Public sector units: Let's re-evaluate their utility

State-run enterprises, once victims of dogma, have proven good for the government's fiscal health. Granting them greater space for capex could aid the greening of Indian industry now

Public sector units (PSUs), contrary to the perception of their being anachronistic relics, often do serve a critical role in the economy, as Indian fiscal data reveals. It might be time to jettison dogmas that have outlived their utility and useful to leverage what exists, rather than stacking all our chips on a borrowed idea. Apathy towards PSUs was seeded during the Thatcher-Reagan era, when a trans-Atlantic ideological convergence focused on reducing the state's direct or indirect presence in various sectors, but mostly in industry. A relook at the state's role was spurred by the 1989 collapse of the Berlin Wall and 1991 break-up of the Soviet Union, with globalization a force that sought to relax state control over key parts of the economy. India also bought into this global trend, albeit part of a market embrace brought on by a balance-of-payments crisis. There have been frequent questions about the utility of PSUs since.

It now appears that PSUs do indeed have some utility, such as shoring up the Centre's finances with hefty dividend payouts every year. Add the Reserve Bank of India's (RBI) dividends to central coffers and the government's expenditure plans get a substantial leg-up. Total dividend receipts from all PSUs—including public sector banks, financial institutions and RBI—were budgeted to increase 55% during 2024-25 over the previous year. Reports now indicate that the final dividend outgo from PSUs may well be much higher than that, thereby boosting the government's fiscal position. The trend is likely to continue even in 2025-26, with PSUs again stepping up to the plate. Rising dividend yields and payouts from state-owned units might even have given the Centre an incentive to slow down its off-loading of PSU equity. This year's budget has even dropped its disinvestment target as a separate line item.

Of course, the public sector is no match for the private sector on efficiency, disinvestment remains a worthy goal and there are many PSUs that should undergo stake sales; a flipped dogma would still be dogma. The coffer-filling mission of PSUs, though, has been in the works for a while. A 2016 office memo from the budget division of the finance ministry states that PSUs must pay as dividend 30% of their profit after tax, or 30% of the government's equity, whichever is higher. Oddly, it also states that PSUs must fully or partially use market borrowings for their capital investment requirements, in accordance with the 14th Finance Commission's recommendation that a PSU must exhaust all its options for raising additional debt before it transfers profits to reserves for that purpose. This may have suited the Indian economy a decade ago. But today, PSU capex could achieve much more, since a key challenge is to stimulate private investment, create jobs and spur consumption demand. Typically, PSU capital spending supports a wide swathe of medium, small and mini units in various value chains. A step-up in PSU capex would generate a multiplier effect on incomes in areas where the government's own capex has had little effect so far. There is even a climate angle here. Take Coal India, among the highest dividend payers, for example. It could use part of that outgo for green investments to reduce its carbon footprint and future-proof itself. Done across the PSU universe, which includes other fossil-fuel companies, it could move the needle significantly on the greening of Indian industry.