

Respected Prof. Jomo Kwame Sundaram, Assistant Secretary General for Economic Development, United Nations Organisation, His Excellency Miguel Angel Ramírez, Ambassador, of Cuba in India, my colleagues in the Council of Ministers Comrades C. Divakaran and N.K. Premachandran, Planning Board Vice Chairman Prof. Prabhat Patnaik other eminent personalities on and off the dais

I am extremely thankful to all of you for accepting our invitation to discuss one of the most important contemporary topics that is being discussed and debated world over for the last two years. In the intellectual discourses, policy discussions and political debates, the role, relevance and importance of State Owned Enterprise and issues related to their governance has acquired a very significant place.

The role of State Owned Enterprises in the national economy as an effective tool to develop an egalitarian society had been always upheld till the advent of neo liberal capitalist ideology. In the newly liberated countries after the Second World War, they were the main driving forces to thrive the economy that was in shambles due to long colonial rule. In such countries they were largely depended for designing a development plan aiming at self-reliance, growth and for protecting the sovereignty. In many third world countries the initial development of economy was mainly by large level public investments. This was welcomed by the capitalist class also due to their inability to invest massively in the productive sectors as well as in the R&D sector so as to develop new technologies. In both these areas the investments came from the public exchequer. The core sectors were built up by utilising sizeable portion of the national income.

In the advanced countries also, especially during and after the great depression in 1930s, there was an inclination towards public spending primarily for generation of employment, enlarging the purchase power of the people and to save the economy from imminent collapse.

The trend of developing State Owned Enterprises continued till 1970s as an alternative to the private capital. In the democratic polities the sidelined masses were ensured of basic amenities through these organisations. But the neoliberal experiments that could bring in temporary booms in some countries started challenging the role of the Governments in the productive sectors and demanded the withdrawal of State machinery from economic activities. Initially such demands did not attract many except some totalitarian governments. But the transnational monopoly capitalism was all set to release the economy from the control of State and social regulations. An intelligetia class was developed in the very renowned institutions world over to provide intellectual inputs for debasing the egalitarian societies. The collapse of Soviet Union and the Socialist block in the early 1990s strengthened the monopoly capitalism and the neoliberal onslaught. The ideological alternatives became very weak and the role of the State in the national economy was considerably diminished.

The post Soviet Union era witnessed direct interventions of the multi national corporations in the productive sectors of third world countries at the auspices of Bretton Wood organisations in the name of Structural Adjustment Programme. This was implemented in the pretext of reverberating the economies. Many third world countries, affected with serious balance of payment crisis and fiscal deficits had no option other than accepting the conditionalities of the World Bank and the IMF for receiving financial supports from them. One of the main conditions for providing loans was to reduce the role of State Owned Enterprise in the national economy and to restructure them so as to make ways for the transnational corporations to intervene freely with the financial operations in the countries. The big domestic business houses, which found widened opportunities, also consented for such initiatives, with a demand for level playing fields.

If Structural Adjustment Programme in the third world countries paved ways for the neoliberal capitalist operations wherein the role of the State Owned Enterprises in the economy was minimised, in the developed countries the same effects were taking place in a different

mode. In countries like U.K, USA, Germany, France, Russia, and in the erstwhile socialist countries, where public sector organisations were controlling many crucial sectors, the Government started withdrawing from such areas and allowed the private capital to play very important roles in those areas. Another important phenomenon during that period was the growth of the finance capital. The emergence of new generation science and technologies in the last decades of the twentieth century boosted the service industries. With new avenues of investment, the enormous capital started flowing into that sector and financial bubbles were getting developed. This did not last long. These bubbles were destined to burst soon and the first shock to the neo liberalism happened with the burst of dotcom bubbles in the initial years of this century.

The burst of dotcom bubble was metastasised with the housing bubble. The huge inflow of finance capital along with the greed for unethical profits compelled the financial institutions to provide lending without even verifying the repayment capacity of the borrower. The withdrawal of regulatory or enforcement authorities from supervising such activities has resulted in shadow banking systems that were controlling the major portion of lending. The ultimate result was the rupture of another bubble created by the neoliberal systems. The bursting of housing bubble in 2008 had serious impacts upon the world economy. Even reputed banks and financial institutions were forced to file pauper suits. The industrial production diminished, thousands of workers lost their jobs and the whole economy recessed. There was a virtual panic. Almost all developed countries declared bailout and stimulus packages. Trillions of US dollars were pumped into market to ensure liquidity. Despite the measures taken to salvage the economies of various nations, the impact of meltdown continues.

Consequent to the global financial crisis, there is thinking against the unfettered capitalism. The role of the government and its agencies in the economy is again recognised. The relevance of State Owned Enterprises in the productive and welfare sectors is again acknowledged.

It is in this background we have assembled here to discuss about the importance of the State Owned Enterprise.

I would like to state one aspect very categorically. At this juncture, we have to think not only about the role of public sector in the country but also have to go in for introspection about the way they have been running. We should admit the fact that in many cases the SOEs were poorly performed not because they were owned by the State but due to issues related to their governance. The performance of the enterprises has very less relation to the ownership structure. If they are properly managed and good governance principles are implemented there is no reason for bad performance. This is the one fact that I want to emphasis. I am not denying the importance of the political stand of the governments and its transcendental status. But in a political set up where the State is interested to protect the SOEs, there must be good governance practices. Unless these practices are adopted even the political governments will not be a position to protect them in long run.

This is what happened in Kerala. We have the largest number of SOEs due to various historical reasons. But, I must admit that many of such enterprises were not properly managed. The essential elements of good governance was absent. I am not talking about the utility services. Even many companies in the manufacturing sector were badly performing and they were maintained and protected solely for political reasons. On two occasions, consultants were appointed to develop a strategy for the revival of the sector. But, both the times the advise was either to close down or privatise the units.

This is the area where the present Government took certain concrete initiatives. When this Government came to power in 2006, it was declared that the government would not privatise the State Owned Enterprises, but would resort to such strategic initiatives to revive them. The policy initiatives and concerted efforts in this sector have proved fruitful. There is a remarkable turnaround. I will cite only one figure. In 2005-06, out of the total 42 PSUs under the Industries Department, thirty were making losses. The total loss during that

year was Rs. 70 Crores. But in 2009-10, this loss was transformed into a profit of Rs. 240 Crores. The number of loss making companies has come down to five. They also will be profitable in this financial year. I am not going into the details of the initiatives taken by the Government for the revival of the PSUs. A reading material is distributed with the details of such initiatives.

With this words, I conclude. I wish for meaningful discourses in the forthcoming technical sessions and expect to have more debates and discussions in the immediate future.

I once again thank everyone and wish all of you a pleasant stay for two days.