State-controlled firms

The power and the glory

India has its own form of state-backed capitalism too

IF YOU SIT in many places in India, whether in the office of the boss of Infosys in Bangalore or in a suburban home, your host may clutch a remote control and appear anxious. You are not the cause of this distress. Your host is waiting for a power cut, after which the remote will be used to switch the air conditioning back on. Power, more than any other industry, captures the prevalence of the state in Indian business-and the harm it can do. Private capital has poured into building power stations, but most other bits of the supply chain are in the hands of the state. Often this set-up fails to deliver.

When people think of state capitalism, China springs to mind, with its giant and opaque government-controlled firms. But India, more cuddly and less competent, is not too dissimilar. Some **40%** of the profits of its **100** biggest listed firms come from state-controlled ones. In finance, energy and natural resources, they control at least two-thirds of production. Most were partially privatised over the past two decades, letting in a small proportion of outside shareholders. The latest example was Coal India, the biggest producer of India's main fuel. It was listed in **2010.**

Over time, the zeal to sell big-enough chunks of these firms to enable them to become more independent has dissipated. But today's halfway house is not all that bad. In aggregate, the **24** state outfits in the top **100** generated a **17%** return on equity last financial year, on a par with the private sector, and profits almost doubled in the past five years. Privatisation has made some of them more efficient. Bharat Heavy Electricals, which makes kit for power stations, holds its own against Chinese competitors. And State Bank of India (**SBI**) is as tech-savvy as its private rivals.

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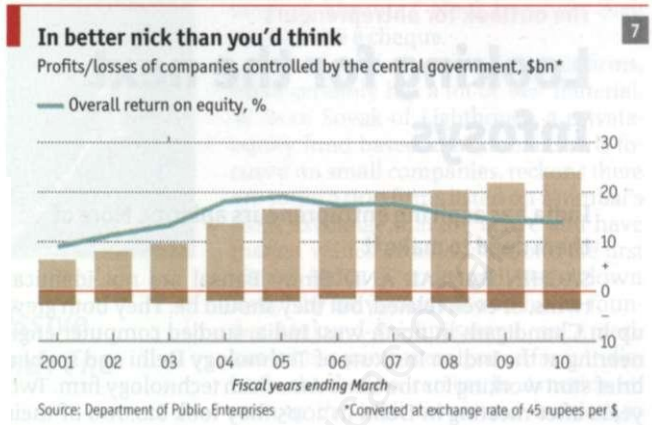

Even if India doesn't have the stomach for full privatisation, it is letting in the private sector in other, more subtle ways. A creeping retreat of the state has taken place in many industries thanks to competition. Thus two of India's most successful industries, air travel and telecoms, are dominated by private companies, even though the original state monopolists remain under government control. Public-private partnerships are also common on big infrastructure projects. You might conclude that India, like China, has found its own equilibrium between the state and market forces. But that view is premature. Public-private partnerships are all the rage, but more effort must be made to ensure the private bit of them gets a reasonable return, **GMR**, the infrastructure firm that built and part-operates Delhi's new airport, is losing money on the project. Its boss, G.M. Rao, says he is "very confident" that a settlement will be reached allowing it to raise tariffs and extend its charges. But more clarity will be needed to attract private money for future projects of this kind.

The big listed firms, meanwhile, are subject to meddling. Managers are appointed by the state. The energy companies are forced by the government to subsidise the costs of some kinds of fuel, to the tune of billions of dollars, by smoothing retail prices. Coal India's allocations of production seem to be decided at the highest level of government. And **SBI**, although it denies it furiously, loaned heavily and patriotically during **2008-09** to offset a slump in credit from private banks. In **2011** it has booked big write-offs and had its credit rating downgraded as it digests the binge. A big chunk of the economy is in effect run by political fiat.

Allowing competition while neither privatising nor killing off the original state incumbents means big losses at some dying public firms. Air India and MTNL, a telecoms company, between them lost almost **$2** billion in the fiscal year **2009-10.** Of **217** industrial enterprises owned by the central government in **2010,59** made losses (see chart **7**). At the state-government level there are perhaps another **850**-odd government-owned firms, including zombie local electricity distributors. Their losses would wipe out most of the profits made by the listed giants.

Profit and loss is the least of it. India's inexorably growing power crisis is a bottleneck that threatens to hobble its overall growth rate. An orthodox Western remedy would be to let in **BHP** Billiton, an Australian mining colossus, to dig up India's coal faster, while selling off the bankrupt electricity boards to private firms, who have made dramatic improvements in the few places in India where they have taken charge. But if the state is not prepared to let the private sector tackle its rotten parts, then it will need to adopt a more strong-armed, Chinese-style approach to making sure the state sector delivers. The middle way it is currently pursuing isn't working-as those power cuts testify.

Fonte: The Economist, London, v. 401, n. 8756, p. 17, 22 a 28 Oct. 2011.