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# Public Versus Private Sector : Neglect of Lessons of Economics in Indian Policy Formulation

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B.S. Minhas

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Professor B.S. Minhas (born in 1929), is Distinguished Scientist Emeritus at the Indian Statistical Institute, New Delhi, and was Chairman, Governing Council, National Sample Survey Organisation, Government of India, from 1980 until very recently.

After doing his B.Sc.(Agriculture), M.Sc.(Agriculture) and M.A. (Economics) from the University of Punjab, Professor Minhas obtained his M.S.(Agricultural Economics) from the University of Illinois and Ph.D. in Economics from Stanford University, U.S.A. His doctoral work led to the introduction in Economics of the well-known Constant Elasticity of Substitution (CES) production function.

After working as Assistant Professor in the Department of Economics of Stanford University for a year, Professor Minhas returned to India and worked as Professor at the Indian Statistical Institute, New Delhi, from 1962 to 1971. He worked as Member, Planning Commission between 1971 to 1973 and as the Member of the 6th Finance Commission during 1972-73. He resigned from the membership of the Planning Commission in protest of the unrealistic assumptions made in the Draft Fifth Five Year Plan and the infeasibility of the important targets on which it was based. Professor Minhas has visited a number of Universities as Visiting Professor and was appointed Senior Fellow, Institute of Development Studies, University of Sussex since 1976. He worked as Secretary-General of the Afro-Asian Rural Reconstruction Organisation from 1981 to 1984. He was elected Fellow of the Econometric Society in 1973.

Professor Minhas has a number of important publications. His first major publication was, "International Comparison of Factor Cost and Factor Use", which was published in 1963 under the prestigious series on 'Contributions to Economic Analysis'. Professor Minhas has also greatly contributed to the ideas on development and planning strategies in the context of rural poverty and unemployment in India. His publications in this area include Fourth Plan Objectives and Policy Frame (1969), Rural Poverty, Employment and Growth (1970), Scheduling the Operations of the Bhakra System (1972), Planning and the Poor (1974). Professor Minhas was the initiator of the Minimum Needs Programme and the Integrated Agricultural Development in Drought Prone Areas. Currently, Professor Minhas has been working on problems of nutrition and education also. His works in these areas include the research papers, "On Estimating Inadequacy of Energy Intakes : Revealed Food Consumption Behaviour Versus Nutritional Norms" (World Bank, mimeographed, Sept. 1990) and "Educational Deprivation and Its Role as a Spoiler of Access to Better Life in India in 1986-87", (Indian Statistical Institute, March 1991).

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**R. R. KALE MEMORIAL LECTURE 1991  
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# Public Versus Private Sector : Neglect of Lessons of Economics in Indian Policy Formulation

B. S. Minhas

## 1. Introduction

People derive satisfaction/welfare from consuming goods, services and leisure. Other things being equal, the more of any good/service a person has, the greater that person's welfare. The firms and enterprises produce goods and services and try to maximise their profits/surplus by selling them. In this world of welfare and surplus maximisers, if a set of prices of goods and factors of production emerges, such that each producer, with his given production technology, is unable to increase his profits/surplus at the prevailing set of prices and each consumer is unable, within his budget constraint, to increase his welfare, and provided that all markets are cleared in the sense that quantities demanded exactly equal the quantities supplied, then this set of prices, inputs and outputs constitutes a situation of *competitive equilibrium*. According to a basic theorem 1/ of neoclassical economics, a *competitive equilibrium* is a *Pareto Optimum*-a configuration in which it is *not possible* to find a reallocation of resources that makes at least one person better off without making anyone else worse off.

The first important thing to note is the "if-then" nature of the above mentioned statement of a *competitive equilibrium*. Strictly speaking, this formal characterisation only describes the properties of an equilibrium. It does not address the question whether the profit-maximising behaviour of producers and welfare-maximising behaviour of consumers, taking the prevailing set of prices as given, will somehow lead the economy to a *competitive equilibrium*. *Secondly*, a situation of *Pareto optimality* does not imply that it meets some ethical notion of distributive justice, except in the sense of a purely formalistic, distributional compatibility with production efficiency in the context of maximisation of a *Social Welfare Function*, embodying in it some considerations of a distributive justice.

In case a *competitive equilibrium* somehow comes into existence, the question of conditions under which it might be sustained has been investigated in the neoclassical literature. Another justly famous theorem of Welfare Economics, for instance, asserts that (under strong assumptions relating to technology, consumer preferences, absence of externalities, etc.) associated with any *Pareto Optimum* (that maximises social welfare) is a set of prices that will sustain it as a *competitive equilibrium* provided appropriate redistribution of resource endowments or income through lump sum transfers is feasible. This result presumes a complete set of smoothly functioning markets for commodities, factors of production and insurance and strict observance (enforceability) of trading contracts.

One must note that these two theorems have nothing to say about the virtues or vices of a free market economy 2/. As a formal description of the informationally efficient decentralisation of decisions

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\* Text of Rao Bahadur R.R. Kale Memorial Lecture delivered at the Gokhale Institute of Politics and Economics, Pune, on 27th April, 1991. The March issue is being printed in June 1991.

brought about by price-guided allocation, these theorems are just as applicable to a capitalist system as to the Lange-Lerner world of socialist planning. However, because of the much longer association and closer familiarity of the economists with the model of a competitive market economy, the outcome associated with an idealised market economy is often used as the *efficiency benchmark* - a touchstone to evaluate and compare different price-output configurations resulting from alternative economic arrangements. In view of the Pareto-efficient property of a competitive equilibrium, its use as the efficiency benchmark is easily understandable, provided it is also clearly recognised that the maximising behaviour of individual economic agents *may not generate* the prices and other relevant information which will somehow lead the economy into a situation of competitive equilibrium.

At a particular stage of the development of an economic system, the price-market arrangements for some goods and factors of production may not emerge. Aside from this absence of certain markets (such as future markets for many goods), some other markets may suffer from incompleteness. Markets for insurance and capital, for instance, in most less-developed countries are notoriously incomplete. And even if markets do exist, they may fail. In other words, in those situations where markets are absent or incomplete, or when markets fail, the autonomous system of horizontal coordination and parallel processing of economic information, implied in the competitive price-market solution, breaks down. Fortunately, the aetiology of such breakdowns<sup>3/</sup> and approaches towards mending them are fairly well known: Economic Science has developed an articulate and fairly convincing theory of market failure - a theory whose scope and practical policy relevance is (unfortunately) not properly appreciated by the politicians and bureaucrats.

## 2. Reasons for Market Failure :

Aside from the phenomenon of public goods, the dominant reasons for market failure arise because of the presence of (a) natural monopoly conditions, (b) externalities, and (c) informational deficiencies/asymmetries.

A *monopoly* may come into being quite naturally when the fixed costs of providing a good are high relative to the variable cost, leading to decline in the average cost of production over the relevant range of demand. In such a case, a single firm can produce the particular output at a lower cost than any other market arrangement, including competition. The price elasticity of demand for such a good would determine whether or not the natural monopoly should invite public intervention. Whenever the price elasticity of demand is less than one, an increase in price will increase total revenue. A natural monopoly in this case would result in higher prices and lower output than under competitive conditions. In other words, in a situation of monopoly, the system of production would suffer from allocative inefficiency and loss of social welfare. Public utilities, such as electric power and telecommunications, are common examples of natural monopolies.

### *Externalities :*

An externality (external economy or diseconomy) is any valued impact (benefit or cost; positive externality or negative externality) resulting from any action that affects someone who did not fully consent to it. The presence of such externalities in any sector may not lead to the emergence of self-policing economic arrangements. Although discussions on externalities of different kinds have been in the folklore of welfare economics since times immemorial, and the literature

is littered with examples, yet a rigorous analysis of the subject did not become available until the early 1950s. In the framework of competitive equilibrium analysis, Scitovsky<sup>4/</sup> demonstrated that while the current production problems of an economy could be satisfactorily mediated through the market mechanism, but the externalities arising from intertemporal dependence among firms in different sectors (the presence of "pecuniary external economies", as he called them) could cause severe impediments to growth of investment in an underdeveloped economy, if it were to be guided solely by the prevailing price system. His analysis established a presumption that pecuniary external economies could be better mediated through investment planning by public authorities and the outcome associated with this interventionist policy may, under certain circumstances, be superior to the private market solution.

*Informational Deficiencies/Asymmetries :*

If the economic agents can determine the characteristic of every good with certainty prior to its purchase, then the information contained in the prevailing set of prices is likely to lead to an appropriate allocation of resources. However, if the economic agents can determine the characteristics of a good only after its purchase and use then the informational asymmetry is likely to lead to allocative inefficiency. Also there may be some goods and investment actions, whose quality and consequences are difficult to determine without long experience with their use; and often it may be too late for economic agents/consumers to apply correctives to their behaviour, or to undo the adverse consequences of their earlier use or neglect. The presence of such informational asymmetry can lead to failure of price-market arrangements and sub-optimal outcomes. Diffidence of Indian peasants in relation to consolidation of their fragmented land holdings and the consequent sub-optimal investments in land and water development<sup>5/</sup> are outstanding examples of informational deficiencies. The attitude of consumers towards the use of certain drugs, neglect of education and medical care of children, etc., are other manifestations (among many others) of the informational asymmetry between different groups in society.

*Market Failure and Government Intervention :*

Acquisition of diagnostic skills to detect the presence of market failure may, perhaps, be considered an easy matter, nevertheless the task of prescribing curative policy interventions is indeed complicated. Administrative costs and harmful side effects of policy interventions are often difficult to fathom in advance. Faced with conditions of endemic market failure in a sector, the dilemma is often sought to be resolved through direct entry of the government in the production/provision of goods and services produced by such a sector. However, such direct involvement of the government, just as often, may turn out to be a mistake, as in many such cases market failure can be better addressed with much less-intrusive policies. In the perspective of sound economic principles, the presence of market failure in a sector provides only a necessary condition for some form of government intervention, nevertheless the sufficient conditions for undertaking its production in the public sector need to be carefully investigated and separately established.

### 3. Bureaucratic Failure

As indicated earlier, we have a reasonably well worked out and fairly convincing theory of market failure. However, an equally

convincing theory of bureaucratic (government) failure has not come into existence yet. Nonetheless, bureaucratic inefficiencies and cases of government failure are not less rampant than the cases of price-market failure. The real source of confusion, which creates most problems in the discussions on public versus the private sector, however, arises from the fact that we have no over-reaching theory that can facilitate the analysis of trade-offs between market failure and bureaucratic failures.

In the absence of a widely accepted theory of bureaucratic failure, it is almost impossible to predict/estimate with confidence the costs and benefits of direct production of goods by public agencies. The social costs of market failure, condoned through government inaction, cannot, therefore, generally be weighed up against the uncertain costs and harmful side effects which bureaucratic activism in the market might entail. This makes it difficult to figure out and evaluate the pay-offs associated with different combinations of market outcomes and direct government intervention in policy formulation.

#### 4. Market Failure and Public Sector Production

It has been said earlier that the presence of an endemic market failure may call for public intervention in some form but not necessarily through government production/provision of the relevant goods. In order to decide the question whether public intervention should be in the shape of direct production/provision of certain goods by the government or through other policies, it is prudent to use the so-called "Double Market Failure Criterion". First one must establish sound evidence of market failure or a consensus for the acceptance of some distributional goal. Second one must also search for evidence that a less intrusive policy cannot be utilised, or effective contracts for private production of public provisions cannot be devised. Whenever double-market failure criterion is fulfilled, the case for public sector production/provision of such goods is usually strong.

The need for public sector production is more or less well established when moral hazards and opportunistic/strategic behaviour are strongly indicated. The most common examples of double-market failure and opportunistic behaviour arise in the production of public goods, defence (which is itself a public good), collection of taxes, printing of money, administration of justice, etc. To illustrate the meaning of opportunistic behaviour one can easily conceive of private armies. In fact, private armies have been raised in the course of history and many such armies were involved in the THIRTY YEAR WAR in Europe. The difficulty with the private armies is precisely the opportunistic behaviour of the soldiers. Private armies cannot be trusted to carry out the contracts because the governments do not have an independent mechanism of enforcement of such contracts. Soldiers can be lured from one side to another because of higher wages or better spoils system devised by the enemy. Notice that the failure here is the failure of the market twice over : My enjoyment of security from a given level of defence is not diminished by the enjoyment of security by millions of others. Defence, as a public good, is non-competitive and non-excludable among the citizens. It is almost impossible to envisage price-market arrangements for national security and further the contracts between the private armies and governments are unenforceable.

#### 5. Private Versus Political Firms

The crucial differences between the private firms and political firms (Public Sector Agencies) is that ownership in the latter is not transferable. In consequence, this lack of transferability of



ownership inhibits the capitalisation of future consequences of the actions of public sector bureaucracy into current transfer prices (net worth of the public sector enterprises) and this reduces the incentives of political firms to monitor their own behaviour. One must also quickly add that even in private firms where share holdings might get highly dispersed and the management moves away from primary entrepreneurs to professional managers, the result may be higher costs and lower profitability. In other words, in such a situation allocative inefficiencies also emerge under the price-market arrangements. Nevertheless, the capitalisation of these inefficiencies in the networth of the private firm, and its adverse impact on share prices, is likely to invite drastic corrective action.

Corrective action to mend and improve the behaviour of political firms is often delayed and, in fact, such action may never be taken, except in some special cases after an incumbent government gets thrown out through the normal practices of democracy. In other words, the checks and balances available to a democratic system of governance may provide some occasional correctives to the inherent inefficiencies of some political firms (public sector enterprises), nevertheless there is no guarantee that these democratic correctives would come forth as and when necessary for sustaining the economic health of these enterprises 6/.

We have noted that in the presence of incomplete markets, informational deficiencies and externalities, the market equilibrium is in general not Pareto-efficient. Economic theory, on the other hand, tells us that, under these circumstances, one can devise schemes of government intervention which can lead to Pareto-superior outcomes. However, a large body of experience also tells us that the government agencies charged with the responsibility of managing public enterprises often fail to design suitable economic organisations and systems of incentives and punishments to induce dynamic technological and market adaptations, prevent over-manning and promote necessary control of cost and quality in public sector firms. In other words, the dilemma between the private and public sectors looks like one of Hobson's choice under certain circumstances.

All said and done, the following practical question still remains: Are public sector firms less efficient than private firms? There is no categorical answer to this practical question. The evidence all over the world is quite mixed 7/. There is sufficient evidence to support both sides of the question. However, one thing is quite clear. Unmistakably, in practical terms, the degree of competition in a market is a better predictor of efficient performance than the question of ownership (public versus private) per se. While public firms have more often been found to be less efficient than private firms in globally competitive markets, nonetheless, there are many instances of successful and efficient public sector corporations having been established even when there was no evidence of an endemic market failure. France, for instance, produces machine tools, automobiles, watches and certain types of airplanes in state enterprises and sells them in world markets. Instances of efficient public enterprises in India as well as in many other mixed economies and capitalist countries can also be given.

## 6. Public Sector in India

Aside from the expansion of public sector operations in certain sectors of infrastructure, such as roads, communications, drainage, river basin and certain natural resource developments, agricultural research and extension and public services, where direct government

intervention can be justified because of the public good character of these activities, the government in India in the last forty years has vastly expanded its direct operations in a vast variety of sectors with little regard for lessons of economic theory, or its own administrative and management resources. From tourism to road transport, from production of steel, aluminium, heavy machinery, drugs, chemicals, fertilizers and cloth to commercial banking and public sector monopoly in airline services, public sector firms/agencies have been established in all manner of manufacturing and trading activities.

These vast public sector investments in manufacturing and commercial enterprises have on the whole failed to produce the surpluses which they were expected to generate for the further growth of the public sector. Instead, large losses have been made which, year in and year out, are simply financed by drawing on the limited budgetary resources of the country. The justification for these losses is not clearly possible to establish in terms of the distributional goals achieved by public sector production.

The growth of public sector in India has generated a fairly large volume of employment, which has often been cited as an example of the fulfillment of some important distributional goals of the government. In other words, employment generation in itself has been seen as a justification to condone large public sector losses. Although it is difficult to prove whether more employment could have been generated elsewhere in the economy with the same volume of funds invested in the public sector during the past forty years, nevertheless the more important question that still remains to be asked is this : Is the current volume of public sector employment sustainable in a dynamic sense? In view of the serious fiscal crisis facing the country - a crisis that has been becoming deeper and deeper since the mid-1980s, the answer to this question would seem to be in the negative. Further, the maintenance of the current levels of employment in many near-sick public sector enterprises would surely jeopardise the possibilities of the creation of many more new jobs in future.

## 7. State as a Private Trading Post

One final point, which might facilitate more discussion on the question of public sector versus private firms, relates to the nature of the State. To put it differently: can one always take a public interest view of the government? Do our political masters and bureaucrats in their actions always give priority to public interests over their own self-aggrandisement and private gratification? When a government becomes a private trading post <sup>8/</sup> in which jobs, favours, policies and contracts are freely traded for money and private gains, and rents of political and bureaucratic power are collected in most transactions, it is imprudent to be optimistic about the efficiency and effectiveness of massive government intervention in the production and provision of goods through public sector firms and agencies.

Undoubtedly, the venality of the predatory state in India gets somewhat restrained by its occasional search for political legitimacy. Nevertheless, the notion of legitimacy itself has gradually been denuded of its rigour and coherence because of the predominance of the single party rule since 1947. The electoral processes of the Indian democracy did throw up some alternatives in 1977 and 1989. However, the creative and dynamic potential of these political events (1977-1979 and 1989-1990) evaporated before any clear and meaningful agenda for policy reform could even emerge, much less being implemented. In other words, the Indian people have not failed in expressing their anger against continuance of the venal and inefficient state of affairs. Neverthe-

less, a coherent and viable coalition of groups, deriving its legitimacy from the national aspirations and true developmental needs of the Indian people has thus far failed to materialise. The forthcoming (May 1991) mid-term elections to Parliament would seem to offer yet another opportunity for some credible policy alternatives to emerge. It is difficult to predict the results of the forthcoming elections. Nevertheless, one hopes that we are not churning water once again as we did less than 18 months ago.

#### **8. Commanding Heights of the Economy or Deep Swamps of Inefficiency**

The most obvious economic-theoretic, distributive justice and national security considerations, which might call for some strategic regulation of the price-market system, have briefly been indicated in this note. However, the author has failed to come across any convincing theory (or a generally valid practical case having been made) in support of the political doctrine of State control of the "Commanding Heights of the Economy" through expansion of the public sector. The origin of this phrase, commanding heights, is attributed to Lenin, nevertheless, its popularity and misplaced (over-drawn) policy relevance in India is associated with the name of Jawaharlal Nehru.

Leaving aside the worn-out ideological appeal of the doctrine of expanding state power through public sector production, and also ignoring its dubious gains in terms of redistributive justice, the bureaucratic management of the overall environment of economic policy in India has turned the system into a fast-breeder reactor for the generation of inefficiency, industrial sickness and corruption, both in the public as well as private sector. Instead of climbing to the Commanding Heights, the bureaucratic command system has succeeded in trapping the economy in the deep swamps of inefficiency, very fast growth in government expenditures, unmatched by increases in tax revenues, and the emergence of large fiscal deficits, which currently stands at around 9 per cent of national product. Its main salience today is comprised of higher and higher levels of inflation, a very large and growing trade deficit, and a big mountain of public debt, both internal and external.

#### **9. Ideology and Competition as Tools of Discipline**

It is quite easy to appreciate that ideological considerations are important in the affairs of a government. However, as we have argued earlier, under a variety of circumstances, the policy choices between the public sector and private enterprise would appear to have much less to do with ideology than is often made out in public debate in India. The main difficulty with the bureaucratic command system in the public sector is that it rarely succeeds in devising an effective organisational structure and incentive system for the horizontal coordination of the infinitely diverse and multiple decisions which comprise an efficient and dynamic economy. The bureaucratic system of command and controls (which are essentially protective or basically restrictive in operation) scuttles competition and possibilities of learning and creative adjustment.

The competitive order, on the other hand, is generally more efficient because it breeds insecurity and almost instantaneous accountability through the ever-present threat of other competitors and the ultimate fear of exit. In a competitive environment, information gets automatically processed in a parallel manner at a variety of levels. There is little red tape to cut through; long reaction times and delays in adjustment invite loss of business and ultimate accountability through failure. We must therefore promote in India a more competitive

order and a far less discretionary policy environment for the efficient operations of private as well as public sector firms. This is the most basic policy lesson which can be drawn from the fundamental theorems of Economics and principles of good government.

## 10. Some Concluding Remarks

The choice between the public sector enterprises and private firms is not a simple either/or question. While there may be eminently good reasons for promoting public sector production under certain circumstances, nevertheless there is no basis whatever for the doctrine of the so-called commanding heights. The Indian economy is struggling in the deep swamps of inefficiency. Its deliverance from this inefficiency trap can be vastly facilitated if both the public sector and private firms are exposed more and more to global competition and the arbitrary bureaucratic controls for the regulation of entry and freedom of exit of firms are substantially rolled back.

In view of the persistence of a large fiscal deficit, one often comes across suggestions for the privatisation of public sector firms in India. In our considered opinion, privatisation is an exaggerated issue as its scope would seem to be very limited. The perpetual loss-making public sector enterprises, which are very many in numbers, may not find any buyers. On the other hand, selling-off the well-managed, profit making public sector firms will certainly increase the fiscal deficit of the government in the future. The reduction of the fiscal deficit can be brought about only by drastic reductions in government expenditures and raising government revenues. The money gathered from the disposal of public sector enterprises can finance the current deficit but it cannot reduce it. However, the principle that the "by-gones are forever by-gones" is a good one to follow: The loss-making enterprises, which are incapable of being nursed back to good economic health, are better allowed to perish and their salvage value in alternative uses recovered to aid the fiscal operations of the government.

In the current Indian situation, it is not certain whether the private owners of the public sector units will turn out to be better managers than their public sector counterparts. Industrial sickness has also been rampant in the Indian private sector. Thousands of sick units from the private sector have been taken over by the government to add to the burden in the public sector. Under our over-reaching licensing system, the private industrialists and business managers have learnt to manage their competitors through bribing the Executive, rather than through their production skills and marketing acumen. In consequence, the culture of production efficiency and entrepreneurship has largely been stultified<sup>9/</sup>. The real answer to our ills should consist in evolving a policy framework, which permits only selective intervention but breeds a more honest and effectively competitive economic order, maintaining conditions of easy entry and allowing the terminally sick units to exit and die. The virtues of fear of failure and freedom of exit can hardly be over-emphasised in sustaining dynamic efficiency and conditions supportive of creative learning and change in an economy.

One can strongly argue that, in consequence of the mindless over-extension of public sector operations in manufacturing and commerce, the Government of India have been able to spare inadequate financial and administrative resources for the development of certain items of infrastructure and essential social services, which because of their public good character legitimately belong in the public sector. This inadequate and deteriorating infrastructure and poor availability of social services, in turn, have had their share in raising costs

and lowering the competitiveness of Indian goods in world markets. To put it differently, the case for strengthening public sector activity in certain sectors of infrastructure, such as roads, bridges, communications, drainage and river basin development, agricultural research and extension and basic social services, is indeed strong and by concentrating its administrative and financial resources in the development of infrastructure, the Government of India can facilitate quicker expansion of economic activity in the country in a more cost-effective manner.

One must nevertheless note that the public, or collective, good character of infrastructure and basic social services, arising out of their non-competitiveness or non-excludability in use, furnishes a necessary condition for the existence of a public-good-market-failure which however satisfies only the first part of the double market failure criterion. There are important differences among the great variety of items of infrastructure and public services in terms of the nature of market failure - the differences which may call for appropriate variations in the design of public policy response in different cases. While planning (scale and level) and financing of the provision of infrastructure and basic public services by the public authorities can be shown to lead to a Pareto-superior outcome, nevertheless the question of their construction and delivery directly by the government needs to be separately investigated (case by case) with respect to the second part of the double market failure criterion. We have enough empirical evidence to suggest that contracting out to private firms is frequently more efficient than direct supply by government departments and agencies, particularly when a variety of these facilities have to be provided to a large number of distinct locations and geographical areas. While the emergence of opportunistic behaviour in some cases cannot be ruled out, nevertheless it is likely to be limited in nature, particularly when the item of infrastructure or the social service in question yields measurable output and monitoring the quality of output is relatively straightforward.

In summary, both economic theory and developmental experience suggest that aside from a clear role for the public sector in the direct provision of public goods and certain items of infrastructure and basic social services, there may exist strong grounds for public sector activity to protect the interests of future generations in certain areas, such as environmental preservation, which are often poorly reflected in private preferences of the contemporaries. The existence of cases of market failure in the industrial and commercial sectors, suspected to arise out of imperfect information and pecuniary externalities, on the other hand, does not necessarily imply indiscriminate expansion of government ownership, or the imposition of a regime of blanket controls and draconian regulations on the private sector. The experience in India and many other countries suggests that the informational deficiencies and externalities, which might impinge on sectors producing tradable goods and services, are better addressed through the selective use of less intrusive policies rather than through direct government ownership and extensive public regulation of the private sector. The government can play a more positive and catalytic role in the development of industry and commerce by funding research and information dissemination activities relating to technological choices and market intelligence, by facilitating the emergence of better-functioning markets as well as cooperative institutions and, most of all, by enhancing the competitiveness of the tradable goods sector. The incidence of bureaucratic failure in public sector enterprises in India can also be considerably reduced if public sector managers are exposed to the discipline of market competition and market incentives to induce creative learning and prompt responses to new

commercial opportunities.

### Notes

1. T.C. Koopmans, (1957), *Three Essays on the State of Economic Science*, New York, McGraw Hill.
2. On all this and more, see, T.N. Srinivasan, (1985), "Neoclassical Political Economy, the State and Economic Development", *Asian Development Review*, Vol.3, No.2, pp.38-55.
3. A fairly intelligent statement of the common causes of market failure, for instance, is available in Francis M. Bator (1958), "The Anatomy of Market Failure", *Quarterly Journal of Economics*, Vol.72, No.3, pp.351-379.
4. T.Scitovsky, (1954), "Two Concepts of External Economies", *Journal of Political Economy*, Vol.62, pp. 143-151.
5. The interested reader may wish to consult B.S. Minhas (1970), "Rural Poverty, Land Redistribution and Development Strategy", *Indian Economic Review*, Vol.5, April 1970, pp. 97-126.
6. If a part of the equity of political firms is sold in the open market, this would be a way of marketising the public sector. However, the issue under consideration in this paper is different : It is the public sector versus private firms.
7. A large body of empirical evidence on the relative efficiency of public corporations and private firms is listed in David L. Weimer and Aidan R. Vining (1989), *Policy Analysis : Concepts and Practice*, Prentice Hall, Englewood Cliffs, Appendix 5A, pp. 174-75.
8. For an elaboration of this characterisation of the Indian State and its general implications for the design of public policy, the reader may refer to author's "Leadership, Public Policy and Socio-Economic Development", *Economic and Political Weekly*, Vol.23, No.37, September 10, 1988, particularly pp. 1901-05.
9. See, B.S. Minhas, (1988), *loc. cit.*

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R.B.R.R. KALE MEMORIAL LECTURES

<u>Lecturer</u>	<u>Subject</u>	<u>Year</u>
1. * V.G. KALE	Modern Tendencies in Economic Thought and Policy	1937
2. + G.S. GHURYE	The Social Process	1938
3. B.R. AMBEDKAR	Federation versus Freedom	1939
4. * K.T. SHAH	The Constituent Assembly	1940
5. + A.V. THAKKAR	The Problem of the Aborigines in India	1941
6. + V.L. MEHTA	A Plea for Planning in Cooperation	1942
7. S.G. VAZE	The Formation of Federations	1943
8. * JOHN MATHAI	Economic Policy	1944
9. * S.R. DESHPANDE	A Statistical Approach to Vital Economic Problems	1945
10. * J.V. JOSHI	India's Sterling Balances	1946
11. + C.D. DESHMUKH	Central Banking in India : A Retrospect	1948
12. + D.G. KARVE	Public Administration in Democracy	1949
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