

## From New Delhi by Susan Maitra

### The economy's 'demanding depths'

*Nehru's vision has not been fulfilled, but hope is fueled anew of reform to make the public sector profitable.*

Since at least September 1984, when the late Mrs. Indira Gandhi set up a special committee under economist Arjun Sengupta, with an urgent mandate to "analyze the performance of the public enterprises . . . and suggest measures to improve their functioning," a debate over the public sector has become public and, increasingly, brutally frank.

One who has taken the point from the outset on this vital issue is Energy Minister Vasant Sathe, who charged in a recent speech in Hyderabad that instead of operating at the "commanding heights" of the economy—as envisioned by Jawaharlal Nehru—the public sector was "at the demanding depths" of the economy, bankrupt and seeking financial bailouts. "We must make the public sector more efficient, result-oriented, and accountable," Sathe stated.

Sathe has ample proof of his charges in the Energy Ministry. Coal India, with 600,000 employees, produces about 145 million tons of coal per year, what 30,000 workers produce in Australia. The story is the same for steel: 120,000 produce about 6 million tons of steel; in South Korea, just over one-tenth of that workforce (14,000) produce 30% more steel (9 million tons).

In both cases, obsolete technology is compounded by incompetent employment policies. As a result, capital-intensive industries have become labor-intensive, and disastrously uneconomical. The biggest public sector unit, the Heavy Engineering Corporation (HEC), with 20,000 employees, has not made a profit since it was

established in the 1960s.

This failure in the "core industries" plays the decisive role in undermining the development process overall by driving up the cost of economic infrastructure—power, credit, and industrial raw materials. As Sathe recalled, Nehru expected India to produce 80 million tons of steel annually by 1985. Instead, "we are stuck at 12 million tons, at the highest cost in the world," more than \$600 per ton.

Delays and cost overruns on establishment of new capacity in the power, steel, and core sectors of the public enterprises is now estimated to imply cost escalations of 44%, 174%, and 51%, respectively.

Although the debate has ebbed and flowed in the last two years, the issue is now becoming more pressing. Economic growth is projected to drop from a healthy 5% to about 1.5% for 1987-88. Inflation is expected to head into the double-digit range.

According to leaks on the forthcoming mid-term appraisal of the Seventh Plan (1985-90), there is already nearly a 10% shortfall in planned capital investment. While soaring non-Plan expenditure is cited as the main culprit, the relentless loss-making of the public sector stands out like a sore thumb. Public sector undertakings are slated to provide some 33% of total public investment for the Seventh Plan, but have so far contributed no more than 20%.

New hope was kindled that the problem would be tackled when Prime Minister Rajiv Gandhi told a Madras audience that India "cannot afford" socialism. "We concentrated on the

public sector to usher in socialism," he said. "Instead of generating resources, the public sector has been eating up the wealth of the nation." Gandhi's remarks followed an extraordinary cabinet "think" session where new approaches to the country's development dilemma were a prominent agenda item.

Though some steps are being taken, there is as yet no clear indication of the "sweeping changes" periodically predicted for the past year in the national media. The system of Memorandums of Understanding (MOUs), one of the Sengupta recommendations, is exemplary. MOUs, so far signed by only six companies, would establish broad performance criteria while conferring greater autonomy on the enterprises' management. Other reforms are under way in the area of personnel recruitment and, perhaps more spectacularly, financing. Public sector units are being encouraged to float bond issues to raise funds. This is intended to also affect their accountability.

In addition, a Non-Resident Indian consultancy organization is reportedly being established to provide the six major public sector units with specialized management and technological services for improving performance.

Meanwhile, the White Paper on the Public Sector, expected from a committee set up by the prime minister a year ago under the direction of the chairman of Steel Authority of India, Ltd., V. Krishnamurthy, has not yet seen the light of day. A recent press report said it was delayed because "the entire concept" of the role and functioning of the public sector needs to be redefined. More likely, the government is reluctant to provide a fixed target for the guardians of this sacred cow.