

Private Sector, The Government, and the Consumer/Customer

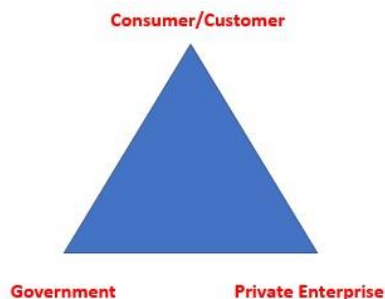
WEEKLY LEARNINGS 2023

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In the last ten days, I read two comments that made me think of this topic both at an India and a global level.

An Indian industrialist said that only the private sector can take India forward and not the public sector. A minister said that private enterprise is just as responsible for the trade deficit with China. Both comments will have their supporters and detractors, but they got me thinking about the respective roles and I give you my learnings:

1. The relationship between the three is like a triangle.



My thesis is that the three work in tandem and need each other. No one entity can succeed on their own. Private enterprise for all the sound bites is not self-regulating. They are not so because of the inherent nature of industry competition amongst themselves. I have seen industry captains agree to something in an industry forum and do exactly the opposite after the meeting. So, only government can help apply some degree of regulation and that regulation is necessary to protect the consumer and customer. For example, flight tickets to the Northeast in India are subsidized and the government mandates that all airlines run a minimum number of flights. When it comes to digital payments and use of data, it's the government who can enforce a code of privacy, private enterprise on its own will interpret the privacy aspect basis what's convenient at that point of time.

2. Let's look at every industry that needed investment at an early stage. Airlines needed infrastructure and most country governments provided that before

privatizing it. Railways was private only in the USA, in most big economies, the government helped build out railways. Television when it first came in was for propagating the achievements and policies of the government and it steadily got privatized.

3. Industry and development go hand in hand. It is in the interest of the government and private sector to improve the productive capacity of the country and its citizens. This improvement leads to real wage growth, competitiveness and hence consumption. At a GDP level, private consumption is about 65% contributor in India and government capex expenditure is about 25%. So, the private sector needs the consumption spend of the consumer and the infrastructure investment of the government.
4. Let me give you another angle. The top 5 business houses in India have a total market cap of about 620 billion last week. This is 21% of India's market cap, and if Adani market cap had not slipped, it would have been 25%. The government needs these 5 industry houses to create jobs as government can no longer create jobs and even if they did, it would be lower skill level roles or things like the armed forces, police etc.
5. President Obama bailed out the Auto industry after the global financial crisis. That saved thousands of jobs and helped America. America which is a QSQT country – Quarter se Quarter tak, didn't object to the massive outsourcing that happened out in the 90s because they benefitted from lower prices and hence inflation was low. When they started losing jobs (share of America manufacturing in Overall GDP dropped from 25% around World War 2 to 8% now) the MAGA - Make America Great Again campaign started. Every big country has its version of make in the country today.
6. The government and an enlightened industry body NASSCOM saved Satyam and the image of the Indian IT Services sector by building back Satyam and then finding the right house for it. This is a great example of cooperation between government, private sector, industry body and the customer base of Satyam. The Tata's have stepped in to take control of Air India, (Time and lots of it) will tell us how this decision will play out.

In every crisis the consumer and the industry need the government. This has been seen in the Great Financial crisis of 2008, the Tsunami of Japan, the earthquake in Turkey and recently COVID.

Chips were originally developed for the American government and then were licensed out to benefit consumer technology products, Mobile networks were originally built for the defense need in America and Finland, and GPS was broad based by President Clinton after Russia shot down a Korean 747 for straying into their airspace.

So, I think everyone benefits by working to the larger interest of a nation and not in any narrow self-interest.

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27 February 2023