

# There can be reforms without disinvestment

THE GOVERNMENT'S decision to shelve disinvestment of minor equity stake in four public sector enterprises has set alarm bells ringing on the reform intentions of the government. The decision is being made out to be a kind of litmus test for the government's willingness and capacity to undertake reforms in the context of coalitional constraints. Even the PM's reform credentials, which to my mind are beyond any doubt, have been called into question.

This has left me a bit surprised. It is not that further reforms are not needed, they very much are, but because the issue of disinvestment of minor government equity stakes has not been and is not central to the reform agenda.

The actual impact of such disinvestment is not to improve corporate governance or raise efficiency levels in these enterprises. These would be achieved if the units were privatised and sold to a strategic investor, which is needed in a large number of public enterprises. The sale of minor equity im-



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pacts only the central government's fiscal balance as it brings in additional non-tax revenue. This revenue loss can be rather easily made up either through higher GDP growth or some rather innocuous policy measure.

The judgment on whether the central government continues to support the reforms agenda, I suggest, should be based on an evaluation of the progress or lack of it on structural issues that are critical for sustaining high GDP growth rates.

These more critical structural issues, for example, would be consolidation and further liberalisation of the financial sector; improvement in governance and inter-ministerial coordination required for rapid infra-

structure development; greater efficiency in public expenditure; improving the investment climate by tackling issues in labour markets and addressing procedural hassles in starting and closing businesses; freeing the inter-state movement of goods; further facilitating FDI inflows etc.

However, the episode of a ruling regional party, in this case the DMK, opposing the reforms that it had earlier supported as a member of a different ruling coalition merits greater attention.

But to my surprise hardly any body in the media has focused on this so far. The question to ask is: why do regional political parties find it so difficult to support reforms and why do they still opt for competitive populism rather than competitive good governance as an electoral strategy? This is a crucial question because increasingly these regional parties will become more important for imple-

menting necessary reforms and also reforms themselves will be focused on state-level issues.

Two reasons for this situation are: first, almost complete loss of credibility of political parties that encourage the voter to behave almost cynically by making sure of immediate benefits that accrue from competitive populism; second, near absence of a discussion in the regional media of welfare impact of reforms for the common man.

The need of the hour is to have a more intensive discussion on the relative merits of reforms at the regional and state level, and take immediate steps to improve delivery of public goods and services which makes a positive impact on daily lives of the common people and builds the credibility of those pushing forward the reform agenda both in the states and at the Centre.

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