Debt and privatisation

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By Analyst

According to the Deputy Minister of Finance, next year's budgeted expenditure will be Rs. 656 billion, while the estimated revenue for 2003 is only Rs. 317 billion inclusive of grants. The loan instalments and interest on previous borrowings amount to Rs. 327 billion. But according to the Deputy Minister market borrowings has been estimated at only Rs. 349 billion. This will suffice only to repay the loans taken previously. How then is the government going to find the money for next year's deficit?

The limit of local borrowings has been reached according to the Deputy Minister of Finance and it's time for the government to consider the options available to it other than creating money, which is detrimental to growth as well as to the welfare of people particularly the poor who suffer disproportionately from inflation. The public debt is not sustainable but fortunately for the political popularity of the government it doesn't yet have to cut consumption and welfare services. There are still enough public assets to be sold to find the money to fund the budget.

But the Opposition and the JVP, which seems to be mobilising those vested interests, are now opposing this option. The employees in the state owned enterprises oppose privatisation because they will be at last required to work for their wage. They have paid employment with maximum job security being free to do anything including robbing the state enterprises. The executives have long ago given up their role of management realising that it is the ministers who are now the chief executives. The ministers of course have never taken seriously their new function as managers of the government departments and agencies within their ministry. So they confine themselves to interventions in matters of transfers, appointments, disciplinary actions and so on forgetting that in their new role they have to be active managers like the chief executives of private sector organisations.

Dynastic political families

Our private sector large organisations learnt long ago that they couldn't do all the work themselves. Nor is it desirable for them to intervene in decisions like disciplinary actions without following the judgments of their field operations chiefs. But our ministers have no experience in managing organisations. They are drawn from the lawyers who are in abundance and who alone of the professions have taken to politics. Of course there are the sons and daughters of dynastic political families. But they have even less exposure to management. So the ministers have still to realise that since 1972 they are the masters of government operations and unless like all good chief executives they give the proper management leadership there is no chance of reforming the public administration.

So it is the ministers in charge who must take the responsibility for the performance of their departments. It is useless blaming the heads of departments unless they are given the authority to manage their departments. So this is another reason why state enterprises should be privatised. There is no other way for the government to raise money to fund the ballooning budget deficits. The time will of course come when there will be no more state enterprises or state assets to be privatised. It is then that the politicians will have to decide whether to cut public expenditure on consumption and welfare or go for inflationary finance as the PA government did.

Fortunately for the UNF government there are state enterprises to be privatised. But the government will meet increasing resistance from state employees and the JVP. Of course these state employees, by and large, have not been a vote bank of the UNP. Yet it will need much political courage to go through with the privatisation programme in the face of the opposition. The general public must realise that the alternative to raising money from privatisation is to cut the security and the welfare expenditure. But universal free education and free health care are sacred cows with their own professionals like teachers and medical professionals to safeguard such services.

Given the unsustainable public debt, the option available to us, apart from privatisation, is to forego economic growth by cutting public investment or cut the public expenditure on consumption and on welfare. Fortunately it may not be necessary to expand expenditure on security. Do we sacrifice economic growth by reducing capital expenditure or maintain it by cutting welfare expenditure? Any income to the government by way of user charges on free public goods or by way of increases in prices of goods and services produced by public corporations will help. But will the government have the political will to do so when it is faced with a constitutional crisis?

Balance of Payments

So the government has to choose between privatisation and cutting consumption or welfare. It will face political opposition on either score. Is inflation creating money creation the option the government will ultimately fall on? Its advantage is that the inflation will take place after about a year although a Balance of Payments crisis might take place and take place early if oil prices were to go up. Short term improvements in some economic indicators like or Gross Foreign Reserves should not lull some traditionalists into thinking no drastic action is necessary to get the economy back into shape.

Foreign Aid is coming particularly for the North and East. But such inflow of foreign money will only produce one off economic growth not self-sustainable growth, which alone will provide better living standards for the poor. Is the government committed to market clearing prices? Consider the free education, which was intended to provide equality of opportunity. The demand for education arises from a large number of parents widely dispersed throughout the country. They have varying income levels. Some can pay much for education while others who are poor can't afford to pay at all or can pay very little. The supplier is the government, which is the only supplier. The supplier provides education free.

The quality of education provided by the different schools varies widely. The prestigious schools in the city and the provincial capitals provide the best education. How do we then allocate a good, which is not of uniform quality and not homogeneous, as economists would say? The government says it should be on the area rule. But can the poor afford to live near the prestigious schools? The rich may be able to buy homes close to such schools. But everybody has adopted a way which is much cheaper, namely to forge documents, falsify them to prove that they live within the area rule. So there is much corruption and the school places are distributed according to so-called donations given by the parents.

Re-introduction of market faces

This is nothing else but the re-introduction of market forces in the distribution of public goods, in this case being education. So although the original intervention in making education free was to eliminate market forces because it was thought the market would not provide education to the poor and the education was to be standard, the result is the re-introduction of market forces through the scheme of donations. Of course the government bans the grant of donations to secure places in schools. But a government, which is powerless to prevent crime or corruption in places like the customs and even the courts can hardly succeed in this field.

But there is no want of trying. A huge unproductive apparatus exists to try to detect this corruption. There is a proliferation of rules, which specify how to deal with school admissions. The educational bureaucrats also have to leave a paper trail, which takes up the time of principals and officials. All this cost is what economists call deadweight loss. Further since the law tends to penalise in the same way those caught for a single offence or for continuous practice of corruption, the incentive for corruption is polarised between those who will not resort to it at all and those who will engage in it continuously. It might be better to legalise the collection of donations.

The market solution would be auctioning the school places to the highest bidders. This means that the price for admissions will vary and also be transparent providing for better market information which eliminates those who seek to make money on the side without giving the donation in full to the school. Of course it means the richest will get the best schools. But if this is not acceptable, the solution is to increase the supply of good schools providing quality education. Then the premium will come down. So allowing private fee levying schools to be set up is to recognise the economic reality.

Dr. Uswatte Arachchi prefers to pretend that all is well with the free education scheme and that it looks after the poor. So he opposes the setting up of private schools. He should canvass to abolish the private tutories as well for they provide an unfair advantage to those who can afford to pay the tuition fees to coach them for the GCE Advanced Level through which students gain entry to universities. Market forces, although illegal, are now operating through the scheme of donation received for school admissions. Isn't it better to remove these restrictions and legalise fees for education instead of pretending that the price paid is a donation?

Equality is a good thing no doubt but unfortunately it cannot be enforced unless by a dictatorial regime. Even dictatorial regimes like the communist states failed to maintain equality of incomes although they started off without too much disparity in the incomes paid to employees whether they are doctors or accountants or just office hands. The communist states dispensed with market prices and resorted to administered prices which were unchanged for long periods. This led to scarcities and queues as goods had to be rationed. It also led to the production of goods and services outside the official economy and led to the emergence of a black economy, which ultimately overwhelmed the official economy as more and more people had recourse to it.