INVITATION TO A DIALOGUE

The public and private sectors : Two sides of same coin

Rehman Sobhan *Star Guest Columnist*

In his articles published on November 6 and 7 Prof Rehman Sobhan initiated a "Dialogue on Bangladesh's Economic Malaise". He identified four controversial issues, namely (i) the role of the public and private sectors; (ii) import liberalisation and export promotion; (iii) Desubsidisation and (iv) problems of the labour market; that, according to him, required to be nationally debated. In a two part series, Prof Sobhan deals with the first of the above topics.

If the government cannot redefine its role and raise the level of its performance in all areas from development administration, to law enforcement, to diplomacy, to creating the enabling climate for efficient production, and where necessary, as an efficient producer of goods and services, this will compromise the efficiency of the private sector as well as immobilise the overall functioning of the government.

What the private sector cannot do today, it may do tomorrow. But this does not mean the government must meanwhile sit idle, and preside over the deindustrialisation of Bangladesh for purely ideological reasons.

Today what is at issue in Bangladesh is not the divide between the public and the private sector but the loss of faith of the government in itself. A government which has so little faith in its capacity to improve the performance of its component units that it is blindly willing to give them away, can hardly expect its programme of reforms in the public sector to be taken seriously. Thus good governance is the issue.

In Bangladesh temperatures instantly tend to rise when any discussion of the respective roles of the public and private sector come up. This is rather absurd because they are both two sides of the same coin. There is little scope for assuming an adversarial role between the public and private sector. What there is of a large scale private sector grew out of public sector financing of development finance institutions such as IDBP and PICIC in Pakistan and BSB and BSRS in Bangladesh. To function effectively all such private enterprises not only need the support of the state through fiscal and monetary policy and credit financing, but depend on public agencies for power, gas, telecommunications, transport links, ports as well as for law and order and educational services to train private employees. Inadequate capacity and/or efficiency in any of these areas of public action thus impact on the performance of the private sector.

The government in turn must recognise that what is at issue is not whether some inefficient segments of the government can be cut away thereby leaving the rest of the body politic in good health. After all what is the public sector? It is made up of a whole range of organisations under the ownership and/or control of the government. In this there is no valid conceptual distinction between such public entities as the Army, the Board of Revenue, the Ministry of Works and the enterprises of the Jute Mills Corporation.

The main point of distinction is that some components of the public sector, known in technical terms as public enterprises, produce marketed goods and services, thus have a balance sheet and can report on profits and losses from their operations. In fact the Bureau of Plant Protection or the Dhaka Medical College or the office of Land Administration also sell goods or services, take in some revenue but are not expected to produce a balance sheet of their operations. So they remain excluded from categorisation as public enterprises.

It is argued that whatever be their legal status or expectations of profitability, conceptually there is no logical reason to treat the Chittagong Steel Mill separately from the Directorate of Education. In both cases, the Government of Bangladesh (GOB) is directly responsible for the operational efficiency and effectiveness of these disparate but still commonly owned entities.

For a Minister of the GOB to argue from a public platform, as indeed Ministers in this and earlier regimes tend to do, that the public sector is inefficient and should be done away with is in fact to argue that the government in general, and given the system of collective responsibility in a Cabinet system, the Prime Minister and the eloquent Minister personally, are incompetent at their job. If a government cannot run a steel mill for a cement factory why should one assume that they can any more effectively negotiate aid, prepare budgets and plans, collect revenues, enforce law and order, provide health services, look after public education, build roads, generate power, administer land or do any of the hundreds of activities the Minister takes for granted as the responsibility of the government?

I have done no scientific analysis of this hypothesis but I would argue that there is very likely a strong correlation between the efficiency with which public enterprises function and the level of efficiency of all other institutions of government. This suggests that before one thinks of closing down a publicly owned factory or discharging its workers, who at least produce something, however inefficiently and at whatever cost, we should consider firing the concerned Minister, Secretary and the many superfluous staff in that Ministry who produce possibly nothing and whose productivity may well be negative because of the obstructive role they tend to play in inhibiting both public and private enterprise.

When we get down to basics, a public enterprise is just another institution, with a building, some machines, managers and workers in the same way as a private enterprise. In Bangladesh public and private enterprises are run usually by Bangladeshis with similar educational and social backgrounds. Public enterprises will thus function as efficiently as the government lets them by way of its policy environment, incentive structure, correct choice of personnel and operational freedom of action. If the operational environment is right then, given favourable market circumstances, both public and private enterprises will operate reasonably effectively and even profitably.

The point of difference lies in the fact that if a private enterprise operates unprofitably whether due to its own managerial incompetence or adverse market conditions, it can close down the shop. In Bangladesh this decision is made easier because most such enterprises can also default on their obligations to the banks without fear of action or threat to their normal life styles.

A public enterprise is not much different except that failures of efficiency usually owe to failures of governance rather than just management.

Public sector

In Bangladesh successive governments have failed to provide public enterprises with the commercial autonomy to function efficiently. The GOB has excercised control over pricing, the incentive structure, the right to hire and fire and has used public enterprises as a source of both employment patronage and surplus extraction. If therefore public enterprises function poorly the targets for dismissal in sequence should be the respective Minister and Secretary as policy maker, then the senior management of the enterprise, and finally the workers whose productivity is influenced by the acts of commission and omission of the GOB and the senior executives of the enterprise.

The reason why loss-making public enterprises remain in business is because the government for a while can underwrite its losses from the budget or through bank credit. It does so because of the political compulsions of the government to use public enterprise as an instrument of political patronage. To close a few public industries under World Bank pressure will not prevent the GOB from using all other agencies of government as instruments of patronage. Thus what is at issue is not public enterprise but the character of the government.

The future of the public sector

The central question is thus not whether an activity should or should not be located in the public sector but what needs to be done to promote economic growth, greater self-reliance, structural diversification of the economy, improved export capability, greater employment, improvement in the conditions, of life through appropriate policies but above all through better governance. This commitment to improve has to be part of a clearly defined vision of how we want Bangladesh to look like in the next 20 years, its place in the regional and world economy and a very carefully designed and concrete agenda of action to realise this vision for the country. The government of Bangladesh will have to assume responsibilities for realising these goals and be held responsible before the people to realise these changes. Such a government will define the respective roles of the public and private sector in relation to such a clearly articulated vision for the future.

In subordinating our development agenda to our social vision we will have to make the best use of both the institutions of the public and private sector. The public sector will have to play a critical role to provide an adequate and efficient social and physical infrastructure from health and education to efficient power and telecommunications if the production of goods is to be made competitive. It is the government which can contribute to leveling the playing field whereby the export sector can be globally more competitive.

If the government cannot redefine its sole and raise the level of its performance in all areas from development administration, to law enforcement, to diplomacy, to creating the enabling climate for efficient production, and where necessary, as an efficient producer of goods and services, this will compromise the efficiency of the private sector as well as immobilise the overall functioning of the government. Just as an overall efficient administration coincides with more efficient public enterprise so does the efficiency of the private sector correlate with the efficiency of the public sector.

We must therefore focus attention on defining the boundaries, to remain in place over the next 5 to 7 years, between the public and private sector and to then focus our attention on raising the performance of both the public and private sector. In this task we must approach the issue of the respective roles of the public and private sector from a purely pragmatic rather than an ideological point of view. We must, in relation to our development vision, carefully assess what roles the private sector can assume, in the short and then medium run. We must let the government take on any level of responsibility if we are satisfied that the private sector cannot today take on this role.

Thus, for example, if Bangladesh's development agenda identifies the need for a dynamic capital goods sectors, then the GOB must see whether and if such large scale investment can be undertaken by our private sector. If such as scale of private investment remains unfeasible in Bangladesh in the near future then the government, as it did in the 1950s and 1960, when PIDC/EPIDC laid the basis for the industrialisation for the then East Pakistan, must play both a direct and enabling role in promoting such industries. What the private sector cannot do today, it may do tomorrow. But this does not mean the government must meanwhile sit idle, and preside over the deindustrialisation of Bangladesh for purely ideological reasons.

Today what is at issue in Bangladesh is not the divide between the public and the private sector but the loss of faith of the government in itself. A government which has so little faith in its capacity to improve the performance of its component units that it is blindly willing to give them away, can hardly expect its programme of reforms in the public sector to be taken seriously. Thus good governance is the issue. Without generating credibility as to its sense of purpose and the competent governance of the public sector, it will be difficult to stimulate the private sector to take long term investment decisions, whose outcome remains dependent on their confidence in the commitment and capability of the government.

(Prof Sobhan tomorrow writes on Private Sector)

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Several European states may follow Sweden's devaluation step

PARIS, Nov 21: Expectations grew on Friday that Sweden's devaluation of its crown will tough off similar steps in several countries desperate for relief from the pain of low economic growth and high interest rates, reports Reuter.

Norway and Denmark jacked their interest rates up sharply to protect their currencies from the same fate of the Swedish crown, which fell about nine per cent on Thursday after the government surrendered in the face of a major speculative attack and severed its link with the European Currency Unit (ECU).

The episode was a replay on September, when the forced float of the Finnish mark was the prelude to a wave of selling that swept the pound and lira from Europe's Exchange Rate Mechanism (ERM) and led to a devaluation of the peseta.

"The underlying economic pressures in the majority of European countries do point to the need for a realignment, said Giles Keating, chief economist of Credit Suisse First Boston.

Egyptian shipping co denies breaking UN embargo

CAIRO, Nov 21: The head of an Egyptian shipping company on Saturday denied a US government claim that any of his ships broke the UN embargo on Yugoslavia, reports AP.

In fact, Afeb Boraee said the specific American allegation — that he appeared to have delivered oil — was impossible because he has no tankers.

"Our entire fleet consists of cargo ships. We do not have any tankers," said Boraee, director of the privately owned Heliopolis Shipping Co. "Therefore, we do not handle oil."

In Washington, State Department spokesman Joseph Snyder said Friday that

US-EC accord removes barriers to GATT deal

BRUSSELS, Nov 21: The United States and the European Community on Friday signed an agreement ending a long-running dispute over farm subsidies that has stalled world trade talks, repots AP.

The deal defused a looming trade war starting with the imposition of punitive US import duties on Dec 5, officials said.

Also, it opened the way to conclude negotiations to liberalise world trade through the General Agreement on Tariffs and Trade in Geneva.

EC officials said the pact was approved unanimously after the United States agreed to a concession on subsidy levels.

The accord was warmly welcomed in London and Washington. The French and Italian governments withheld an immediate reaction. But French Agriculture Minister Jean-Pierre Soisson said he personally opposed.

The EC-US deal now goes to the GATT negotiations in Geneva for approval by the 108 nations involved in those talks. Economists estimate that a GATT world trade agreement could pump as much as 200 billion dollar into the weak global economy.

The farm subsidies battle had brought to a virtual standstill the Uruguay Round of negotiations to overhaul the world trading system and lower barriers to trade. The 6-year-old talks are sponsored by the General Agreement on Tariffs and Trade, or GATT.

Under a rarely invoked EC rule, France could still veto the deal by contending that it violates its "national interest." But officials here said that appeared unlikely because the United States made a key concession that means the EC now won't have to go beyond cuts in farm subsidies agreed to earlier this year.

France's Agriculture Minister said his government won't decide its stance until consulting with parliament next week.

In a 5-year-old dispute, the EC had refused, to bow to American demands for sharp cuts in its subsidies to oilseed farmers and on agricultural products in general.

In a joint statement, the two sides outlined how they resolved their key agricultural dispute — the output and subsidies of EC oilseeds. Washington argued that they caused American farmers one billion dollar a year in lost market opportunities.

Oilseeds, such as soybeans and corn gluten, are used mainly for cooking oil and fodder.

Under the deal, the EC will limit oilseeds production to 5.128 million hectares (12.671 million acres) of land, take 15 per cent of land out of production in the first year and a minimum of 10 per cent in subsequent years.

Officials said the US made a concession by backing off from its demand for strict tonnage limits.

The agreement, officials said, got the backing of the 17-member EC executive. It must now be considered by the 12 EC states.

The negotiators — EC External Relations Commissioner Frans Andriessen and EC Agriculture Commissioner Ray MacSharry — said that under the deal with Washington, the EC won't go beyond farm subsidy cuts agreed to earlier this year as part of an overhaul of the trade bloc's common agricultural policy.

This was of concern to France, the EC's biggest farm producer, which had opposed a deal vehemently for fear of invoking the wrath of its politically powerful farming sector.

The agreement was announced hours after the European negotiators returned from a final, two-day negotiating round in Washington. It was last-ditch phone calls Friday between MacSharry and US Agriculture Secretary Edward Madigan that clinched the deal.

The EC faced a Dec 5 deadline. The Bush administration had threatened to impose a 200 per cent import tax on 300 million dollar worth of European products, mostly French white wine, if the dispute is not settled by then.

Main points of the deal

BRUSSELS, Nov 21: The following are the main points in the agreements on oilseeds and farm trade reached by the European Community and United States on Friday, reports Reuter.

Oilseeds

The agreement to out EC oilseeds output is based on 5.128 million hectares (11 million acres) compared with the 5.5 million hectares (13.5 million acres) currently used to grow oilseeds.

— Up to 15 per cent of that area will be taken out of production (set aside) in the first year and the EC guaranteed that a minimum of 10 per cent of the EC oilseeds area will be set aside in future years.

— The US agreed that oilseeds could be grown on set-aside land for non-food uses such as biofuel for vehicles.

Exports

The EC will cut the volume of subsidised exports for wheat and other farm commodities by 21 per cent over six years starting in 1994. There is no restriction on the volume of unsubsidised exports.

Compensation payments

The United States accepted that EC payments to compensate farmers who set aside 15 per cent of their arable land for sharp price cuts agreed in internal farm reforms earlier this year should be permanent because they are linked to a reduction in output and do not distort trade.

Rebalancing of import protection

— The EC dropped its demand to be allowed to restrict imports of cereal substitutes, such as corn gluten feed, while improving access for cereals imports.

In exchange the US agreed to hold consultations if there was a big increase in EC imports of cereal substitutes which threatened to undermine its farm reforms.

Peace clause

The US also accepted a peace clause, agreeing not to demand investigations by the General Agreement on Tariffs and Trade (GATT) panels of EC oilseeds subsidies or EC export refunds provided they conformed with an eventual world trade agreement.

Clinton guards his response, Bush 'exceptionally happy'

WASHINGTON: Clinton, who generally supported the Uruguay Round during the election campaign, was guarded in his response Friday.

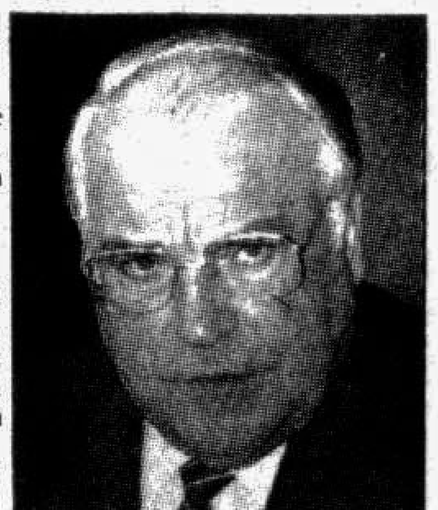
"I'm hopeful but we've got to look at it," he told reporters. "I've been fooling with farm issues for 20 years now, We've got to look at it, see the details."

The final deal needs approval from Congress and the Uruguay Round has drawn a collection of opponents, primarily from protected US industries who would face greater competition.

President Bush said he was "exceptionally pleased" with the deal.

"I am hopeful that the breakthrough that we achieved today will spur movement across the board in the on-going negotiations" to break down barriers to world trade, Bush said.

Kohl welcomes deal



BONN: Chancellor Helmut Kohl's government welcomed the farm deal between the European Community and the United States on Friday but German farmers called on Bonn to reject it as a sellout of their interests, reports Reuter.

Government spokesman Dieter Vogel said in a statement the agreement formed a good basis that must now be used to reach an early conclusion to the Uruguay Round of world trade talks under the General Agreement on Tariffs and Trade (GATT).

Japan will stick to its ban on rice imports

TOKYO: Prime Minister Kiichi Miyazawa said today Japan would stick to its ban on rice imports after the focus of global trade talks shifts following the overnight settlement of a US-EC farm subsidy dispute, reports AFP.

"Japan for its part will present its own assertion," said Miyazawa when asked about Japan's rice policy in the Uruguay Round of free trade talks under the General Agreement on Tariffs and Trade (GATT).

He added there would be

Feeling of anger reigns among French farmers

PARIS: French farmers called for demonstrations across Europe to protest an EC-US agreement to reduce agricultural subsidies and a government minister backed the politically powerful group, reports AP.

"A feeling of anger reigns among farmers tonight," said Christian Jacob, president of the National Center of Young Farmers, after the agreement was announced Friday in Washington and at EC headquarters in Brussels.

Iraq for lifting of UN economic sanctions

UNITED NATIONS, Nov 21: Iraq's foreign minister repeated Friday that Baghdad is fully cooperating with the UN cease-fire resolution and insisted that economic sanctions be lifted. At least one Western diplomat said the UN Security Council was not likely to agree, reports AP.

Iraqi Deputy Prime Minister Tariq Aziz and the foreign minister, Mohammed Said al-Sahaf, left Baghdad Friday headed to New York, where they will put their appeal before the council on Monday.

The Iraqi News Agency quoted Aziz as saying he would discuss "the council's unjust position taken against Iraq under the pressure of the Bush administration."

Belgian Ambassador Paul Noterdaeme said he did not think the council would relax the sanctions.

Both President Bush and British Prime Minister John Major have said Iraqi President Saddam Hussein is a destabilizing force in the Mideast, and sanctions on Iraq should not be lifted while he is still in power.

Gold may recover in S Africa

JOHANNESBURG, Nov 21: Gold may have lost its role as a safe heaven for investors, but South African mining chiefs say the market nevertheless is moving towards sound recovery in the second half of the 1990s, reports Reuter.

Analysts estimate jewellery demand for gold, surging in the Middle and Far East, will hit record levels in 1992.

And as world economies recover, jewellery demand should pick up to far outstrip gold production by the late 1990s, Clem Sunter, chairman of Anglo American corp of South Africa Ltd's gold and uranium division, said in a recent interview.

"Even though the gold price over the next year or two may be uninteresting, we think the fundamentals of the market will be very promising, Sunter told Reuters.

On Friday morning gold was