State capitalism in India: continuity amid change

Elizabeth Chatterjee[1]
University of Chicago
chatterjee@uchicago.edu

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Despite three decades of liberalization, the public sector's contribution to the Indian economy remains crucial but underappreciated. Particularly striking is the resilience of central public sector enterprises. The best of these have been reinvented: retrofitted for the market era, exposed to competition and endowed with at least the trappings of corporate governance. Elsewhere in the world, such state-market hybrids have been seen as characteristic of a powerful new model: 'state capitalism 2.0'. How, then, do these reinvented central enterprises fit within India's contemporary liberalization process? From the vantage point of the energy sector, in which India's largest state-owned enterprises predominantly lie, this article seeks to shed light on key continuities and changes in India's underlying regime of state capitalism. It argues that state-owned enterprises continue to play a key role in contemporary Indian political economy—but not as part of a coherent or stable system. Central public sector enterprises are treated with an admixture of neglect and short-term exploitation, milked for resources to fund a wide system of subsidies. This second-generation state capitalism is distinguished from its older incarnation less by the declining role of the state than by this lack of vision, and the increasingly pro-business nature of these subsidies.

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Figure 1. 'Sloth, waste, inefficiency': the public sector enterprise as dinosaur

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Introduction

Even after three decades of liberalization, the public sector's contribution to the Indian economy remains crucial, if misunderstood. Liberalization, long recognized as gradual, has come without a consistent reduction in the public sector's contribution to GDP (Figure 2 below) or in public sector employment outside the central bureaucracy.[2] Privatization has been extremely slow: between 1991 and 2008 the central government divested itself of majority ownership in a mere 14 companies, mostly hotels (Pratap, 2011: 178-9).[3] Public sector banks and state-led term-lending institutions also continue to play a major role, as shown by both their lending patterns and overexposure to non-performing loans in key sectors.

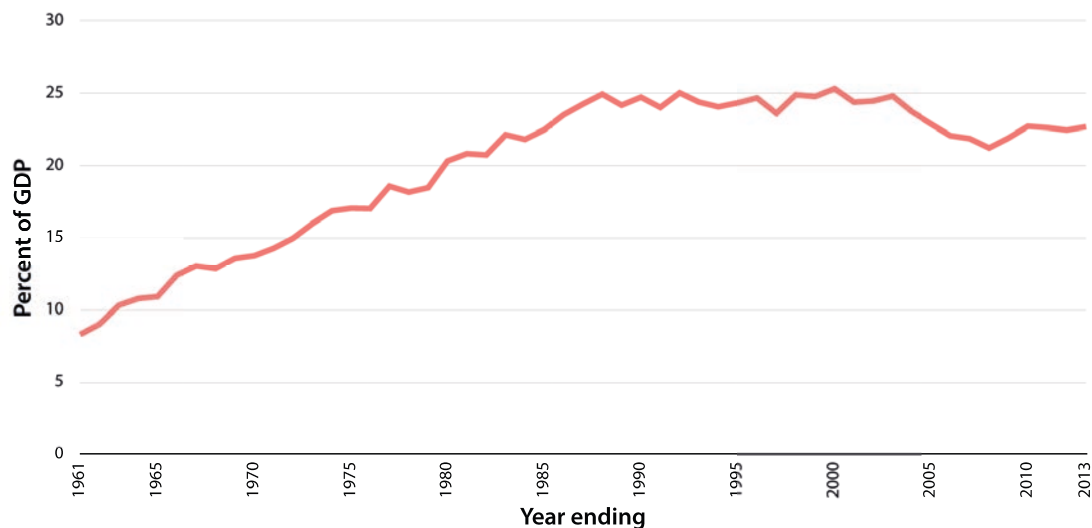
Especially striking is the resilience of central public sector enterprises (CPSEs)—state-owned enterprises majority-owned and controlled by the central government—despite more than three decades of critique and neglect by ruling administrations. They continue to play a significant role in the Indian economy. Stockmarket-listed CPSEs controlled 41 percent of Indian corporate wealth in 2011, as measured by the profits of

[2] While official estimates suggest that public sector employment has shrunk by 10 percent since its peak in 1997, the decline has been much slower at the local and especially State levels, while National Sample Survey estimates even show 3.4 percent annual *growth* in public sector employment over the 2000s (Nagaraj, 2014).

[3] In contrast, even in famously étatiste France the Jacques Chirac government privatized 22 large enterprises in only 15 months between 1986 and 1988.

its largest 100 firms (*The Economist*, 2011). Today six of India's 10 largest firms by sales are CPSEs, down only marginally from eight in 1982 (Table 1). Energy firms are central to this significance, especially as they provide *the* key inputs for contemporary capital accumulation, alongside land, labour, and capital.

Figure 2. The public sector's share of GDP, 1960-61 to 2012-13



Data from National Accounts Statistics, various years

Table 1. India's largest firms by sales, 1982 versus 2015 (highlighting government majority ownership)

	1982		2015	
	Industrial unit	***Ownership***	***Industrial unit***	***Ownership***
1	Indian Oil Corporation	Government	Reliance Industries	Large business house
2	Steel Authority of India	Government	Oil and Natural Gas Corporation	Government
3	Hindustan Petroleum	Government	Indian Oil Corporation	Government
4	Coal India Limited	Government	National Thermal Power Corporation	Government
5	Bharat Petroleum	Government	Tata Steel	Large business house
6	Oil and Natural Gas Corporation	Government	Steel Authority of India	Government
7	Bharat Heavy Electricals Limited	Government	Bharat Heavy Electricals Limited	Government
8	Tata Engineering and Locomotives	Large business house	Tata Motors	Large business house
9	Tata Iron and Steel	Large business house	Bharat Petroleum	Government
10	Madras Refineries	Government	Jindal Steel and Power	Large business house

Note: 1982 data from Bardhan (1998); 2015 data from Sen (2015). This pattern is even more striking if we consider assets: eight of the 10 largest firms by assets are still state-owned in 2015.

This article uses the lens provided by such enterprises—and especially a case study of India's largest electricity generation company, the National Thermal Power Corporation (NTPC)[4]—to shed light on key continuities and changes in India's underlying regime of state capitalism, or the widespread involvement of the state in the economy. Its first argument is quite simple: while the private (and especially the informal) sector plays an increasingly dominant role in the economy, state-owned enterprises remain far more crucial in India than most widely accepted political-economy theories of the liberalization era acknowledge. Despite their importance, little research has explored the fate of Indian public sector enterprises after 1991.[5] Their organizational mechanisms and political dynamics are little understood and often caricatured. The 'epigraph' to this article (Figure 1) shows the stereotype that permanently dogs them: that they are cash-guzzling dinosaurs, characterized by 'sloth, waste, and inefficiency' thanks to the 'genetic flaw' of their links with government (Waterbury, 1993: 16).

Yet in the last decade—and even before this—many of these CPSEs have in fact looked remarkably healthy (Figure 3 below; see also Nagaraj, 2015). Many have been more profitable and more efficient than their private sector equivalents (Mohan, 2005; Khanna, 2015). The reason for this success lies partly in the *reinvention* of state intervention since the 1980s. The best of the CPSEs have been retrofitted for the market era, exposed to competition and endowed with at least the trappings of corporate governance.

But how far have these changes progressed, and how do these reinvented central enterprises fit within a reform trajectory that has often been seen as 'pro-business'? The article concludes by showing that state-owned enterprises remain politically crucial—but not within a coherent or stable system. Central state-owned enterprises are treated with an admixture of neglect and short-term exploitation, milked for resources to fund a wide system of subsidies. This second-generation state capitalism is distinguished from its older incarnation less by the declining role of the state than by this lack of vision, and by the increasingly pro-business nature of these subsidies.

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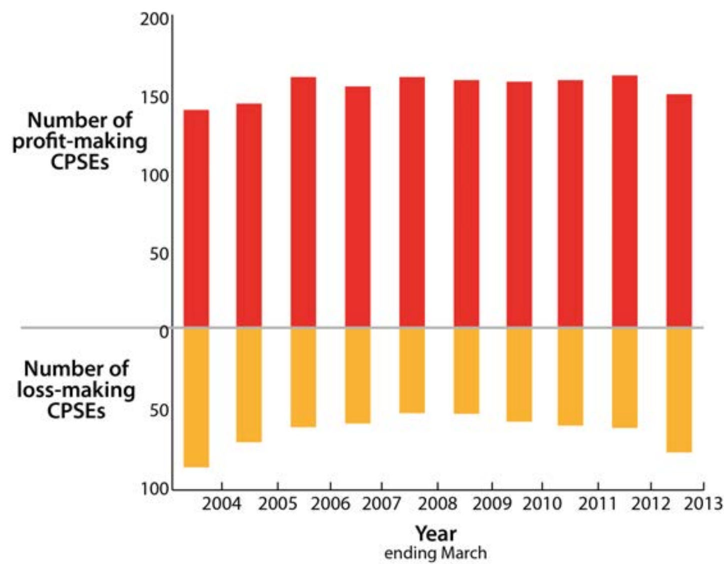
[4] Energy is the sector in which the largest CPSEs are concentrated and, as we shall see, where the fraught political economy of contemporary CPSEs is most evident. As Table 1 shows, NTPC is one of India's largest firms and one of its most consistently profitable CPSEs.

[5] An exception is the recent India-China comparative collection edited by Yi-chong Xu (2012), although it demonstrates greater sophistication in examining the (already better-explored) Chinese state-owned enterprises than India's and assumes stability in ministry-enterprise relations.

Figure 3. The profitability of CPSEs, 2003-4 to 2012-13



Data from Department of Public Enterprises (2013: vol I, 4)[6]

Reinventing state capitalism

Large state-owned enterprises (SOEs) have been the historical hallmark of state influence in the economy. Nonetheless, the relationship between the government and SOE has shifted over time in many countries, in line with critiques of state inefficiency. Broadly two phases of this relationship can be discerned: first, the traditional mode of 100 percent state ownership; and second, a retrofitted mode in which SOEs are exposed to market competition and granted a greater degree of autonomy.[7]

State capitalism 1.0

For its mid-twentieth-century advocates, direct and extensive government intervention was the fastest route to economic development for late-industrializing nations. This first generation of state intervention—*state capitalism 1.0*, or 'Leviathan as an entrepreneur'—is most characteristically associated with the mode of 100 percent state ownership and control that defined most SOEs between the 1930s and 1980s, in which enterprises were run as virtual extensions of the public bureaucracy (Musacchio and

[6] The report attributes the rising number of loss-making enterprises in 2012-13 in part to improved audit procedures in some CPSEs.

[7] Nölke (2014) sees a third, earlier generation of state capitalism in the mercantilist protectionism of nineteenth-century Germany and Scandinavia, but this took the form of tariff manipulation and central banking rather than the creation of substantial numbers of SOEs.

Lazzarini, 2014: 25-39). This state interference is also often argued to lie at the heart of traditional SOEs' multiple perceived issues: the *agency* problem of poor managerial selection, incentives, and monitoring; the *social* problem of multiple objectives, some of which conflict with profitability; and the *political* problem of political interference, corruption, and patronage (*ibid*: 57-69).

Informed by these critiques, from the late 1970s—just as developing-country SOE numbers were peaking—the global North was already beginning to turn away. Alongside the neoclassical critique, the macroeconomic shocks of the early 1970s, improved reporting standards, and the need to attract buyers for sovereign bonds increasingly drove governments to consider privatization as a means to pay off their large debt burdens. With the end of the Cold War, this message was taken forth to the transition economies of Eastern Europe and increasingly the global South.

State capitalism 2.0

Despite these ideological currents, SOEs have not vanished. Against liberalization orthodoxy, state-owned giants remain a striking feature of several major emerging economies, from China's Sinopec to Brazil's Petrobras. Yet the most successful of today's SOEs have not proved immune to Washington Consensus critiques. The failures of first-generation state capitalism created the conditions for a major shift, retrofitting SOEs in line with critiques of state inefficiency. Today the old model has been reinvented, the role of the state reshaped but not abrogated, to create a hybrid of state intervention with elements of market competition and quasi-independent regulation (Ban, 2012; Morais and Saad-Filho, 2012). This reinterpreted state capitalism has thus been awarded its own unlovely neologism: 'state capitalism 2.0' (*The Economist*, 2012).

Broadly, state capitalism 2.0 is *state-steered* rather than state-led. Gone is the older emphasis on detailed planning and overt protectionism. While the state continues to play 'an active role in mobilizing resources, stimulating investment, and promoting innovation', it attempts 'to stimulate, not replace, the private sector' and places great emphasis 'on public-private collaboration' (Trubek, 2013: 4; see also Morais and Saad-Filho, 2012; Ban, 2012).

For SOEs this has meant nothing less than a revolution in their operating environment, if not their governance structures. First, SOEs have been exposed to the disciplining power of market competition to force efficiencies. Second, attempts have been made to improve organizational governance and insulation from political interference by increasing their autonomy and endowing them with at least the trappings

of corporate governance, from minority shareholders to nominally independent boards of directors (*ibid*). Shedding 100 percent ownership, states have thus turned to '*owning majority or minority equity positions in companies or by providing subsidized credit and/or other privileges to private companies*' (Musacchio and Lazzarini, 2014: 2, emphasis in original).

How successful this reinvention of state capitalism has been in changing SOEs' political dynamics is an empirical question. As the following sections show, there are striking continuities as well as changes in the way that India's SOEs relate to the government and the wider political economy.

Reinventing CPSEs in India

In India, even as the size of the public sector continued to expand (Figure 2), central policymakers increasingly recognized that inefficient public-sector undertakings could prove a major financial liability.[8] As early as 1961 Nehru wrote to his chief ministers, quoting the American economist J.K. Galbraith's warning that India's public undertakings risked becoming financially ruinous 'post office socialism'.[9]

Early attempts at reform focused primarily on the administrative side, with attempts to develop technical and managerial capacity and managerial incentives (Gómez-Ibáñez, 2007). CPSE expansion was itself also used as a tool to encourage improved performance by the lower-performing *State*-level public sector enterprises. In the crucial power sector, for example, with State electricity board (SEB) performance deteriorating, in 1975 the central government moved into the generation segment with the establishment of CPSEs for hydroelectric and thermal power. The National Thermal Power Corporation was explicitly created as 'a model of modern operational practices that the SEBs could emulate'—and to force State governments 'to raise tariffs to pay for electricity bought from the center' (World Bank, 1999: 2). Transferred the assets of less successful agencies, NTPC became a favoured vehicle for World Bank investment in India, receiving almost half of all Bank power loans between 1970 and 1991 (Dubash and Rajan, 2001: 3370).[10] It grew rapidly and, along with the petroleum CPSEs, was one of India's only profitable CPSEs in the 1980s. Centralization thus went hand-in-hand

[8] The advent of the state-led development model in India is well known and needs little rehearsal here. For classic studies, see Hanson (1966) on the first years and Chakravarty (1987) on later decades.

[9] Letter dated 27 June 1961, reprinted in Khosla (2014).

[10] The Bank concluded that 'the growth of NTPC alone clearly would not bring about the needed reforms', however, and resumed direct loans to SEBs in 1985, albeit with little success (World Bank, 1999: 10).

with moves to improve SOE management whilst, like later liberalization, attempting to reduce the fiscal burden on the state.

Nonetheless, the public sector's generally parlous state continued to worsen. The stage was set for a more significant rethinking of the role of Indian CPSEs. By the 1980s new policy ideas on public sector reform were given serious consideration, and some implemented with limited success. Privatization was still not seriously voiced as an option, but greater autonomy and technical capacity for select enterprises was increasingly mooted. Imported from France, for example, the Memorandum of Understanding (MoU) model purported to clarify the relationship between SOEs and their parent ministries, with limited success (Mohan, 2005: 6-10).

With the opening of the economy in 1991, the concern with public sector reform was subordinated to the drive for private investment. Alongside opening up trade and some industrial sectors, the initial phase of reforms concentrated on fiscal consolidation—and, more important though less trumpeted, revenue raising. Rewarding SOE efficiency was less a concern than simple resource mobilization and fiscal containment; and in any case the automatic assumption, then as now, was that SOEs were unable to compete with privately owned rivals. While full privatization was considered politically unpalatable, a policy of malign neglect and partial equity sales remained the key solution for public sector reform through much of the 1990s. Indian policymakers generally favoured the introduction of private enterprises and competition *in parallel* with the continuation of large SOEs in sectors such as electricity, rather than outright privatization of brownfield plants. In other sensitive sectors, notably coal, even this element of parallel competition remained a step too far.

With short-term finance the concern, successful firms were neglected in favour of attention to sickly enterprises. NTPC was given little Central funding, for example, while funds went to its less efficiently managed hydroelectric sibling NHPC. The logic was that '"anyway NTPC would be able to manage" through market borrowings and internal resources' (Morris, 2003: 23). The new idea was for the state to (reluctantly) pick up the tab for those who did not flourish in the new Darwinian system: 'state funds are for the weak' (*ibid*).

Towards the end of the 1990s, some policymakers began more assertively to expand the case for privatization, arguing on ideological rather than performance-based grounds that the state ought not to be involved in business. The Vajpayee government's 1998-9 budget announced that the state's equity stake could fall to 26 percent in most CPSEs, with majority ownership confined only to the 'strategic' sectors of defence,

railways, and atomic energy. Nonetheless, even such ideologues still reserved a key role for the state in providing key physical and social infrastructure and intervening in 'core' sectors like power (Mohan, 2005: 15-16). In practice, the actual proceeds from disinvestment were modest and dwarfed by the finances flowing to CPSEs: between 1991 and 2008 (partial and complete) privatizations raised $12.9 billion at 2011 exchange rates, compared with a cumulative investment in the 242 surviving CPSEs of $91 billion over the same period (Pratap, 2011: 178-9).

Simultaneously, efforts finally began to reshape the internal governance structures of the SOEs. In 1997 the Deve Gowda government created the category of 'Navratna' for nine SOEs, 'chosen because of their potential to become global players based on their size, performance, nature of activities, future prospects, etc' (Mohan, 2005: 14). These 'nine jewels' included NTPC as well as its large upstream siblings ONGC (formerly Oil and Natural Gas Corporation) and Coal India. The Navratnas were given greater everyday financial and managerial autonomy from ministerial oversight, delegated substantial powers to incur capital expenditure and enter into joint ventures for technology transfer. Their boards, which had traditionally taken only unanimous decisions (Singh, 2009: 27), were partially revived with greater emphasis on independent directors. In 2010 NTPC was upgraded to a 'Maharatna', the new top class of large, profitable SOEs. This granted it further financial and functional autonomy—Maharatnas are able to make investments of about US$1 billion (₹5,000 crore) without explicit government approval—with the stipulation that it must retain a minimum number of independent directors.

A second measure, the entry of minority shareholders, also nominally improved and diversified CPSE governance. In practice, however, it was motivated in large part by the state's revenue raising through divestment: the state's equity holdings tend to become more valuable with increased autonomy. Accordingly, NTPC was listed on the stock exchange in October 2004 with a very successful initial public offering (IPO) of 10.5 percent (half fresh issue, half divestment of the state's ownership): a record 1.4 million applications ensured the IPO was oversubscribed 13 times, instantly catapulting it in as one of the country's five top firms by market capitalization (*Financial Express*, 2004). NTPC's follow-on public offers were far less enthusiastically received and were bailed out by state finance institutions like the Life Insurance Corporation of India.

By 2012-13 there were 277 CPSEs on the books, plus seven insurance companies, up from only five at the time of the First Five-Year Plan; 46 were traded on Indian stock exchanges as of March 2013. The revised governance structures of at least the largest

Maharatna CPSEs ensure that the SOEs' older objectives—employment generation, social equity, and their use as a political resource—are at least nominally subordinated to the profit motive, not always to politicians' liking. A recent industry report found that India had the highest level of minority shareholder activism in Asia (Raychaudhuri, 2014). Most famously, the London-based hedge fund Children's Investment Fund, with a 1.8-percent stake Coal India's largest shareholder after the government, filed a case in August 2012 against the state miner and the central government for selling coal to private players at below-market prices.

In this reform process, labour unions and CPSE managers did not offer the powerful and consistent resistance that much theory predicts. While some CPSEs, like Coal India, remain bastions of employment and vulnerable to unionized strikes, across all CPSEs employment has decreased somewhat. In March 2013 it stood at over 1,404,000 (excluding casual labour), down from 1,614,000 in March 2007 (Department of Public Enterprises, 2013: 16). The number of State-level power utility employees has also dropped from 977,000 in 1998-99 to 660,000 in 2011-12, and the number of employees per thousand customers from 9.89 to 0.36 over the same period (Planning Commission, 2014: 150). Labour interests thus appear to have been somewhat outmanoeuvred.

Conversely, while bureaucrats have often been seen as naturally hostile to liberalization, senior CPSE staff comprise an unlikely pro-reform constituency (Waterbury, 1993: 264). The CPSE workforce is both highly skilled and well paid: one-fourth is managerial and supervisory, and the average per capita annual emoluments rose from ₹325,869 in 2006-7 to ₹828,882 in 2012-13 (Department of Public Enterprises, 2013: 16). NTPC employs only 25,000 workers, for example, the most senior of whom are readily employable in both the private and public sectors. Today such managers move across the public-private divide both pre- and post-retirement, the public sector subsidizing private sector experience and providing valuable contacts. Others have ideologically bought into the reform mission. 'Reform is a two-way street,' wrote the former managing director of central state-owned transmission utility PowerGrid, 'It was now incumbent upon me to reorient the company…[to] effect changes to respond to sectoral reforms, globalization and liberalization' (Singh, 2009: 51-2). The reinvention of CPSEs was therefore carried forth within the organizations themselves.

Many of India's largest CPSEs, like NTPC, have thus not survived into the liberalization age unchanged. The ideas of efficiency surrounding the global template have affected their modes of operation and management. On paper, they enjoy a more arms'-length relationship with the Central government and the imposition of greater

market discipline, albeit on an ad hoc and asymmetric basis. Nonetheless, the state has generally been careful not to relinquish control entirely: today its stake in NTPC stands at 75 percent, for example, and it retains stakes above a controlling 51 percent in virtually all CPSEs.

CPSEs in the liberalization era

Conceptually, these new institutional forms occupy an awkward space between stockmarket darlings and old-fashioned tools of the state. On one hand, they share a family resemblance with the dominant 'rentier' private sector firms that have attracted so much attention from contemporary scholars of the 'pro-business' tilt (Gandhi and Walton, 2012). Unlike their private sector counterparts, however, CPSEs are bound up in a complex political economy of subsidies—including those for private corporations themselves. The degree of this implication in the subsidy regime varies partly by industry sector: some industries remain near-monopolies (like coal), while others appear more oligopolistic (natural gas) and still others are quasi-competitive, albeit with market power (electricity generation). Nonetheless, throughout the energy sector—our primary focus here for its interlocking political-economic importance—even well-managed CPSEs struggle to escape the wider political ecosystem within which they are embedded.

National champions?

At least superficially, these processes of incremental institutional reinterpretation have borne fruit. In spite of government neglect through the 1990s, the majority of CPSEs are now profitable, growing an average of 10.52 percent in 2011-12 and 14.00 percent in 2012-13, especially those in coal, electricity generation and transmission, and financial services (Department of Public Enterprises, 2013: 16). In fact, since 1995-7 many CPSEs have been *more* successful than their private sector equivalents (Mohan, 2005). State-owned manufacturing firms show higher returns on capital employed than private firms from 1995-7 onwards (Khanna, 2015: 54-5). Similarly, NTPC is today India's largest power company, the second-largest in Asia by value. It enjoys far higher plant load factors and delivers considerably cheaper power than most of its private-sector competitors (*ibid*: 56-7). Akin to the sprawling structure of many Indian private conglomerates, it is also expanding from its core function, diversifying both upstream into solar and coal (circumventing the embattled Coal India) and downstream into power

trading and rural electrification, and increasingly participates in joint ventures with private players.

Nor are these firms mere relicts. Statism's resilience is bolstered by fears about energy security, an idea whose importance has only increased with India's rising import dependence. For NTPC, the possible irrelevance of full liberalization outside the developed-world heartlands of 1990s energy reforms suggests that hybrid state-market action may in fact prove crucial in the future—an idea which raises the prospect of worldwide convergence between the extremes of liberalized power markets and central planning (Sen, 2014).

As these links with the national interest suggest, while CPSEs are expected to behave in some respects as market players, at base they clearly owe their dominance to their political connections. NTPC benefits from upstream linkages with the centrally controlled coal sector, for example (though relations between it and CPSE siblings like Coal India are not always smooth); from access to cheap land, railway freight, and finance via public sector banks; and preferential treatment by international financial institutions. It continued to call for a 'level playing field' versus some of the generous perks offered to independent power producers and other private players, and in the 2000s secured a high rate of return and bonuses for increased capacity utilization (Narayan, 2012). This preferential access to budgetary support tends to dilute its accountability to shareholders and the market. CPSEs' weight and influence—the source of both their appeal and doubts for investors—thus lie in their complex relationship with the government.

Are these firms 'national champions' akin to the biggest private sector firms, then? Several scholars argue that the two ought to be considered together as 'hybrid or 'dual' firms (Tongia, 2007; Victor and Heller, 2007; Musacchio and Lazzarini, 2014). After all, some of these CPSEs, like NTPC, are models of improved corporate governance. Like well-connected private counterparts such as Reliance, they benefit from generous contracts and favourable access to natural resources, land, and finance—while privileged private firms also benefit from minority government stakes.[11] Both sets of firms place pressure on State-level power utilities, for example, threatening to deny supplies to defaulting States and forcing reforms on sectors—rural areas, 'neo-patrimonial' States,

[11] In the midst of the financial slump of early 2013, the state-owned Life Insurance Corporation, India's largest domestic institutional investor, bought up stocks not only in struggling CPSEs but in *private* energy champions, including Reliance Industries ($142 million), Reliance Power ($203 million), and Cairn India (a subsidiary of the Vedanta Group, $150 million). It thus remained heavily exposed to the energy sector and even more so to utilities.

perhaps even the coal industry—that have hitherto proved slow to change. In this light, reform in part appears a recalibration of the system to favour *both* private energy firms and CPSEs over 'mass' users. As a former government energy advisor recently complained:

> The tariff increases and efficiency gains at the state utilities primarily guarantee the protected returns of bloated CPSUs and the private sector both of whom have gradually raised their stake in the sector and are, today, the dominant force because of being rewarded selectively with the highest regulated returns in the world. All this is at the cost of the state utilities. (Sethi, 2014: 19)

The other side of this relationship is far more destructive to the CPSEs, however, and in ways that distinguish them decisively from privileged private firms. Evidence from the energy sector shows that India's state capitalism 2.0 is far from a straightforward, coherent, or successful alternative to liberal-market states or to first-generation state intervention.

Exploiting CPSEs

In several respects, the degree of CPSE reinvention has been exaggerated. While the state's everyday control may have waned, administrations continue to draw on CPSEs for social and political ends. The enterprises' surprisingly healthy profits thus provide a regular stream of revenues for the central government, but they are not attributable to any coherent strategy for economic growth. Indeed, the 'increase in PSE surpluses at a time when the State cannot envisage any strategic role of PSEs in India's development strategy is [a] mystery' (Khanna, 2015: 47).

While the lines of control are much less direct and far-reaching than the famous overlap between Party and state in China, the CPSEs' investment prospectuses make clear that their broad direction remains under government control, including the appointment of part-time directors on their boards (from their parent ministries) and their managing directors. '*We will continue to be controlled by the GoI following this Offer, and our other shareholders will be unable to affect the outcome of shareholder voting*,' NTPC's January 2010 red herring prospectus states:

> The interests of the GoI may be different from our interests or the interests of our other shareholders… In particular, given the importance of the power industry to the economy, the GoI could require us to take actions designed to serve the public

> interest in India and not necessarily to maximise our profits. (xxviii-xxix, emphasis in original)[12]

Relations with the parent ministries remain unclear. NTPC has signed a memorandum of understanding with the power ministry. As a result Narayan (2012: 168) suggests that '[w]hile there is considerable operational flexibility in [NTPC's] day-to-day operations, and even capital decisions, the company is still very much remote-controlled by the Ministry of Power' through quarterly performance reviews, board members and their reports, and approvals for capital investment above the delegated levels (which sometimes even require cabinet approval). The controlling line ministries have had little formal redefinition of role or responsibilities (Xu, 2012). In this vein the long-serving former chairman of PowerGrid claimed that his autobiography was

> a survival guide to the labyrinth in which public sector companies operate… [M]anaging a public sector company in India is not just about fighting off corporate rivals. It entails ducking bouncers all the time, weaving away from the sniper fire of political influence, bureaucratic interference, contractor lobbies and sundry vested interests, many of them in cabins down the corridor. (Singh, 2009: xviii)

The older 'social' and 'political' considerations—like provision of government revenues, employment, and social objectives—have not disappeared. Beyond corporate profitability CPSEs continue to advance state goals and provide a source of patronage. It is well known that their managing directors are appointed through politicized processes, and, reports a former cabinet secretary, 'in most such cases the minister concerned and other politicians have a direct personal financial interest' (T.S.R. Subramanian, Foreword in Parakh, 2014: 17). At times this has left the board of directors 'effectively paralysed' through slow board appointments or leaving CPSEs headless for months, as the World Bank chastised the government in October 1996 over Powergrid (quoted in Singh, 2009: 19). This type of political interference undermines the veneer of private-sector-imitating corporate governance installed since the 1990s.

More fundamentally CPSEs, especially those in the energy sector, play a key role in the politics of rents that defines India's pluralist competition between powerful interest groups (Bardhan, 1998). They fund a multiplicity of subsidies, which go both to

[12] This prospectus was submitted to the Securities and Exchange Board in advance of NTPC's February 2010 follow-on public offering, and is available at http://www.sebi.gov.in/dp/ntpcpros.pdf.

privileged private firms and continue to pacify rival groups that demand a share of the spoils—through cheap power for wealthy agriculturalists and residential consumers, for example. The energy CPSEs in particular are *the essential facilitator of India's political economy of simultaneous populist subsidies and pro-business privatization*. As one former director of oil and gas major ONGC declared, the energy CPSE is a company for 'milking' (Kaushik, 2014).

As natural resource prices rose through the 2000s, CPSEs have made significant contributions to government revenues: between 2004 and 2009, CPSEs' contributions to central revenue grew 27 percent annually (Xu, 2012: 7). The petroleum and power CPSEs, notably NTPC, also compensate for the financial weakness of the government's other remaining enterprises in non-energy sectors. Their contributions, though, go beyond overt cash transfers. While much of the cost of subsidies inheres at the State level, the upstream CPSEs themselves also bear much of the burden. The process of 'milking' occurs through several channels, some of which are briefly reviewed here.

Dividends. The tradition has continued beyond 1991 of seeing CPSEs as a 'captive tax base', which 'generate predictable source of taxes and compulsory payments to various fiscal agencies' (Waterbury, 1993: 134). They provide regular dividends and other revenues for the government. At times of financial hardship they are mined still harder for resources: when the finance minister promised to limit the overall budget deficit in the face of the financial slowdown, he relied in part on extracting a special interim dividend of $2.6 billion from Coal India. Together the largest (Maharatna and Navratna) CPSEs provided more than ₹45,000 crore in dividends to the central government in 2013-14 (Khanna, 2015: 59).

Underpricing and underpayment. CPSEs struggle to reclaim the full costs of the goods and services they supply to State-level customers. By 2001 NTPC was owed more than ₹25,000 crore by near-bankrupt SEBs providing subsidized electricity to consumers, starving it of resources for reinvestment; the total electricity losses passed through to CPSEs and the railways amounted to ₹41,000 crore, then around 2 percent of GDP.

After a period of improvement during the mid-2000s, many State utilities' finances began to suffer again. Between June 2010 and September 2013, their debts to state-owned generation firms like NTPC leapt threefold to ₹15,792 crore (approximately US$2.5 billion). This in turn hits the generation, transmission, and trading utilities,

whose aggregate book losses doubled (Power Finance Corporation, 2013: iv). Until recent reductions, oil and gas CPSEs shouldered an even larger burden of such consumer subsidies: ONGC's former chairman estimated his firm's contribution at more than ₹140,000 crore (Kaushik, 2014).

Divestment. Liberalization from 1991 brought with it much talk of voluntary retrenchment, managerial reform, and greater autonomy for CPSEs. In practice the thrust was almost entirely on equity sales, notably from the petroleum sector, to raise resources for short-term fiscal convenience, as 'a useful source of revenues to window-dress budgets' (Chandrasekhar and Ghosh, 2002: 88). In addition, to incentivize sales, in the early 1990s good and poor performers' shares were bundled together using crude metrics of performance, meaning that in effect 'prime shares were handed over at rock-bottom prices' (*ibid*: 89). Despite good CPSE performances over the last 15 years, the current government intends to extend this policy—whilst retaining majority stakes.

Cosmetic divestment. As private investors became increasingly cynical about the value of SOE shares and the concessions they could extract, the state also increasingly resorted to cosmetic divestment, or the 'cross-holding' of shares. Cash-rich CPSEs, almost exclusively found in the natural resource segment, have been encouraged to buy back the government's holdings or to buy equity in their less able siblings. In 1998-99 three oil companies, ONGC, GAIL, and Indian Oil Corporation, engaged in cross-purchases (Mohan, 2005: 18). In 2000, the power ministry offered to raise around ₹1,000 crore to help finance the Budget deficit. This was enabled through an interim dividend of ₹300 crore from NTPC, alongside 'buyback transactions': the Rural Electrification Corporation and Power Financial Corporation were encouraged to buy back part of their own equity. Again in February 2014 an Empowered Group of Ministers cleared a 10 percent stake sale in Indian Oil Corporation to ONGC and Oil India, which would fetch the exchequer about ₹5,300 crore.

Bolstering 'competition'. The state also uses CPSEs in more indirect ways to support its new liberalization agenda. Where private capital proves slow to materialize, they are used to drum up interest. The petroleum ministry and hydrocarbons directorate forced ONGC to bid for oil and gas blocks under the New Exploration Licensing Policy, hoping to stimulate global interest in the auctions. 'If the bids received were very few, they used to

call ONGC and Oil India and ask them to bid for more,' reported a former ONGC board member (quoted in Kaushik, 2014).

Socializing losses. When the private sector reneges on deals, the state often steps in. Enron's notorious Dabhol power project is now run by state-owned GAIL and NTPC, for example. Even measures aimed at rejuvenating the State utilities' financial health have been seen as merely applying 'a coat of varnish', as one commentator put it; 'cynics may view it as indirect "credit enhancement" of independent power producers"' (Patel, 2008). The most recent (₹ 2 trillion) bailout of State electricity utilities, in 2012, has also been seen to be motivated by the need to mitigate financial contagion—and thereby protect the overleveraged private sector (Sethi, 2014).

Transferring resources. At other times, the central government has simply transferred CPSE resources into private sector hands. Enron's Dabhol plant, for example, was given a site that had been earmarked for an NTPC coal plant (Dubash and Rajan, 2001: 3373-4). Nonetheless, NTPC continued to expand; indeed it, and not the much-favoured IPPs, was responsible for the majority of capacity additions during the 1990s. It is this curious resilience in the face of widespread 'milking' that provides this system of subsidies a degree of stability—although the current government's decision to proceed with divestment at all costs fails to recognize the significance of its own tactics of exploitation (Khanna, 2015).

Conclusion

India's CPSEs have shown an admixture of continuity and change in the reform era. While surviving the shining barrier of 1991, their formal structures have been recalibrated under the influence of liberalization ideology. On paper today the best of them indicate a new, entrepreneurial, corporatized mode of state activism in the context of increased competition. In this system—'state capitalism 2.0'—state-owned enterprises remain a key but critically neglected tool of continued state intervention. This marks the advent of a new organizational form which blurs the public-private boundary, distinct from both the SOEs of the planning-era dirigiste state and the Washington Consensus template of liberalization. Such an ad hoc combination of reform and continuity 'did not absolutely satisfy free market fundamentalists', as the PowerGrid managing director wrote, 'but was still a radical departure from the past' (Singh, 2009: 50).

Yet these reinterpreted CPSEs are not part of a coherent strategy. Nor have they been decisively detached from 'politics'; they remain government instruments of intervention, especially in priority areas and at difficult economic moments. This has often amounted to 'milking' the enterprises for resources both to support the continuing proliferation of subsidies at the State level and to support the expansion of favoured private firms in the power and energy sectors. The energy CPSEs in particular facilitate the contemporary political economy of simultaneous populist subsidies and outsized rents for select private players.

The difference between CPSEs in India's variants of state capitalism 1.0 and 2.0 may therefore rest on the degree of pro-business 'milking' and the short-termism of the state's vision, at least as much as their proposed autonomization. This masks a broader continuity. It is now widely recognized that the older era of state-directed development in India was 'state capitalist' in another sense: the state maintained close links with certain fractions of big business (Chibber, 2003; Das Gupta, 2007). This thread of continuity is obvious in the later evolution of the public sector. While CPSEs have flourished against the odds, sometimes because of their shared characteristics with privileged private firms, more broadly they are implicated in directly facilitating the pro-business tilt and indirectly ensuring its stability.

Such a strategy has clear limits. Most obviously, it undermines what are currently among the most productive firms within the Indian economy for short-term opportunism (Nagaraj, 2015). The resilience and reinterpretation of state capitalism in India that these CPSEs embody, in striking contrast to orthodox ideas of liberalization, is thus as notable for its dysfunction as for its fertility.

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