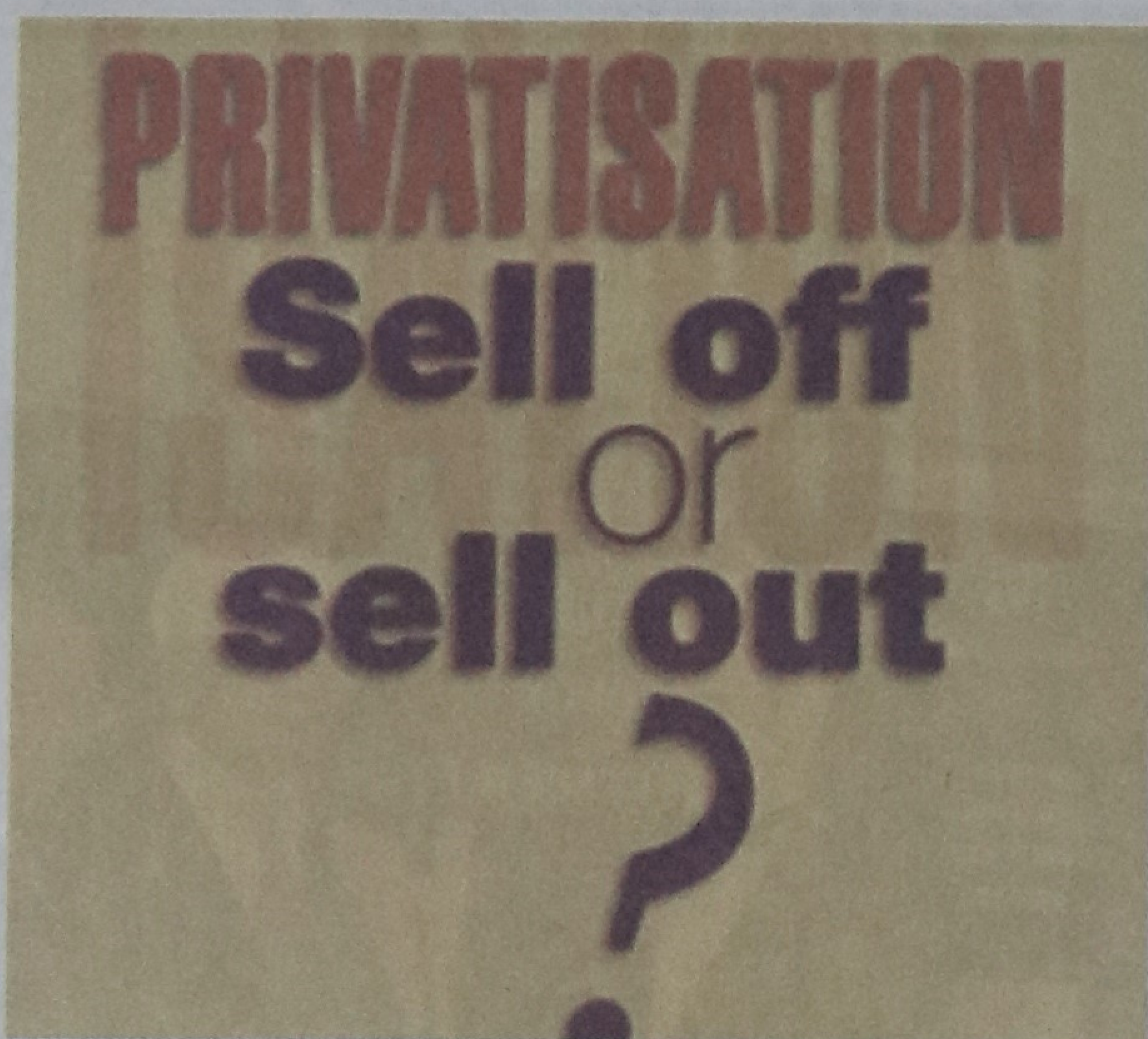
DHAKA MONDAY FEBRUARY 23, 2009

Changing dimensions of privatisation



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PRESS reports on January 30, 2009 revealed President Barack Hussein Obama's US$ 900 billion economy - recovery package as a means of state intervention to salvage the sick US economy. Reportedly, President Obama expressed his dissatisfaction and dismay at the Wall Street declaration of US$ 18 billion bonus, saying that in the current economic situation, it had been disgraceful to share such profits. In many economies of the world, particularly in the USA and in Europe, there have been massive state interventions to arrest the downward plunge of economy, and to save failing banking institutions from total collapse. Analysts tended to conclude that at least for the time being, the days of laissez-faire are over and the myth of 'all milk and honey' free market operations is busted. Eminent economists questioned if privatisation would be sustainable as a method to stimulate the economy. Only state interventions can revitalise sick industries like the Detroit auto-giants or ailing financial institutions.

The twin spectres of deflation and depression mean the response now will be more radical than just rate cuts, and would involve modification of economic approaches and socio-political philosophy. This would result in rethinking in the developing economies regarding their pursued policy of privatisation.

The Economist in its Dec 6-12, 2008 issue commented : 'For American and European savers it has been a lost decade. People's recent losses have made them cautious. They are putting their money into cash or money-market funds, rather than equities or corporate bonds. FDIs have already shrunk, and participation of foreign investors in international privatisation tenders, has in the recent past shown most discouraging trend. Securing credit even for big firms has become extremely tough. Governments are working hard to prop up credit markets, but the limitations are staggering. As the economic situation worsens and profits dive, more firms will be at risk of breaking covenants on standard measures such as the ratio of debt to earnings before interest, tax, depreciation and amortisation.

Furthermore, a good deal of debt will fall due in the next few years. Reuters Loan Pricing Corporation, a data provider, estimates that more than $ 1 trillion of loans will need to be re-financed in each of the next three years, mainly in USA and Europe. So any possibility of significant foreign investment from the organised private sector of the West in the privatised sector of the developed countries has become rather remote.

Political responses to the financial crisis fall into three main categories.

On the left, whether expressed by British Labour back benchers or spokesmen of communist/socialist parties or by Vladimir Putin, there is an undisguised satisfaction that the state is back in fashion. Let us have more of it, they say. The opponents of privatisation ask for review and reversal of the policy of private sector shunting out the public sector and advocate more of governmental control. Excessive greed, unbridled profiteering and unhealthy competition in economies not under control and supervision, would definitely lead to such disasters, they uphold. On the right, there is the mirror-image doctrinaire budget-cutting strategy that Canada (where earlier the privatisation process and public-private sector participation under monitoring experienced considerable success), the Tories in Britain (after all, Margaret Thatcher was the Diva of privatisation) and a few others seem to endorse.

In the middle, where the most are, want to get, as propounded by Lord Peter Mandelson of the British Labour Party, the best of liberal markets along with the security and confidence which his "smart strategic" government model can supply. This model of government would make interventions whenever necessary and would look more "social democratic" than anything else.

In this background, the relevance of privatisation as a government policy or national objective has to be determined. We can not only learn from earlier mistakes, but also can view the problem now in the light of international situation and national priorities. We have to re-frame the relationship between the state or the government and markets -- the most pregnant issue in today's politics. We need not, in my view, reject the "Mantra" of the 'enabling state' of the last decade, but let us be awake to the fact that it would no longer be enough in the current conditions. There are now various alternative formulations for the reframed state -- smart government, effective government, the smart strategic state -- but in all these, there is an explicit attempt at a larger reframing of the

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