of IBP and IOC. If I am right, some reports said, government did not want IOC to bid for IBP. Taking the above simile, it is an arranged marriage. The parents should, as far as possible, avoid arranged marriages with blood relations. But if IOC itself wants to bid for IBP, it is like a love marriage. Then the father should not oppose, nor interfere. But the government has done exact opposite in the past. First they were forcing the oil companies to indulge in cross sales. In the case of IBP, they are preventing IOC from bidding for IBP. Both are wrong, in my opinion. The government must adopt a little 'hands off' approach, [Not certainly the detesting 'hands off' approach that Government adopted in the Unit Trust of India case. But that is another matter.]. If it is an arranged marriage, it is the father's responsibility, to see

that the bride goes to the right family. But if the bride has chosen her partner, the father is best advised not to oppose. That is how I would have liked it.

34. Let me refer briefly to the latest skirmishes about the Tatas transferring some Rs. 1300 crores or so from VSNL to Tata TeleServices. I would have thought that there is absolutely nothing wrong in it. Once a daughter is given away, then what the daughter, her husband and the family do, as long as it is not against the wishes of the daughter, should not be the father's concern.

35. Again you must forgive my becoming a little nostalgic. When my daughter got married, I went to Mr. Darbari Seth, gave him an invitation and said, "Sir, I hope Mrs Seth and you will both come". He said, "Pendse, We will definitely come; because I believe that in life the biggest thing that one can give is the daughter. Therefore, I always attend a daughter's marriage". That is right. When you give away your daughter, it is the biggest gift that you can give. But having done that, one must not come back and interfere in between. This is what Mr. Pramod Mahajan has been doing. I don't understand why Mr. Pramod Mahajan should lose his temper about this. Somebody told me, he said, "It is my money ["majhe paise"], and I won't let them take it." It is not Pramod Mahajan's [i.e.. government's] money at all. The daughter with some ornaments has been given over in marriage to the Tatas. If the daughter were complaining, it would have been understandable. . But that does not seem to have happened.

36. There are also some reports that agenda papers were not sent to the government nominee on the new VSNL board, and that minutes were not recorded properly and all that. Having been in Tatas for about 23 years I can quite believe that this may have happened. Some agenda papers might not have been sent for various reasons. It should not have happened but it could have happened. What is the way out for making the communication channels more neutral and transparent needs to be examined? I also do not know if a major disaster has been caused because of that. But that is a separate matter.

37. Actually I don't mind sharing a thought. We witness these wrestling matches and read about them. I am told that these wrestlers are not really opponents. They are all friends. Matches are a sham. Sometimes I wonder if in all this Rs.1300 cr. VSNL controversy, there is not some element of sham ness. I really feel that. I think at the end of one or two months the whole controversy will be seen to have died down in such an extraordinary sense of amity, that outsiders like us will say, "Oh, so amicably done!" If "amicably done" is to be the seen result, one can understandably wonder if the whole skirmish was not started with that objective. I do not know, I am just putting forward this thought. If it does happen so, please remember my anticipating this today here.

WHY DISINVESTMENT?

38. In the light of what I said so far, the question of the rationale for disinvestment can be addressed with some confidence:

39. The first point is that privatisation is a natural process. Just as setting up an industry in the public sector was natural initially, it is equally natural that several parts of the public

sector should culminate into privatisation. It is a natural process in the progress of Indian economy.

40. The second reason why disinvestment should be undertaken is that when the government hands over some of these activities to the private sector, the total scope of government's activities becomes more focussed. The government machinery becomes lean and therefore strong. Mrs. Thatcher was quoted yesterday. We would have normally thought that she would be favouring *laissez faire*. No sir. She said in one of her milestone speeches, " We believe government must be strong. Let no one ever call my government *laissez faire*." This is her statement. If Mrs. Margaret Thatcher feels that the government should be strong, remember nobody is thinking of a weak government. No citizen would like the government of his country to be weak. But a fat government is not a strong government. It is more likely that a fat government will be a weak government. Therefore we need a lean government, a focussed government and a strong government. Privatisation helps to build up that sort of government.

41. The third reason is that when the privatisation process begins, the talents of the bureaucracy are released for the purpose for which they are most suited. Bureaucrats are made for administering government, not to run a factory and be general managers and executive directors of industrial or commercial undertakings. Corporate governance is entirely a different cup of tea. Some of the IAS bureaucrats have done this job too remarkably well. Kudos to them. But they are not meant to do it. And some have miserably failed. I do not blame them at all. They were never trained for that. A friend of mine is a great singer. He once told me that his wife was complaining, "What is the use of your great singing ability? You can't even fix a leaking tap!" We cannot really blame a great singer because he is not a good plumber, can we? Similarly we cannot blame a public administrator if he cannot run a factory well. It is not his business. We impose that work on him and then we blame him that he does not do it well. If he can do that also well, as I said, kudos to him. But the job of the bureaucrat is to run the government. Far too many bureaucrats are spending far too much of their time in running factories and managing PSUs. Their energies will be released and will be available back for doing the work for which they are trained. That is the third reason why I would say disinvestment and privatisation are a must.

42. Fourthly, employment. Government avoids privatisation in the name of protecting employment in the concerned PSUs. This is a travesty of facts. Look at it like this: The lowest pay in any given public sector undertaking would be, I am sure, about Rs 5000 to 6000 per month; it will probably be more than that in many cases. But let us say that that is the minimum money cost to the government of trying to protect ever single job in a PSU and therefore of not privatising it. By protecting, say 2000 jobs when the minimum is Rs 5000, government is sinking at least Rs. 12 crores per year into such a loss making undertaking. I am talking of loss making undertakings. On the other hand, take for instance, the Maharashtra Employment Guarantee Scheme. The wage is about Rs. 60 per day and the jobs are given to the real rural poor. If their jobs are more important, and they should be, in Rs. 1800 we can create one job. But by not privatising a PSU, we are throwing away Rs 6000 or more for protecting a job there. It is not only that we are not protecting employment; we are in fact promoting unemployment by not privatising. Therefore promoting employment is a reason why privatisation should be practised.

43. The fifth reason, which is the most widely known or commonly practised factor, is the fiscal stress or the budgetary stress. Budgets of many countries' governments are in a mess. They are short of revenues, and expenditure is galloping. Few think of reducing expenditure; most think of new measures to get revenue. Disinvestment and privatisation are looked upon as new sources of money that can fund some additional expenditure. That is the general idea. I have put it very crudely but that is the most popular rationale of privatisation. It is utterly shortsighted to use privatisation proceeds to finance additional expenditure. It is not the correct way. It does not rectify, it aggravates the fiscal stress. The proceeds need to be used to repay debt and reduce the interest burden. I will revert to this in the last section

44. There are two more reasons which I am anxious to mention. They are critical to explain as to why disinvestment is not really taking place fast enough and why it should be taking place. The first of these, and the sixth in my list, is the dominance of vested interests. There are very powerful vested interests at stake in the PSUs continuing as PSUs. They are the selfish among the trade union leaders of the workers of the PSUs, among the suppliers to the units, among the bureaucrats and among the politicians and others who are definitely benefiting from the PSUs. These have developed a vested interest in the PSU continuing as a public sector unit and continuing to run with a loss or inefficiency. That is why they are benefiting. E.g., they can supply shoddy material to a loss-making unit and charge a high price. If they 'manage' the people concerned properly, their supplies are accepted; and, goods produced are also naturally shoddy. This is one minor example, which I have given. These vested interests, even taken together, may be numerically small, but structurally they are very powerful. The major justification for disinvestment or privatisation in my opinion is that that this damage will be controlled only if the concerned PSUs are privatised.

45. I am not suggesting that in the private sector there will not be any misuse of funds. But one is reconciled to the fact that the funds belong to the shareholders. It is not taxpayers' money. You and I are paying for the inefficiency of the public sector. If a private sector company is not doing well, the shareholders of that company are paying for it, not the general public. So there is a little difference. If we contribute to the share capital of a company and if it does badly, we can only blame ourselves. But we hate to have to pay taxes to be invested into public sector units, which are run inefficiently and for the advantage of some small sections of society.

46. The final, the seventh in my series, justification for disinvestments and privatisation is of course the black money. There are quite a few more, but I am going to complete the list here and then go to the reforms part.

The National Institute of Public Finance & Policy conducted a government commissioned a study in 1985. Perhaps its most telling finding was that public expenditure was the primary source of generation of black money in India. The higher the public expenditure, the higher the generation of black money. In my own book titled 'Black money & Budgets', I have given a summary of this study. I have not brought that original report, but I will quote just once sentence from it::

"The operation of the public sector has afforded large and perhaps growing opportunities for reaping black incomes."

There is a whole paragraph on that subject and then several instances are given in the Report. . Therefore if public sector is the primary source of black money and if black money is the problem that creates all sorts of other problems and distortions, it is very clear that ever-rising public expenditure through plan projects and through public sector must be curtailed. That can be done by privatisation; that is why privatisation needs to be encouraged.

47. Yesterday a lot of emphasis was given on infrastructure. The NIPFP study also refers to large infrastructure projects undertaken in the public sector. The point usually made is that infrastructure is the responsibility of the government. You must ask the question: Infrastructure means what? Roads? Mr. Moolgaokar, Chairman of Telco at that time, made a plea about 18 years ago that if government funds and capacities are strained, government should permit private sector to supplement government efforts to build roads and charge tolls. That plea was instantly accepted at that time. So it is not that infrastructure is a natural public sector monopoly. Which infrastructure then is public sector's natural monopoly is another question; we need not go into that now. But I am very much worried about that thousands and thousands of crores of rupees of public money is being earmarked in the name of large public sector plan projects in the infrastructure sector.

48. The point was brought home to me recently when I listened to a lecture by Mr. Vittal [the Chief Vigilance Commissioner] in Mumbai. He told us a chilling story. I hope it was a story. Corruption, cuts and commissions and black money in large public sector projects is known in many countries. We are not the inventors; or we may be inventors but many countries have emulated the worthy [!] example.

49. He said, a dictator head of an African country (he actually gave the name, but I must have forgotten it) paid an official friendly visit to a country in the South Asia, also headed by a dictator. After the usual receptions the host head said, " You and I must have a quiet dinner at my private palace." "Yes, certainly" said the guest.

When the guest was shown round the opulent palace he was simply surprised. . The African dictator said, "My Goodness, what a lavish thing! How did you manage this?"

I am old these heads of State are very free after a glass or two. The host said, "Come, I will show you". So he took him to the terrace. There was a beautiful river and there was a modern fully lit bridge over it.

" What a lovely view, a lovely river and a grand bridge! But you were going to tell me how did you manage this palace". Said the charmed guest

" Yes of course," said the obliging host. "Look at that bridge. Just 10 %; and I have this palace!"

"That is a good idea". The guest.

"Yes, of course. You didn't know that?" the host.

"No, I did not." admitted the admiring guest.

After a couple of years, the African head of State invited the South Asian President. Again after the usual courtesies and receptions, the African host said "Let us now have a quiet dinner in *my new* private palace". The two went to the private palace. And the Asian guest was surprised that this private palace was far, far ahead of his own.

"Great! But how did *you* manage this?" the Asian guest.

"Why are you surprised? You gave me the idea." African host

" Me? I don't remember." Guest.

. "Come, I will show you". Said the African host and took him to the terrace. Again a magnificent view and a beautiful riverflowing.

"You see that bridge?" .the host asked.

"I don't see any bridge ". Said the puzzled Asian guest.

" I know. There is no bridge. 100 per cent !" the host confided.

50. This is how it seems to happen. There are only financial outlays mentioned – Rs. 5000 crores to be spent on this; Rs. 2000 crores on that. But what do we get with these massive outlays? "We must increase the outlay on public sector infrastructure" the politicians are never tired of telling us. Physical targets and achievements are rarely mentioned; these are always under wraps. No monitoring; no public evaluation. Nothing. These large outlays on public sector surely go to the proper channels! If the manner in which rampant black money is created with increasing public sector outlays, is to be checked, privatisation seems to be the choice.

GUIDELINES FOR POLICY REFORM.

51. That brings me to the last section in which I will share some Do's and Don'ts for your consideration.

The Do's first.

52. As regards profit making PSUs, privatisation should be by way of disinvestment of at least 51 per cent of government equity so that the management and control are handed over to the strategic partner. The PSUs should be chosen for disinvestments selectively. Dr R. H. Patil, tomorrow will probably throw more authoritative light as to which ones to chose and how to go about the selection process. I am in favour of government keeping some shares, and not give away 100 %, so that after the control is handed over, the shares will almost certainly do better than before, as evidenced e.g., by CMC, and the government can sell the remaining shares in due course with still higher profit. I also recommend that, in addition to the shares being offered to the strategic partner, some shares should also be offered to the general public at the same time and at the same price. The strategic partner should preferably underwrite these. I believe this has not been done in India so far. In the VSNL-Tata case, Tatas were expected to buy shares from the public because already the public held some shares. Under my proposal, if the public feels that the price is too high, they will not purchase the shares but they would have been underwritten by the strategic partner. If the public feels that it is an attractive price, that part of the shares will be widely distributed. This is the first in my list of 'Do's

53. Secondly, in case of loss making undertakings, hundred per cent of the ownership should be sold away, lock, stock and barrel, and without any strings attached. By selling away the entire stake the government will get not only some initial revenue but will also save on the expenditure incurred necessarily in continuing these sick PSUs in the government stable. Some of them are making such enormous losses that the units have no money to pay even wages. And government makes a budgetary provision for that. We are all aware that every year's budget makes a provision of well over Rs. 1000 crores for giving *loans* to loss making undertakings to enable them to pay wages. Is there any chance of these loans being repaid to the Government? That is why, I said 'lock, stock and barrel, get

rid of these'. Again that should be done selectively. I am not saying that all of them should be done in one go. But the approach should be not to waste time, energy and any more money on reforming them with the hope of making them profitable. As pointed out earlier, this is similar to our selling old newspapers. Sometimes the price may be five rupees a kilo, sometimes it is four rupees; we call the man and get rid of them. It makes more space in the house. . That is the second 'Do'.

54. Thirdly, for the PSUs that cannot come under either of these categories, there are other ways. E.g., Hive off some of their activities [like catering, travel, medical facilities]. In most PSUs, all such activities for some curious reasons are carried out departmentally. These activities should be hived off. But mind you, there is hardly any disinvestment involved here, because there is hardly any investment in the first place. It is important that after the hiving off, there should be a proportionate downsizing of the undertaking. In most cases, alas, this does not take place. We find that PSUs do hive off many such activities to the private sector; but after handing over these activities, the total expenditure or the total manpower of the PSU concerned is not reduced proportionately at all. Often it remains the same. That means the PSU spends the same money for the remaining activities, which it was spending for the activities, which have now been privatised. This, I am afraid, is the antithesis of the idea of privatisation. A proportionate downsizing in terms of manpower and in terms of capital is absolutely necessary.

55. Fourthly, we must have a look at several of current government activities which may not have investment or which may not be PSUs in the strict sense, but which may be completely out of tune in the changing milieu. I know of quite some proposals, which, with the spectacles of conventional wisdom, may appear bizarre. If we remove these spectacles, and think afresh, they make a lot of sense. For example, what about "Privatise the Planning Commission"? Why not? At least four hundred talented economists and professionals are employed there, when there is no Plan, when there does not have to be a Plan in the traditional sense. We of course talk of a Plan when for all practical purposes we know we have given up macro planning. What is the need of the Planning Commission? Privatise it and let it be converted into a great private sector economic policy think tank. It can certainly be done. [I am not proposing that here, because I have not studied the subject fully yet.]

56. Similarly, there are several other activities. Tax collection, octroi collection. Everybody knows it that when octroi staff went on strike in Mumbai, some management undergraduates were requested to do that job and the daily octroi revenue jumped three times! Even income-tax collection. Can the whole Income Tax Department not be privatised? Just think about it. These ideas have been given. People talk seriously about these. A friend told me that in Netherlands they have adopted a very interesting approach. Viz. to, hand over these responsibilities to industry. The idea is worth thinking about, though this is not the subject right now. These look very radical ideas but what I am saying is that these ideas are worth considering. At present, what a mess the Income Tax Department is, what a mess the Excise Department is, we know all that. Can things be worse than this by privatising tax collections? So there is always a case for a change.

57. I have quite a few other Do's to think aloud about. But I will desist the temptation for two reasons: First, I think I am touching the time limit set by the Chairman, so I must stop

before he asks me to. Secondly, if I give away everything that I have in mind, in one single speech, nobody will invite me for a second speech! I will therefore round up by quickly referring to some of the Don'ts that I have in mind.

The Don'ts

58. First, forced cross sales are bad and must be avoided. For example, asking IOC to buy government owned equity in ONGC and vice versa has no justification at all. Both PSUs remain PSUs; free resources of both of them are unnecessarily blocked and their own investment plans are jeopardised to that extent, and so on. When this decision was announced, some well-known economic newspaper branded the move, with considerable justification, to be fraud and downright cheating. I will loathe to see any more of such deals. That is the first 'Don't'

59. Secondly, government often keeps a minority shareholding in some of the disinvested ex-PSUs, and has a right to appoint government nominees on their Board of Directors. *Bureaucrats should never be appointed as government nominees in such cases.* It is best to appoint non-official professionals like economists, chartered accountants or lawyers who have a creditable experience in large private corporate sector. They will do the job far more independently [unless Government is trying just to avoid this], and leave the bureaucrats more time and energy for doing their own job. [I see a little mischievous smile on the face of some of you here. No, rest assured, I am not pleading for myself. Government is most welcome to choose the second best!]

60. Finally [for the day], funds received by government as disinvestments proceeds should never, never be used to fund additional government expenditure, howsoever magnanimously the specific projects are titled. But alas, we have been doing precisely this. In fact even before any funds are received we declare how they will be spent. Often the proceeds fall short of the targets, but the expenditure is incurred and the fiscal situation actually deteriorates further, instead of improving. Moreover, expenditure on these magnanimous projects, like most other government expenditure, continues for ever, requiring continued doses of disinvestments for annual funding, defeating the whole rationale for privatisation. The proceeds are best stored up in a separate 'privatisation proceeds fund' and it should exclusively used to retire parts of public debt, reduce the interest burden and thus reduce the expenditure of the government; but never as an alibi to justify additional expenditure.

Epilogue

61. A point was made yesterday that we need some machinery to mobilise public opinion. You and I may think alike but the people at large in India are unaware of the whole genesis of this subject. In fact they are being bombarded with counter-propaganda, about the 'evil' that privatisation is. As I mentioned, J.R.D. Tata and Palkhivala and a few others tried to mobilise public opinion against the license permit raj. Educating and mobilising public opinion is a must; but it is a long and arduous process. For that, some sort of economic policy think tank institutes are necessary to be developed in our country. . Such institutes have played and are playing a crucial role in Western countries. I have studied the subject and have seen some think tanks abroad closely in operation. Unfortunately we have

practically none of those. Let me close by just highlighting this point and thanking all of you for the patient hearing.

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