[State’s role in business](http://www.dawn.com/news/1105372/states-role-in-business)

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The level of debate and public discourse on economic issues in Pakistan follows a binary path. For example, you can either be a supporter of privatisation or an opponent. There are no other alternatives. This kind of discourse is not helpful and what is required instead is a more analytical and pragmatic approach.

The state has three distinct roles to play in the area of business. First, it can own the businesses. Second, it has to formulate and implement a public policy that impacts on the formation, survival and expansion of businesses. Third, it has to act as the regulator for all private or publicly owned businesses.

According to a survey that was carried out in 2007, the federal government had more than 410 organisational entities of all types under the control of various ministries. One hundred of them were engaged in running businesses. These included large moneymaking entities such as the Oil and Gas Development Company, Pakistan Petroleum, State Life Insurance Corporation, etc. while others were losing money such as Pakistan Steel, PIA, the Pakistan Electric Power Company, etc.

An in-depth analysis of these enterprises was carried out and these were divided into various categories for action:

• Liquidation and winding up

• Sale of minority shares with transfer of management

• Sale of majority shares and control to strategic investor

• Offloading proportion of shares in the domestic and international capital markets

• Restructuring by shedding non-core activities, injecting fresh capital and infusing new technology

• Retaining ownership, control and management in the public sector.

A continuum of options is thus available — and these are not only about privatising an entity or keeping it in the public sector. A number of enterprises were to be retained in the public sector for strategic reasons even if they were incurring financial losses. For many others, there was no compelling reason to keep them under public ownership. Others were performing well but had to be given benchmarks to maximise social profitability or economic value.

Public monopolies cannot be privatised as this will be economically and socially harmful. Ownership, thus, is not the relevant variable. However, it is established that privately owned businesses add greater value to the economy in a competitive environment.

The second aspect pertains to public policy. Every policy has winners and losers but the government should remain neutral towards different owners. The government cannot favour its own enterprises as this would be discriminatory and go against the basic principles of justice and fair play.

For example, if the minister of aviation is also the chairman of the board of directors of PIA and the aviation policy has been tilted in favour of PIA the country and its air travellers would be the losers. Private airlines will not be able to compete in the absence of a level playing field and air travellers would not benefit.

To exercise the rights of ownership, the government should nominate autonomous boards and appoint the chief executive but the ministry should not interfere in day-to-day operations. The government can communicate the parameters of policy and performance, as well as hold the company accountable for the results, but it is the board of governors that will monitor and oversee the operations.

The procedure for nomination of the board and the appointment of chief executives in a transparent way has been laid down by the Supreme Court while corporations established under the Company Act have their own rules.

The third aspect of state responsibility focuses on the regulator. Markets are neither perfect nor always efficient. Market failures and externalities abound. This calls for an empowered regulator. Although a regulatory authority is constituted by an act of parliament it has to work independently in the larger interest of consumers, producers and the public at large.

Except for a few regulatory bodies most of them are independent of the sectoral ministries and are placed under the Cabinet Division. These agencies have to play an effective role in monitoring the market to promote healthy conditions, prevent the emergence of cartels and price fixing and other market abuses. The problem is that the regulatory agencies have not been manned by appropriate skills such as law, finance, accountancy, management and sectoral expertise. They have been made the resting ground for favourite retired officials. Lack of competence and courage have made them ineffective.

The State Bank of Pakistan does not hesitate to impose the same quantum of penalty on the National Bank of Pakistan as it does on other private banks for violating the prudential regulations. This even-handed approach has restored confidence in the regulator.

Those opposing privatisation should realise that more damage has been done to the economy by the patronage conferred by successive governments on selected persons or firms rather than by privatisation. Licensing, permits, loans that are not paid back, foreign exchange allocations, land at subsidised rates, exemptions, waivers and reduction in tariff duties, non-payment of taxes and utility bills, inflated contracts and other rent-seeking activities have made more people rich than has privatisation.

To sum up, there is a need to separate the functions of policymaking, regulation and ownership vested in the government. Then the question of retaining enterprises in the public sector or privatising or restructuring or liquidating them should be examined in the light of strategic objectives, the market structure and economic value creation. A binary way of thinking does not help.

The writer is a former governor of the State Bank of Pakistan.