THE SIGNIFICANCE OF THE PUBLIC SECTOR*

Prabhat Patnaik

The argument for a public sector, i.e. for the State directly undertaking a number of economic operations, derives from its necessity for building a humane society. Implicit in this argument are three presumptions: first, that the market outcome in a private enterprise economy diverges from what is socially desirable; second, that the State is *potentially* a better custodian of "social interest" than any other entity, and that any actual failings on its part can be rectified through popular intervention in the political process whose scope can range from a social revolution to voting out an existing government; and third, that State intervention in defence of "social interest" must not remain confined only to indirect influence through fiscal, monetary and other policies, but must encompass, in several cases at least, the direct undertaking of economic operations.

There are at least five different cases where such direct undertaking of economic operations on the part of the State becomes necessary. The first is the provision of a range of necessary goods and services like food, education and health-care. The distribution of access to such goods and services in a free market capitalist economy produces significant deprivation for large segments of the population. On the other hand, State intervention through taxes and subsidies alone, i.e. by subsidizing access on the part of the deprived, financed by taxes imposed elsewhere, has the potentially invidious effect of making private producers raise their prices and thrive at the expense of the State budget. Hence control on private producers' prices becomes necessary; but, compared to the exercise of such control, direct provisioning by the State is a more effective alternative.

The second case relates not to people being absolutely deprived of "essential" goods and services (or what should be considered essential in a humane society), but to their having to pay exorbitant prices for accessing certain goods and services, i.e. it relates to distributional issues associated with exorbitant monopoly pricing. Here again price control rather than taxes and subsidies is what is needed, and an effective way of exercising such control is to break monopoly power through the countervailing presence of the State as a producer and seller.

This argument has a very important contemporary corollary. Under the neo-liberal dispensation that we currently have, various state governments are vying with one another to offer concessions to capitalists to entice them to locate their plants in their own respective states. This obviously strengthens monopoly power and worsens income distribution, but state governments

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plead helplessness since the alternative is to forego investment and industrialization. In cases like these too, the presence of the public sector, of the government as a producer, which undertakes investment if a certain stipulated threshold level of concessions is insufficient to entice private investment, is the means, often the only means, to overcome this dilemma.

The third case is natural monopolies like in minerals, or where there are substantial economies of scale. Here again since private enterprise would necessarily give rise to monopoly, exclusive public sector production, subject to social control exercised through the political process, is socially desirable. Likewise where there are significant externalities, resulting in the private sector producing either too much ("pollution") or too little (or not entering the field at all, since private profitability, lower than the social benefit, may be too low to attract private enterprise), taxes and subsidies may not be enough, and direct State production may be necessary.

The fourth case is where uncertainties about the returns are too great in a particular line of investment, in which case private investment may not be forthcoming at all. Since the uncertainties we are talking about are subjective uncertainties, the absence of an entrepreneurial class, necessitating public investment will fall into this category. More generally, even when there are private entrepreneurs, lumpy investments, and investments with long gestation periods, may not attract them because of uncertain rates of return, in which case public investment becomes necessary. Investment in basic research is unattractive to private capital and has to be undertaken by the State because the private return on it is negligible while its external effects mean that it has a high social rate of return. But even investment in R&D, which is patentable, and hence in principle can command a high private rate of return, may be shunned by private capital because of the uncertainties involved.

It is for this last reason that the public sector, not only in India but in most underdeveloped countries, was seen as a bulwark against metropolitan capital in the aftermath of decolonization. Import substituting industrialization could at best have brought foreign producers to locate plants on domestic soil and assemble the products locally, or got domestic producers to produce under collaboration agreements with the foreign producers, without creating any indigenous technological ability, if the public sector had not been developed as a tool for promoting self-reliance. In a whole range of activities from iron and steel, to fertilizers, to heavy electricals, to machine tools, to oil exploration and refining, to offshore oil extraction, the public sector became not only an effective counterweight to the monopoly position enjoyed by metropolitan firms, but also a means of enhancing domestic technological ability.

The fifth case arises because of the perennial tendency of capitalist economies to experience involuntary unemployment owing to a deficiency of aggregate demand. Deficiency of aggregate demand can of course be overcome through fiscal means alone, even if it is agreed that monetary policy measures are insufficient in many cases, without necessitating any direct public investment or the permanent existence of a public sector. But public expenditure does quite often come in the form of public investment; and it is even difficult for the State to spend, without some form of direct economic operations by it being thereby set up. (Even the NREGS in India, after all, is expanding direct economic operations by the State, and hence the dimensions of the public sector, though it is doing so through the lowest tier of the State, namely the *panchayats*).

The public sector in short is necessary as a bulwark against monopolies, both domestic and foreign, and as a means of enhancing people's access to essential goods and services; it is a necessary prerequisite for building a humane society and hence an integral part of a democratic order.

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Two conclusions immediately follow: first, since the entire objective of the public sector is to act as a bulwark against domestic and foreign monopolies, it cannot imitate these very monopolies in its mode of functioning. Since the monopolies are concerned with garnering as large a profit as possible, if the public sector were to attempt to pursue the same objective, then there will be little difference between the two with regard to their nature, and hence the public sector will cease to act as a bulwark against monopolies and may even end up colluding with them. It follows from the nature of the public sector therefore that judging it by the same yardstick with which the private sector is judged is inherently wrong. Secondly, precisely because the public sector is to act as a bulwark against domestic and foreign monopolies, there will be relentless opposition from the latter to the very existence of a public sector.

True, this is not the only reason for such opposition. The public sector will be opposed by them for several reasons. The first is what we have just been discussing, namely that it curtails their power by acting as a bulwark against them. Secondly, the existence of a functioning public sector undermines the legitimacy of capitalism, and implicitly strengthens the case for socialism: if enterprises can be run adequately by the State, then the argument that society is in need of a class of capitalists to own and, therefore, run enterprises, falls flat. The claim of socialists like Hodgskin, going back to the 1830s, that "society needs capital but not capitalists", gets validated to the extent that the State can effectively run enterprises. Thirdly, the attractive possibility of buying public sector assets cheap, gets opened up for the domestic and foreign monopolists, if the public sector is shown to be unviable. They, and intellectual and media circles close to them, have a vested interest therefore in projecting the public sector as unviable.

Paradoxically however their demonstration of its unviability takes the form of showing that the public sector is not as successful as they are *in terms of the criteria by which they are judged*, namely that it does not make as much profits as they do. We have just seen that the very *raison d'être* of the public sector is that it is different from the private sector; if it is to be a clone of the private sector, then there will be little need for a public sector. *But by a sleight of hand, the* *opposition to the public sector, which is supposed to be different from the private sector, takes the form simply of showing that it is different from the private sector,* i.e. the very fact of its being different, in the sense above all of not being as profitable, is taken *ipso facto* as proof of its incompetence. And this argument has been so successfully propagated that the public sector has indeed become synonymous with incompetence in common perception, notwithstanding the stellar role it has played in India's post-independence development.

To say all this is not to suggest that public sector units should necessarily make losses. Even as they play out their social role, public sector units must make profits, to the extent that their social role permits. They do not have to make profits by "hook or by crook"; they must forego profits to the extent that their social role so demands. But subject to their fulfilling their social role they must make profits. While it is wrong to compare their profits with those of the private sector, not making profits is not a virtue *per se*. And many public sector units have been making losses of late, even when there is no call for their doing so.

The fact that this is so has been shown by Kerala's success in improving the profitability of the public sector enterprises. *What is noteworthy about the Kerala case is not just that public sector units have been made profitable, "turned around" as the phrase goes, but that they have been "turned around" without in any way compromising their public sector character, without adopting any of the rapacious methods associated with private monopoly capital, and without even using any of the usual strategies for "turning around" that are commonly employed by private monopoly capital.* The "turn around" has been achieved without any recourse to land speculation, let alone land grab, without any large-scale retrenchment of workers, and without any recourse to financial jugglery. It has been achieved essentially by streamlining management and this has become possible only because the political will for doing so has been summoned.

This however raises a deeper question: in cases where public sector profitability has dipped, without this dip being caused by its playing its social role, the reason for the dip must lie not in the intrinsic character of the public sector, but in the absence of the political will to make the public sector work. The Kerala example shows that, given the political will, the public sector can work *qua* a public sector; and hence the argument about its necessity for building a humane society, and its being an essential component of a democratic order, remains intact.