Withering Heights

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Jawaharlal Nehru hailed the public sector undertakings (PSU) as "Temples of modern India" and wanted them to seize the "commanding heights of Indian economy", a phrase that was coined in 1922 by Vladimir Lenin. Later, Yevgeni Preobrazhensky, a Russian revolutionary economist who championed rapid industrialisation of peasant Russia through state-owned heavy industries, fervently advocated for complete state control over the "commanding heights of economy" to promote "primitive socialist accumulation". He was executed during Stalin's Great Purge in1937, but the idea continued to inspire the leaders of newly-independent third world nations, which inherited an ocean of poverty, deindustrialization and an undeveloped agrarian economy left over by their colonial masters. To Nehru, the only way to overcome the endemic poverty and food crisis that bedevilled post-independence India was through establishing overwhelming State control over the means of production and distribution in the Soviet style, to serve broad macro-economic objectives of achieving higher economic growth, self-sufficiency in production, import substitution and long term equilibrium in foreign trade, besides meeting other socio-economic obligations.

It cannot be denied that PSUs had indeed helped the infant nation in its formative years. Save a handful of companies, the private sector, inherently averse to risk, was almost non-existent then, and could not be expected to invest in infrastructure and heavy industries that entailed long gestation periods, more so in an insular economy in the post-independence days. PSUs have grown luxuriantly since then, from only five Central PSUs (CPSUs) with total investment of Rs 29 crore during the First Plan, to as many as 444 in 2016-17, with total investment of Rs 16 lakh crore. Besides these, there are also 192 companies controlled by the Government indirectly, in association with state governments. But the philosophy behind them has undergone a sea change since then, with redefinition of the State's role as a catalyst and facilitator rather than a producer. Today most of our PSUs, especially those owned by the state governments, remain haplessly trapped in the vast no-man's land between the state and market.

As regards performance, 212 of the 444 CPSUs earned net profit of Rs 1.6 lakh crore in 2016-17, while 157 incurred net losses of Rs 30,700 crore. SAIL (loss of 3187 crore) and MTNL (Rs 2941 crore) led the pack of loss-making entities. 188 CPSUs have accumulated losses exceeding Rs 1.23 lakh crore over the years, and the net worth of 77 companies has completely been eroded by their accumulated losses. The Government earned Rs 46,000 crore from selling a part of its stakes in 25 CPSUs during 2016-17. 46 CPSUs are listed in the stock exchange. Of the 7 Indian companies that made into the coveted Fortune 500 list in 2018, four were PSUs: Oil India (ranked 137), ONGC (197), SBI (216) and Bharat Petroleum (314) – others being Reliance industries, Tata Motors and Rajesh Exports. 57 CPSUs were either defunct or under liquidation or did not prepare their accounts, so their operational results remained indeterminate. During 2016-17, CPSUs contributed Rs 3.86 lakh crore to the public exchequer in taxes, cess and dividends, earned forex worth Rs 87,616 crore through exports while paying Rs 4.59 lakh crore on imports on royalty, technical knowhow, interest, etc. They provided regular employment to 11.31 lakh people.

If that is a mixed bag of performance for the CPSUs, the performance of the State PSUs (SPSUs) is indeed dismal. As of March 2017, there were 1136 SPSUs, with total public investment of Rs 14.6 lakh crore, with 78 percent of investment only in power sector companies alone. SPSUs collectively incurred net loss of Rs 84,000 crore during 2016-17, while 531 of them earned total net profit of Rs 18,000 crore. The accumulated losses of these SPSUs amounted to a whooping Rs 4.65 lakh crore over the years, from Rs 11000 crore in 1990-91. 117 of them paid a total dividend of Rs 117 crore, at an average of only Rs 9.3 lakh during 2016-17. There are 292 SPSUs with negative net worth, besides 319 non-working SPSUs, many remaining dysfunctional for more than a quarter century. SPSUs employed 17.3 lakh people in 2016-17.

Power and transport sectors have always been sick, the former being forced to absorb the losses due to Govt. largesse to farmers and others, besides their own inefficiency – and their finances have not improved even after their unbundling into separate generation, transmission and distribution companies (DISCOMs) and despite the Govt. taking over 75 percent of the DISCOMs' loans through the UDAY scheme. Transport sector is sick due to heavy overheads, uneconomical pricing and widespread inefficiency.

The picture turns really bizarre when one look into the activities many of the SPSUs have been created for, defying all logic and making them permanent losing concerns. A large number of SPSUs were established in the so-called promotional and welfare sectors, e.g. UP has 103 SPSUs (38 being non-functional) which includes: Finance and Development Corporation for Backward Classes and Scheduled Castes, Development Corporation for almost everything from Fishery, Poultry, Piggery, Livestock, Sugarcane and Seed to Police Housing and Small Industries, Welfare Corporation for Women and Ex-Servicemen, etc. Bihar's 74 PSUs (40 non-functional), apart from most of above, also include Corporations for Film Development and Finance, Panchayati Raj Finance, Medical Services and Infrastructure, Development of Fruits and Vegetables, Pharmaceuticals and Chemicals, Beverages, Textiles etc. Kerala's 130 PSUs (15 dysfunctional) includes Development Corporations for the welfare of almost every conceivable segment of humanity - Christian Converts from Scheduled Castes and Recommended Communities, School Teachers, Non-Teaching Staff, Handicapped Persons, Artisans, Women, Backward Classes, Minorities, Scheduled Castes, Scheduled Tribes, and even Forward Communities. It reminds what Ronald Reagan said comparing the government with "a baby's alimentary canal, with a happy appetite at one end and no responsibility at the other".

Needless to say, no state has the necessary expertise or resources to manage these ethereal range of activities. Poultry, piggery, fishery etc. are better left to individual entrepreneurs or firms that know how to make these profitable. Financial and welfare needs of specific sectors can be addressed much more efficiently by banks and financial institutions. There are government ministries and departments to take care of the welfare of backward classes and minorities. The Welfare SPSUs only provide loans to members of various communities which are refinanced or reimbursed by the Government; this can easily be done through the existing banking networks or government subsidy schemes. Development and production of films, pharmaceuticals, seeds, chemicals, textiles, beverages etc. are not activities mandated for a state in a liberalized economy. No wonder that these companies have not served any useful purpose, and most have accumulated huge losses. Actually these corporations exist only to provide parking places for senior bureaucrats or MLAs and powerful politicians as Chairman and Managing Directors so that state largesse can be extended to them through cars, perks and privileges which add to the losses at the cost of the taxpayers. These are the apparatuses for appeasement of potential trouble makers.

Section 270 of the Companies Act 2013 prescribes two modes of winding up of a company and its liquidation: voluntarily, by passing a special resolution which is simpler but used rarely, or by tribunal through appointment of an official liquidator who will liquidate its assets to pay off the liabilities. Many of the SPSUs have never prepared their accounts since inception for 30- 50 years, so it is impossible to determine their assets and liabilities, without which it is well-nigh impossible to liquidate them through tribunals. Liquidation proceedings have been initiated against 124 non-working SPSUs leading nowhere, with proceedings against many companies continuing for over 30 years. Obviously, for Governments, this is not a priority.

1136 PSUs is a huge number for 29 states to manage. For revitalising them, it is imperative first to identify the sectors the state must withdraw from, and then revamp the structure and management of the remaining ones. The essential prerequisite is to depoliticise them, professionalise their management by appointing experienced managers rather than politicians or bureaucrats in their boards and changing their holding structure. Wherever feasible and where synergies exist, Centrals PSUs may be persuaded to manage the SPSUs which otherwise are likely to remain unviable. Many countries have insulated their ailing PSUs from politicians and bureaucrats, like Sweden and Thailand. They have created a Directors' Pool from where all Board members including CMDs are appointed. Holding structure of PSUs also needs to be reworked, and there are best practices available, like Singapore's Temasek Model. Post-independence in 1965, Singapore had pursued economic growth by taking stakes in many companies. A decade later, in 1974, it incorporated the holding company Temasek to manage their assets commercially. Some PSUS were corporatized and expanded, while others were privatised. Many of these grew and became global brands. Malaysia had created a watchdog body, Minority Shareholders Watching Group – a think-tank without politicians to monitor breaches and to ensure better corporate governance.

Unfortunately in the narrow vision of our leaders, political expediency gets the better of genuine institutional reforms, and rather than depoliticizing them, PSUs are unnecessarily dragged into politics, like seen in the case of HAL in recent times. SPSUs, if not reformed, shall wither away; for the economy, the impact will be anything but anodyne.