Assault on the Public Sector in India is Three Cornered

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Government is accelerating the process of privatizing the public sector under one guise or the other. This process was set in motion in 1991 with the new economic policies but under the guiseof the pandemic and sensing that protest is not easy, the government has speeded up the process. It is talking of disinvestment, monetization of assets and strategic sale. All of them constitute privatization in different forms.

Governments have tried to justify these moves on grounds of raising funds for further investmentand increasing expenditures on the social sectors (like, education and health) and on welfare schemes for the poor. By focusing on the last two, the government has been trying to raise a political constituency in support of its moves.

Different Forms of Privatization

The public sector has also been projected as inefficient, corrupt and loss making and therefore wasteful of public resources. While the businessmen love this argument, they have successfully also sold it to the middle classes. The attempt has been to isolate the public sector employees who have been protesting against privatization. This move would be successful if the poor and the middle classes favour privatization as a result of the propaganda being carried out. The mediahas played an important role in pushing this propaganda since it is largely in the control of big business which hopes to reap huge benefit from privatization at low prices. The favourites of the rulers and the rulers hope to mutually benefit from the exercise.

Since 1991, privatization has taken different forms - Disinvestment, Privatization and PPP modes; now monetization of assets which is also a form of PPP mode. Disinvestment has meantgiving a part of the equity of the PSU to private investors while keeping the control of the company with the government. Privatization has meant the passing of control of a PSU to the private party, like, in the case of Air India. PPP mode as the name suggests is a partnership between the public and a private sector entity. Here the public sector took the risk while the profit went to the private party. So, this failed.

Now the government is going in for monetization of the public assets across the board – roads, railways, stadia, etc.. It is handing over these public assets to private parties at a price for many years. It is claimed that they are not being sold and will return to the government after the periodis over. So, it is like a PPP mode. It is argued that these assets are under utilized in the public sector and would be better utilized under private control.

Effectively these assets will be sold at low prices given that they are under utilized and thereforetheir current profitability is low. Also given the current downturn in the economy, it is unlikely that they would suddenly turn profitable unless they are given at low valuations. Cronyism is likely to come into play with the favoured parties handed over the assets. Just like happened in the case of privatization of airports, any competitors would be bullied by threatening them with raids and official harassment via agencies. What is happening in the case of Big Bazaar which Amazon was to acquire and suddenly Reliance entered the picture and now a legal battle is on.

Privatization has led to emergence of monopolies in Russia with control passed on at throw awayprices to Kleptocrats – former powerful government functionaries. In India too, one of the mechanisms of cheaply giving the PSUs to the private parties is to first make them sick or bring down their profits to low levels. This lowers their present value so that they can be handed over cheaply to private parties.

There are many mechanisms to bring down the profitability. First, to take incorrect decisions at the political level, like, merger of Indian Airlines and Air India and order a large number of aircrafts that could not be immediately absorbed in operations. Secondly, keep top management posts vacant for long so that decisions pass into the hands of bureaucrats and politicians who canthen manipulate the PSU. In 1991, it was reported that 35 top PSUs did not have either the Managing Director or the Chairman or the Finance Director. Thirdly, impose impossible social obligations so that losses follow. For instance banks, insurance companies, etc. have had to bear the cost of servicing the poor and commercially weak entities resulting in low profitability.

Supply Side Economics

In other words, there has been lack of autonomy for the PSUs due to political and bureaucratic control, resulting in non-commercial considerations dominating the decision making. Then it isargued that the public sector is inefficient and that creates the ground for privatization.

Privatization process started in 1991 under pressure of conditionalities imposed by the IMF andthe World Bank. But, now the pressure is not external but internal, generated by the belief in

`supply side' economics. It is based on the argument that the private sector has to be encouragedto invest more via granting it concessions. For instance, when the public sector's role is reduced,the monopoly power of the private businesses rises and that enables them to make more profit.

The presence of a PSU in an economic activity checks the ability of the private sector to chargehigher prices. Take the example of steel or coal or education institutions where both the public and private sectors operate. The private sector cannot charge arbitrarily high prices. If there is a Mother Dairy booth close by then the private sellers of fruits and vegetables cannot charge arbitrarily high prices or speculate by creating shortages.

So, supply side economics seeks to whittle down the public sector, as announced under the Atmanirbhar Bharat scheme. This will enable policy to pass into the hands of private sector and then it can extract more concessions from society.

The idea of supply side is to raise investment in the economy which has been declining since2012-13. But privatization does not lead to an increase in investment.

Privatization means that government reduces its capital stock. If it invests the money so raised then there is no addition to investment. The private sector diverts investment from somewhere else to buy the asset. So, it also does not increase its investment. Thus, net-net, neither government nor the private sector will invest more. It is a transfer of assets.

For private sector to invest more, there has to be additional demand. If investment does not rise, additional demand will not be created and then private investment will not rise. So, under these conditions, `supply side' policies will not deliver. Under the present circumstances of low demand due to the pandemic, private sector will get the assets cheap and the public will lose out. The private sector can currently raise funds to buy the public assets since banks are flush with funds and looking to opportunities to give credit to sound projects. What better to give to cronies acquiring assets cheap with assured profits? It all fits in with the scheme of favoured businesses.

Why is the public sector needed in India?

India is a poor country with an overwhelming number of its citizens poor. Only 3% can be said to be well off and perhaps another 7% are the middle and the lower middle classes. So, only 10%are **not poor** and this is 138 million people; larger than the population of Russia or Mexico. The rest 90% are poor even if many are not extremely poor.

The markets and the corporates cannot cater to the poor that is why the public sector has had to play a critical role in India since Independence. At the time of Independence, it was recognized by the leadership, due to their experience during the national movement, that the citizens are not to blame for their problems. The problems they faced, poverty, illiteracy, ill-health, etc., were all result of colonization. The citizens could not solve their problems since they could not set up schools or hospitals or create employment for themselves. Thus, the collectivity had to solve the citizens' problems and that is why the government was given the central role in solving their problems.

The importance of the public sector has been reinforced during the pandemic. The private sector could not cater to the transport, health, banking, education, etc., needs of the poor. The markets fail under normal situations and more so during adversity, whether it be floods, drought or a pandemic.

The public sector in India has been providing the basics of life, such as social and physical infrastructure. As argued above, it keeps prices in check. It has enabled the optimum utilization of nation's resources when its savings and investment were very low just after independence was achieved. It fulfilled the need of capital at a time when private sector lacked capital. The Indian economy adopted the mixed economy model under these circumstances with the public sector given the major role.

However, the public sector at its peak produced less than 30% of the output and its principal role was to promote capitalist development. The goal in India was never a socialist development even though the rhetoric implied that. Taking care of the poor or providing public services is done in all capitalist economies, under welfare capitalism, especially since the Second World War. All capitalist economies provide public goods, like defence and merit wants like education and health. Often industries that have increasing returns to scale, like, telecommunication and broadcasting, have been in the public sector

Globalization has Weakened Labour

At least since the 1970s capital has become highly mobile. This has enabled it to extract concessions from governments. It goes where it gets more favourable terms – where the tax rate is lower and it does not have to face militant labour unions. The decline of the Soviet bloc since the mid-1970s and the 180 degree turn by China weakened the possibility of an alternative for the developing world and India. Capitalism has been the only alternative and capital has taken advantage of that. Finance capital has risen dramatically with its interest pushed via the international financial institutions like, the IMF, the World Bank and ADB.

Labour has also weakened due to divisions within it. Like in India the unorganized sector which employs 94% of the work force goes unrepresented everywhere. It is unable to demand a living wage for itself. This makes it the reserve army of labour which weakens organized labour also. Public sector employees need to give lead to unify workers, farmers and the marginalized groups. For this they have to present an alternative to the current rapacious capitalist model. The public sector has to run as public sector and not as an adjunct to the private sector. The onus is on the employees to show that public sector is with the public. They need to become whistleblowers to check cronyism and corruption and oppose `supply side' policies broadly and not only in respect to their sectors.

Conclusion

Today the assault on the wider public sector is three sided, from International Finance Capital, Indian Big Business and the political class. The untenable comparison of public and private sectors based on the criterion of profitability needs to be challenged.