

# Remember, fish rots from the head

PSU is politically deeply fashionable now. Bad news for working class

Historian Will Durant once said that the only thing he could say with certainty after a lifetime of studying history was "this too shall pass". In these days of public sector deification and glorification of state ownership, Air India and BSNL may be Exhibit A of how dogma around state ownership may be misplaced. Any company (private or public) can lose its way but state-owned companies are particularly vulnerable because of multiple objectives (Socrates said a slave who has three masters is free), confused objectives (serve the poor, pay your own bills, don't spend on customer acquisition, cut capital expenditure), the politicisation of employee relationships (union leaders resist redeployment and outside expertise) and leadership continuity (Air India has had multiple CEOs in the last three years and each has been an alibi for the next one). It's not a coincidence that both these companies operate in deregulated industries with brutal competition. In fact, most widely cited examples of public sector commercial success operate in areas where customers don't have free choice and are therefore, in most cases, not volunteers but hostages.

The response from the government and trade unions in AI and BSNL has been predictable. An AI union leader sought assurance from the PM that there would be no retrenchment or redeployment for its 31,000 employees. The airline is also being helped in unfair ways that the competition commission must review; a low-cost airline proposal from the Gulf has been put on hold and the government has issued a commercially insane fatwa to all government employees to travel Air India (shameless hostage-taking). BSNL was given an unfair head start in 3G but couldn't make much of it and is now looking for private or foreign marketing partners.

This is not an argument for private ownership; many of us with an overburdened belief in markets now accept the flaws of unsupervised and unregulated markets. But the current rhetoric around state ownership also worries many of us who have seen the 'big' state movie before 1991 and know how it ends. I agree the sources of any disease are complex and both these situations demonstrate the typical lack of leadership, strategy and vision that could have driven any private sector company into the ground. Fish rots from the head and the shameless jockeying after elections for ministries that have large public sector units reflects their potential as walking ATM machines to some politicians. So the argument should not be about a big or small state but an 'effective' state.

I'd like to make the limited argument that state ownership of commercial enterprises in capital intensive and high fixed-cost businesses that suffer business cycles makes them particularly vulnerable to capture by public



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sector trade unions given the public policy context of their governance structure and political masters. Handling trade unions in public sector units takes on politically complex overtones that lead to inappropriate decisions, for example the current demands for a 17.5% wage hike by employees of government owned banks or the payment of Rs 1,500 crore every year as 'productivity-linked-incentive' at AI where performance levels were kept below the average performance levels already achieved or the absence of taking on the employee issue in an overall robust AI revival plan. Government wages already distort the labour market because they are inflation-indexed and the value of below the top line benefits like pensions, housing, etc are almost 65% of total compensation. Expanding state ownership of enterprises only leads to difficult-to-resist demands for parity with civil servants. And every time the government agrees to these demands, it chooses employees over customers.

The public sector trade union issue is closely related to the labour law issue because the unions use labour law as a weapon and are one of its biggest beneficiaries. But the unintended consequences of our well meaning but unfair labour laws are demonstrated by our 214 central public sector units (five textile companies made losses of Rs 2,021 crore on revenues of Rs 490 crore and 54 companies have accumulated losses of Rs 96,636 crore). Imagine the upsides of this money going to the National Skill Corporation or the mid-day meal programme in schools or used to implement RFID tracking for government teachers. Despite optics that make labour law reform a policy orphan, there are few reforms more pro-poor than lowering unorganised employment and retarding the march of capital intensity without compromising productivity.

Public Sector trade unions act as important mentors for their private cousins and must move away from the demographic insanity of positioning job destruction as a form of job creation. And the government must realise that the politicisation of unions and state ownership of commercial enterprises in competitive markets is a toxic brew that does not serve India's labour force, its poor or its taxpayers.

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