BUREAUCRATS IN BUSINESS

State trading in foodgrains in Karnataka and Kerala

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Abstract

In the light of the World Bank's critical analysis of state owned enterprises, this paper discusses the functioning of two such organisations: the Karnataka Food and Civil Supplies Corporation and the Kerala State Civil Supplies Corporation. Both are state trading corporations dealing primarily in foodgrains, but operating in different ways. The paper shows that both corporations face difficulties and operational dilemmas but that there are also positive things to tell about them, in the sense that activities are undertaken by politicians, management or operation-level staff to improve performance. In this way, the paper challenges the behaviourial assumptions underlying the World Bank's analysis, namely that people mainly pursue their own self-interests. The point of the paper is not that this 'rational actor' perspective is wrong, but that all behaviour, whether informed by self-interest or by wider social commitments, is not natural but needs to be contextualised. Proposals to reform the public sector should also start from such contextualised understanding.

In one of its recent publications *Bureaucrats in Business*, the World Bank (1995) made a strong argument for privatisation and reform of state-owned enterprises. It argued that often these enterprises "hinder growth, impede market liberalization, and thus both directly and indirectly limit efforts to reduce poverty" (World Bank, 1995:xi). State-owned enterprises, according to the World Bank, absorb large amounts of money, which could be more usefully spend in alternative ways. They "often capture a disproportionate share of credit, squeezing out private sector borrowers". They pollute more than privately owned enterprises, and they are to a large part responsible for government fiscal deficits (p. 1-2).

One striking characteristic of the World Bank publication is that it advocates a particular solution to the problem (privatisation or reform)[1] while an empirical analysis of the internal dynamics of the state-owned enterprises is missing. It is suggested that the problems of state-owned enterprises are inevitable "when governments own and operate enterprises that could be run as private firms" (p. 3). This conclusion is based on the idea that nobody in public enterprises has a clear stake in improved performance. The behaviourial model implicit in this argument is that of the rational actor: people behave according to their (mainly material) interests. Since the interests of the people involved in public enterprises do not coincide with efficient management, good performance of public enterprises is unlikely.

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1. The empirical sections of this paper are based on my PhD thesis, entitled *Food Policy and Politics. The Public Distribution System in Karnataka and Kerala, South India*, defended in 1996 in the University of Amsterdam. See also Mooij, 1999. The fieldwork was conducted mainly in 1991 and 1992 with some short visits to India after 1994. I would like to thank Franz von Benda-Beckmann, Jan Breman, Barbara Harriss-White, K.S. Krishnaswamy, M.V. Nadkarni and two anonymous referees of this journal for comments on earlier versions of the text.

The present article investigates the performance of two state-owned enterprises in India, the Karnataka Food and Civil Supplies Corporation and the Kerala State Civil Supplies Corporation. Both enterprises are State trading corporations (in different States in India) which deal primarily with foodgrains.[2] The objective of these corporations, like that of the all-India Food Corporation of India, is to exert a downward pressure on foodgrain prices and to discipline private trade. In reality, the performance of these corporations is problematic. The Food Corporation of India is criticised for being inefficient and very expensive, because of its "excessive staffing [and] inefficiencies in (...) purchase, storage and transport operations" (Bhagwati and Srinivasan, 1993:60). The State food and/or civil supplies corporations are criticised in relation to their poor performance, financial difficulties and various scandals in which they have been involved.

The objective of this paper is to develop an understanding of the reasons behind this poor performance, but also to show that state trading corporations are not homogeneous entities and that within these corporation initiatives are taken which could lead to improvements. This analysis is partly complementary to that of the World Bank, since it contains an empirical analysis of some of the internal dynamics of the corporations. To a certain extent it is also taking issue with the World Bank publication, because it shows that there are also positive things to tell about the state trading organisations. The rational actor model, assuming that people pursue only their own interests can explain some behaviourial patterns within the food corporations, but certainly not all.

The scope of this paper is too limited to provide a real challenge to the World Bank's report. The paper deals with only two state corporations, and that too of a special nature, in the sense that they combine welfare and trade functions. Despite this limitation the paper suggests that some of the universal claims and assumptions in the World Bank's report need to be problematised and investigated rather than taken for granted.

The paper proceeds as follows. The first section is a brief overview and critical discussion of *Bureaucrats in Business*. The second section contains some facts and figures of the Karnataka and the Kerala Corporations. The third section focuses on the in-build contradictions and dilemmas which partly explain the problematic functioning of the corporations. The fourth section shows that those involved in the operation of the corporations are not only pursuing their own interests, but are sometimes also concerned with the official objectives of the corporations. The section thus illustrates that the behaviourial assumptions made by the World Bank are not necessarily valid. The last section summarises the argument and draws some tentative conclusions regarding reforms to improve performance of 'bureaucrats in business'.

1 Bureaucrats in business - The view of the World Bank

State-owned enterprises, according to the World Bank (1995:50), "continue to dominate an important share of the economy in a large number of developing-market economies". This would not have been a problem had they been efficient, but this is not the case. On the basis of a study of state-owned enterprises in twelve countries, the World Bank concludes that state-owned enterprises are less efficient than private enterprises. Furthermore, state-owned enterprises "can be a drag on the economy because of the aggregate impact of inefficient operation at the microeconomic level and because large [state-owned enterprise] sectors are typically associated with large fiscal and current account deficits, which in turn have negative repercussions on growth" (*ibid*:50). The report therefore argues forcefully in favour of privatisation.

Problems with state-owned enterprises can easily arise, according to the World Bank, "when governments own and operate enterprises that could be run as private firms". It is not that the bureaucrats themselves are to blame, although they "typically perform poorly in business", but they "face contradictory goals and perverse incentives that can distract and discourage even very able and dedicated public servants. The problem is not the people but the system, not bureaucrats per se but the situations they find themselves in as bureaucrats in business" (p. 3). Elsewhere, the World Bank writes that

> Because no individual or a group owns a state enterprise, no one has a clear stake in [its] returns, hence no one has the responsibility and motivation to set clear performance goals and assure they are attained. Instead, politicians, bureaucrats, employees, and other interest groups thrust upon [state-owned enterprises] multiple and often conflicting goals (...) while simultaneously imposing a bewildering and sometimes contradictory collection of constraints (...). Multiple objectives and multiple constraints increase transaction costs, distort the incentives facing [state-owned enterprises] and reduce managerial efforts. If [state-owned enterprises] have access to subsidies, transfers, or government guaranteed loans, as they often do, then there is, in addition, no threat to bankruptcy to act as a check on inefficiency. (p. 36)

A large part of the report focuses on successful and failed reforms, and the reasons behind these divers experiences. One of the relevant questions tackled is why it is that, despite the obvious benefits of reform, "only a few countries have attempted these reforms and even fewer have succeeded" (p. 175). The report asserts that there are clearly "other factors than economic efficiency [which] determine the nature, pace and extent of [state-owned enterprise] reform" (*ibid*:175). The most important of these factors, according to the World Bank, is politics. This is so because

> [s]tate-owned enterprise reform can cost a government its support base. Consequently, politicians everywhere carefully weigh any changes in state-owned enterprise policy, naturally preferring policies that benefit their constituencies and help them remain in office over policies that undermine support and may precipitate their removal. While some exceptional leaders may be able to change their support base and mobilize new constituents for reform, most are necessarily responsive to the supporters who put them in office. (World Bank, 1995:175)

Reforms will only work, according to the report, when three conditions are fulfilled.

> Reform must be politically desirable - the benefits to the leadership and its constituencies must outweigh the costs.
> Reform must be politically feasible - the leadership must be able to enact reform and overcome opposition.
> Reform must be credible - promises that the leadership makes to compensate losers and protect investors' property rights must be believable. (*ibid*:175-6)

Bureaucrats in Business has generated a lot of discussion and critique.[3] Here, I would like to draw attention to three interrelated points of critique. These have to do with a) a tendency to black-box the processes within state-owned enterprises, b) the behaviourial model underlying the World Bank document, and c) the negative interpretation of politics.

The empirical material presented in *Bureaucrats in Business* deals mainly with success and failure in terms of economic performance. There is surprisingly little empirical material on the processes within the state-owned enterprises. In this sense, the enterprises are black-boxed. The claim that bureaucrats in business perform less well than their colleagues in private enterprises is based on a logical deduction, not on empirical evidence related to the actual procedures and mechanisms within these types of enterprises.

This black-boxing makes it possible to construct a simple dichotomy: there are state-owned enterprises and there are private enterprises, both with their own internal logic, dictated by the incentive structure. In a public enterprise bureaucrats are faced with contradictory demands and perverse incentives; in a private enterprise managers have an economic stake in the business and will act accordingly. This dichotomy obscures variation as well as complexity. There are other types of enterprises than just these two archetypes, and there may be more than one incentive structure or set of procedures within one and the same organisation. The dichotomy also idealises the functioning of private enterprises. In a footnote, the Bank itself casts some doubts on this dichotomy, when it quite rightly mentions that also in large private enterprises ownership is divorced from management, but this awareness does not affect the overall interpretation and conclusion. For a further critique, see Chang and Singh (1997) who make the point that private enterprises too have sometimes large bureaucracies, and that the mechanism through which bureaucrats in the private sector are disciplined (the market) is not necessarily superior to the discipline imposed on government bureaucrats by the political system.

The analytical framework underlying the World Bank report comes from the public choice theory and is also influenced by the Principal Agent theory and the economic literature on property rights (Cook, 1997:890). The public choice literature

> advocates the development of logical and deductive models of how government agencies behave, with clear directions for policy analysis and simple normative recommendations (Dunleavy, 1986). This body of theory attributes poor performance of publicly-owned agencies to a divergence of 'interests' between bureaucrats and politicians that run government and the public interest in general. (Cook, 1997:890)

The Principal Agent theory emphasises the divergence of interests between the agent (e.g. bureaucrat) and principal (e.g. politician or shareholder). The property rights literature emphasises the positive relation between clearly defined (private) property rights and economic efficiency.

Cook (1997) and Bayliss and Fine (1998) make many interesting general points about the limitations of these theoretical models. The point I would like to highlight relates to the behaviourial assumptions in this framework: that of the rational actor, with fixed interests and preferences, and responding to clear incentives and disincentives. Rational actors calculate the costs and benefits to themselves of various actions, and then choose the alternative most consistent with their interests (Levi, 1988:8). The World Bank's conceptualisation of human behaviour is close to this rational actor model. The report assumes that managers and employees within state enterprises mainly pursue their own interests, and that politicians are primarily concerned with their support base. No actor can be expected to pursue the interest of the public enterprise as a whole.

This behaviourial model has its limitations.[4] The behaviour of individual people is often a result of more than a calculation of costs and benefits. Apart from individual interests, people may act out of compassion or solidarity with others; they may be committed to certain political or religious values; they may identify with certain groups and their normative structures; they may strive for honesty, decency, even impartiality.[5] Real human beings are much more complex, contradictory and unpredictable than the rational actor model assumes.

Lastly, the report has a fairly negative interpretation of politics. By and large, political processes are regarded as bottlenecks, as obstacles for successful reform. This is so because politics is narrowed down to concerns of political leaders regarding their support base. These concerns inhibit them from making unpopular decisions. This interpretation of political processes has its weaknesses. First, as mentioned above, the behaviour of many politicians cannot be reduced to a simple cost-benefit calculus. Politicians may have other drives and motivations than strengthening their power base, such as particular political values, a concern with development or with the poor. Second, there are also positive sides to the fact that politicians are concerned with their support base. This concern is one of the mechanisms through which they are encouraged to do something beneficial to the people they are supposed to represent. Third, this interpretation disregards the complexity of almost all political processes. Politics is more than a one way process of strategic decision-making. It is a process of permanent negotiation, which takes place in various arenas at the same time, in which various issues and interests are sometimes strategically combined and in which people may come to new interpretations of their interests as a result of the political process itself. In other words, interests and preferences are not (only) exogenous, but (also) created within (endogenous to) social and political processes.

To conclude, *Bureaucrats in Business* stresses the poor performance of most state-owned enterprises and argues that privatisation or reform is necessary. Poor performance is seen as inevitable, since there are no owner-stakeholders. State-owned enterprises are black-boxed by the World Bank in the sense that processes within these enterprises are not investigated seriously. Instead, the World Bank bases its conclusions on a powerful assumption regarding the relationship between interests and behaviour. The World Bank's conception of political processes is a fairly negative one. Like other actors, also politicians pursue their own interests, which usually means they produce bottlenecks for reform.

2 The Karnataka and Kerala Corporations

The Karnataka Food and Civil Supplies Corporation (KaF&CSC) and the Kerala State Civil Supplies Corporation (KeSCSC) share the same overall objectives: to exert a downward effect on prices and to discipline private trade. In terms of their activities the two corporations differ considerably. The main activity of the KaF&CSC is wholesale and retail of foodgrains distributed through the Public Distribution System (PDS).[6] The KeSCSC, on the other hand, has organised a third parallel market, apart from the open market and the PDS: the *Maveli* stores. Table 1 in the appendix gives some information on the turnover, profits and losses of the two corporations. Both corporations suffered from financial crises from time to time, but they function both without regular subsidies from the government.

The Karnataka Food and Civil Supplies Corporation

The Karnataka Food and Civil Supplies Corporation was established in 1973 by the then Chief Minister Devaraj Urs, who became the first chairman of the Corporation Board. Between 1973 and 1992, the corporation has had 21 different chairmen. Some of them were ministers; others were secretary to the government or relative outsiders -- though usually with links to the ruling party.

The activities undertaken by the Karnataka Food and Civil Supplies Corporation have changed over time. Initially its main activity was procurement of foodgrain. In 1984 the Food Corporation of India (FCI) took over procurement in Karnataka and the KaF&CSC changed its activities to wholesale, and to a lesser extent retail, of PDS commodities. For more details, see table 2 in the appendix.

The wholesale of PDS commodities is a relatively simple activity. There is a certain fixed quantity allotted monthly to the State. The supply of the commodities is fixed and more or less secure. The tasks of the KaF&CSC is to see that the allotted quantities are transported from the FCI godowns to the KaF&CSC warehouses, and subsequently to the fair price shops. The wholesale margins are fixed by the State government. By doing this wholesale of PDS commodities, the Karnataka Food and Civil Supplies Corporation deals with approximately 7 per cent of the total foodgrain available in the State (Mooij, 1999:163).

Since the mid-1980s, the income earned in PDS wholesale is by far the major source of income of the KaF&CSC. In 1991-92 the sales of PDS rice, wheat, sugar and edible oil together accounted for 95% of the corporation turnover in 1991-92. This means the Karnataka Corporation is fully dependent on the PDS. It also means the financial well-being of the Karnataka Corporation rests in the hands of others: the Government of India (which decides how much food is allotted to each State)[7] and the Government of Karnataka (which fixes the wholesale margin). In other words, the profits or losses of the corporation are, basically, dependent on administrative and/or political decisions. This means the Karnataka Corporation is not comparable to a commercial trading undertaking. Purchasing, sales and margins are fixed. Management decisions within the corporation are of minor financial importance. The real decisions affecting profits and losses are made elsewhere.

The corporation is managed by a Board of Directors. The Managing Director, a civil servant from the Indian Administrative Service (IAS), is the chief executive and works under control of the Board. In 1991-92 there were almost 1500 people employed in the corporation. Originally all officials were drawn on secondment from other departments, in particular from Food and Civil Supplies. Over the years, however, the corporation has been conducting its own recruitment. Apart from a few managers of IAS and KAS cadre, it now consists of its own personnel only. The staff has its own independent labour union, which is committed not only to the individual employee's interests but also to the well-being of the corporation in general.

The Kerala State Civil Supplies Corporation

The Kerala State Civil Supplies Corporation was established in 1974. Initially, it was difficult for the Kerala Corporation to define a proper niche for itself, because Kerala had a fairly well-developed Public Distribution System, but in 1980 the corporation opened the first *Maveli* stores, and started to organise *Onam*[8] markets (Koshy, 1989). In 1992, there were about 500 *Maveli* stores. The number of commodities for sale in these stores fluctuates. In principle, they include rice, edible oil, various types of pulses, dry chillies, spices, but also tea, soap, toothpaste and stationary.

The number of *Onam* markets in 1992 was 142. These markets last between four days and four weeks and take place before the *Onam* festival. A variety of commodities is sold, among which vegetables and bananas. Each year, there are also approximately 2000 cooperative societies involved in the *Onam* sales, conducting sales in 3000 different places. Altogether, this is a considerable effort for the KeSCSC, especially since some of the commodities involved are easily perishable and have to be dealt with quickly. Generally, the markets are well-organised and supply is more or less continuous.

Most *Maveli* items are sold at a price below the economic cost.[9] The only important exception is edible oil, on which the corporation makes a profit. For some time, rice was the most burdensome commodity for the corporation. The price was fixed by the government at a low level and could not be adjusted by the corporation.[10] The amount of rice handled by the corporation is about 2-6 per cent of the total rice available in Kerala.[11] In respect to most other commodities the corporation is expected to sell at a price approximately 20% below the open market price, but price adjustments can be made by the corporation itself. Since edible oil is rarely available, there is an in-built financial difficulty.

The financial well-being of the corporation depends on decisions made by others, as in Karnataka. In contrast to Karnataka, the KeSCSC is, to some extent, comparable to a commercial wholesale trading business. The KeSCSC has to procure at minimum prices and costs. The quantities dealt with are not fixed. Speeding up sales and circulation time of capital means that more commodities can be supplied to the *Maveli* stores. What is different from private trade, however, is that the retail prices are laid down by the government, at least for the most important commodities, at a level below the open market prices. And it is because of this that the financial well-being depends on decisions made by the government.

Like the Karnataka Corporation, the Kerala Corporation is managed by a Board of Directors. Unlike Karnataka, the chairman of the Board has never been a minister. The corporation is headed by the Managing Director, who is of IAS cadre, as is the General Manager. The total staff strength of the corporation in 1992 was 2586. All the salesmen and shop helpers as well as a number of managers are directly recruited, while virtually the whole middle cadre is on secondment from the Civil Supplies Department.

Impact on prices and trade

The stated rationale for establishing the Karnataka and Kerala Food and/or Civil Supplies Corporations was to augment availability of essential commodities of sound quality at affordable prices. By doing so, it was envisaged, the corporations would help to reduce prices and discipline private trade. To what extent have the corporations succeeded in these objectives? I shall look at price reduction first, and then at the impact on private trade.

The Karnataka Corporation restricts its activities by and large to the wholesaling of PDS commodities. The Corporation therefore has no impact on the availability of PDS foodgrains, nor on their prices. In principle, the allotted PDS commodities could also be dealt with by the cooperative sector (as is happening in respect to part of the foodgrains in Karnataka) or by private PDS wholesale dealers (as is happening in Kerala). The legitimacy of the Karnataka Corporation is fully based on the claim that the Corporation is better able to perform this task of PDS wholesale than other potential wholesalers.

In Kerala, the corporation does affect the total availability of foodgrain in the State. The KeSCSC procures rice in Andhra Pradesh and other States; it purchases vegetables in Tamil Nadu. These activities are additional to private trade and the PDS, and may have an effect on open market prices. Whether such an effect does indeed occur is hard to say. In any case, I do not have the empirical data to argue this case.

Nevertheless, we can assume that market intervention will be especially effective when the prices of the distributed commodities are relatively low -- compared to the open market--, quality is good and supply is continuous, or at least timely. Regarding vegetables, these three criteria are fulfilled. During the *Onam* season, the Kerala Corporation sells relatively cheap, good-quality vegetables. It is plausible that this intervention helps to reduce open market prices, or prevents them from rising further. Regarding rice and edible oil the same cannot be said. In particular, the third criterion is not fulfilled: supply is very irregular. There are long periods in which the corporation does not sell any rice or palmolein oil, either because it cannot afford to sell rice or because palmolein oil is not available. This means that, at best, the corporation can have short term effects on the open market prices of these food items.[12]

Ideally, in view of the objective of influencing open market prices, the corporation should be able to respond quickly to open market price fluctuations, and glut the market in case of a sudden price rise. Such quick reactions have been altogether absent in the case of Karnataka. In Kerala they are rare, but have happened occasionally. Neither of the corporations maintains considerable buffer-stocks to draw upon in case of sudden price rises.

In short, we can safely assume that the ability of the two corporations to affect open market prices is limited. Perhaps, occasionally, in specific locations their activities have an impact on the level of prices, but it is not likely that they have a permanent impact on the level of open market prices.

As far as the second objective, to control private trade, is concerned, the success of the corporations is hard to measure too, and, again, probably limited. In both States, the traders themselves whom I interviewed claimed not to experience any negative or positive effect of the activities of the corporation. In Kerala, however, this has not always been the case, as the following story illustrates.

> In 1980 and 1981, just after the first steps had been taken to set up *Maveli* stores, a vehement conflict broke out between the traders in Trichur and the headload workers. There were several issues in this conflict, in particular the power of the headload workers union, whether traders/employers are allowed to bring in outside workers in case the regular workers are on strike, and the wages to be paid. During the climax of the conflict in 1981, the headload workers went on strike, while the merchants closed their shops. The merchants anticipated that an indefinite closure of the shops would create a situation of scarcity and public resentment against the headload workers. All in all the shops remained closed for more than 50 days and a number of traders went bankrupt. After some time, when the food situation in Trichur became precarious indeed, the Kerala State Civil Supplies Corporation decided to intervene by opening a number of *Maveli* stores. The traders reacted by opening so-called *Wamana* stores, but their position had crucially weakened as a result of the intervention by the government, and finally a settlement was reached. One of the important long-lasting effects of this conflict was the push it gave to political organisation of the traders. In 1981, an all-Kerala traders' association, the *Vyapari Vyavasayi Ekopana Samithi*,[13] was established, which has since developed into a major political force.[14]

Since 1981 the Kerala Corporation has not been involved in similar conflicts with traders, and by 1989, one of the representatives of the Kerala Chamber of Commerce confessed that

> at present, the merchants are a very powerful category of people. We almost form a parallel government. In any case, we can make or break the Kerala economy. The

> government is very dependent on us. For instance, each year before the Kerala Budget is presented, there is a pre-Budget meeting with us. The merchants are so important in Kerala because they provide the major source of state income, the sales tax.[15]

In short, both corporations concentrate their activities on a small number of commodities (the KaF&CSC even more so than the KeSCSC). They accomplish only minor market interventions. Their ability to react quickly to open market price fluctuations is limited, and their impact on private trade is probably small. In addition, at times they have had difficulties to survive in financial terms, and, what I have not yet mentioned so far, they have both been involved in various scandals. In both States there have been several cases of alleged malpractices or illegal sales of foodgrains, some of which are still under investigation.

3 Contradictions and dilemmas within state food corporations

The World Bank's observation that state-owned enterprises have multiple and conflicting goals is definitely true in the case of the two corporations under consideration here. I will discuss three of such contradictions. The first has to do with the objective to sell food at cheap rates without making financial losses. The second is related to the relationship with private traders, while the third has to do with in-built difficulties to achieve flexible management and entrepreneurship.

Social objectives versus profitability

The corporations have been established primarily with a social objective in mind: distributing food at reasonable prices. But, on the other hand, both corporations are expected to do so without subsidy, not necessarily making profits, but at least breaking even.[16] In other words, there is a dual set of objectives for the corporations to fulfil: social and financial.[17]

Often it is difficult to combine the two sets of objectives. The cheaper the food supplied (social objective) the less profit or more losses for the corporation. In principle, however, a combination of the two sets of objectives is possible. I will outline the conditions under which such a combination is possible, and discuss to what extent these conditions are fulfilled in the States under review.

The first possibility is to deal with a fixed market segment. Purchase and sale prices are fixed, and the margin is sufficient. There is a guaranteed demand and the quantities dealt with allow breaking even or making some profit.

The Karnataka Corporation, which deals with PDS commodities, is an example of this mode of operation. It buys foodgrain from the FCI, for which it pays a fixed issue price, and sells these foodgrains to retailers. The margin is fixed and sufficient to break even. The disadvantage of this set-up, i.e. as it operates in Karnataka, is that there is little flexibility to carry out additional market interventions, while in certain periods such additional interventions would be very useful from a social perspective. For instance, if there is a sudden rise in the price of rice, the Karnataka Corporation is not equipped to undertake an extra, spontaneous market intervention.

The second possibility is to compensate loss-making activities with profitable activities. This strategy is pursued by both corporations under review. At the time of fieldwork, the most important commodity for cross-subsidisation was palmolein oil, not in the last place because the government held monopoly in palmolein trade, but also because palmolein oil is relatively cheap as compared to coconut oil and sunflower oil. Other commodities used for cross-subsidisation in the past, are cement and liquor. In the 1980s, the Kerala Corporation made more profits on cement than losses on rice (Mooij, 1999:195). When the Government of India decontrolled cement trade in 1989, this cross-subsidisation came to an end.

The third possibility is to function more efficiently than private trade. This relative efficiency could result from economies of scale, or excess profits or inefficiency of private traders. This option is only relevant to the KeSCSC. The KaF&CSC does not compete with private trade.

As far as the Kerala Corporation is concerned, the four figures in the appendix show that the corporation works relatively efficiently as compared to private trade. The figures compare economic costs (of the KeSCSC) with open market retail prices (and *Maveli* retail prices). In the case of rice, economic costs are, on average, Rs. 0.5 below the open market retail prices. In other words, the KeSCSC would be able to supply rice to the market at a rate 10% under the open market price without making losses. In the case of green gram, toor dhal and chillies the differences are less permanent. Sometimes the economic costs are higher than the market prices, and sometimes the market prices are higher.[18]

It is not easy to say what the reason is for the relative efficiency of the KeSCSC in the case of rice, or rather the relatively high open market price. Moreover, different commodities require, perhaps, different types of explanations. It may be that there are economies of scale, especially in storage and transport. In purchase, however, there are scale disadvantages. Large purchases tend to push up prices. This is true not only for rice, but also for vegetables and pulses. In the latter case, the slab system has become common practice. This means that the contractor delivers the first quantity, say 100 tonnes, for a certain price; the second quantity costs slightly more, etc. This slab system has been developed to anticipate price rises that occur as a result of large-scale purchases. On the basis of my fieldwork it is impossible to say whether private trade makes, at times, excess profits or works inefficiently.

In any case, whatever the precise characteristics of the open market, the corporation is able to supply at a similar or even cheaper rate without incurring losses. This means that it is possible for the corporation to combine its social objectives -- to increase the availability of reasonably priced food -- with financial viability. This would, however, imply sale at economic costs rather than at prices much lower, as was happening at the time of fieldwork.

In other words, contradictory objectives certainly impose a difficulty for the corporations. The two types of objectives are, however, not necessarily incompatible. Under certain conditions it is possible to combine social objectives with financial viability.

Competition versus cooperation with private trade

As explained above, the idea behind state trading is that it can develop into an alternative to private trade, and that, as such, state trading can contribute to a reduction of mercantile power. One of the consequences of this idea is that, in as far as corporations have to deal with private traders and/or middlemen, a healthy distance should be preserved in order to prevent any entangling of interests. The corporations have formulated various procedures -- in particular, sets of rules prescribing purchase -- meant to guarantee such distance.

In practice, however, the corporations are not only competitors to private trade, but they also work closely together and need to do so. Firstly, private traders are their main suppliers and, secondly, corporations have subcontracted out some of their tasks to private firms. These relations and practices of corporations are, however, constrained by the official rules and procedures. Especially because opposition parties are sometimes eager to blame the ruling party or the corporation of conspiring with private interests, the corporations have to remain on their *qui vive* not to develop too close connections with their suppliers or private subcontractors. All in all, this situation implies that corporations have to negotiate contradictory demands of various kinds.

The Kerala Corporation purchases rice and other commodities from traders, millers, commission agents or other middlemen. The procedures under which it can purchase are all officially prescribed in the Store Purchase Rules of the Government -- which prescribe that all purchases should be made by tender -- and in the procurement manual -- describing the details of the tender procedure. The idea behind the tender system is that it is the best way to guarantee fair trade. A tender allows, in principle, no scope for collusion among the suppliers because each of them fixes his own price on the basis of an individual assessment of margins, quality, availability, etc. In addition, the system should foreclose opportunities for collusion between private traders and corporation managers.

A rigid preference for tender procedures does also have disadvantages. Tenders involve high transaction costs; there is bureaucratic hassle and they often take time. Consequently, there is a tendency to tender for large quantities. For instance, in the case of rice, it is much less time-consuming to have say three to six large tenders per year than to have ten to twelve small tenders. But large tenders tend to push up open market prices, as the market is affected by a sudden huge demand. Large tenders mainly attract well-established large trading firms, capable of dealing with 10,000-30,000 tonnes. Because large firms tend to get the orders rather than smaller suppliers, an oligopolistic market structure is reinforced. Furthermore, tender purchases do not easily combine with flexible market intervention. There is always a considerable time span between the decision to float a tender and the actual delivery. Moreover, the larger the tender the more bribe-sensitive, as the stakes are high. In addition, there is a substantial risk of default as most suppliers do not have the quantities ready in stock. Entering into long term relations with suppliers is impossible. While in private trade this so-called vendor development is a widely practised strategy to guarantee steady supply of a certain quality, the tender system means that each purchase more or less starts from scratch.[19]

The Karnataka Corporation is not involved in any procurement activity, but also this corporation has to deal with private traders because it contracts out some of their tasks to private entrepreneurs. The Karnataka Corporation, for instance, has entered into arrangements with private transporters, labour suppliers/recruiters, rice millers and warehouse owners. In this way, the corporation has manoeuvred itself into a paradoxical situation. How do you compete with, or develop into an alternative to, your own subcontractors?

In reality, many of these arrangements are problematic. They are profitable for the private firms but detrimental to the corporation and the public at large. For examples related to transport and storage of rice, see Mooij (1999:182-3).

In sum, the relationship between food and/or civil supplies corporations and private agents is of a contradictory nature. On the one hand, the corporations depend on the private sector for their supply and because they have subcontracted out some of their responsibilities to private firms. On the other hand, the cooperation is restricted by certain norms and procedures meant to prevent too close contacts, and by the fear of being blamed for playing into the hands of traders. When we look at actual practices and the long term effects, it may be hypothesised that corporations sometimes contribute to a strengthening of the larger trading firms relative to the smaller ones, thereby contributing to a more oligopolistic market structure. In case conflicts arise, the corporation is often not the strongest party, but is overruled by private traders' interests. These findings support Harriss' conclusion that parastatal trading organisations "have come to depend on the very private mercantile sector that state trading officially seeks to challenge and to eliminate" (Harriss, 1984:72).

Flexible management and entrepreneurship versus accountability, control and political interference

Food and/or civil supplies corporations are public enterprises and, therefore, controlled by various external bodies, such as the State Parliaments and the Comptroller and Auditor General of India. The State Parliaments have a monitoring role as custodian of the public interest, while the Comptroller and Auditor General seeks to control the audits every year. Also within the corporation there is control and supervision. The Board of the corporation, consisting of various representatives of the government, supervises the activities of the corporation. Officials higher in the hierarchy check activities of officials lower in rank. Many of these checks are necessary. In a democratic state, public enterprises should be accountable to the public or its representatives. What has happened to the two corporations under review, however, is that this control has developed in such a manner that it stands in the way of flexible management and autonomous decision-making. Supervision has resulted in centralisation of power, public accountability in political interference, while effectiveness of management has suffered.[20]

Five different, but related, mechanisms creating this contradictory situation can be discerned. The first mechanism is that official rules and regulations of government organisations stand in the way of flexible management and the development of an entrepreneurial style of working.[21] An example is the purchase policy described above. Although the tender system reduces, in principle, the possibilities for collusion of interests and offers more opportunities to control purchases, the reverse side is that it will not always guarantee the lowest price.

The second mechanism is that the bureaucratic culture that has developed within the corporations does not always provide the right environment for an entrepreneurial spirit. There are many levels of hierarchy within the corporations, and there is little delegation of decision-making. There are no means to reward people who are ardent, have good ideas or great commitment.

The third mechanism contributing to lack of entrepreneurial spirit on the part of the management is the fear of allegations. The corporation managers know they always run the risk of allegations that they have overlooked procedures or favoured suppliers because they were motivated by corrupt practices. Especially in Kerala, where the political arena with its two opposing blocks is more polarised than in Karnataka, this fear is strong and makes management a stressful activity.

The fourth mechanism is the fact that civil supplies corporations are regularly (mis)used by opportunistic politicians. The fixing of *Maveli* prices can serve as an example. As discussed above, the Kerala government fixed the *Maveli* rice price far below the economic costs. The result was that the KeSCSC made large losses on rice sales, and hence reduced these sales. The ruling party felt it could not afford to increase *Maveli* prices, the result of which would have been a public outcry. Political opportunism stood in the way of a more rational policy, that is of having a steady supply of rice at a higher price, but one that is still below the open market price.

The fifth mechanism obstructing an entrepreneurial working style is the widespread practice of illegitimate interference of politicians in administrative matters. In Karnataka, at the beginning of the 1990s, the Food and Civil Supplies Minister himself interfered regularly in decisions about transfers of officials, not only of the top managers, but also of the operational level personnel of the corporation. The result of this political interference is widespread corruption within the corporation. Officials pay large sums in order to be transferred to a desired post, such as depot manager. This money has to be recovered before the next transfer is due (e.g. by blackmarketeering some of the PDS commodities). In Kerala, political interference in transfers was much less, but there were instances of interference regarding recruitment of personnel to staff *Maveli* stores, as well as regarding the location of new *Maveli* stores.

These five mechanisms have all to do with the reverse sides of checks, controls and supervision. Although checks and controls are necessary, in reality these controls have led to a lack of autonomy for the corporations, centralisation of powers and short-sighted and illegitimate interference in the corporations' affairs, which has harmful effects upon the mode of operation of these organisations.

4 Corporations - For private or public interests?

Now the question is, given the complex arena with its contradictory tendencies and demands on individual actors, how do the various actors involved in the corporations operate. Do they try to develop their own routes to 'make out' or do they identify with the objective of the corporation and do they make the best of it?

I will argue that there is no easy answer to this question because most people do both. Most bureaucrats and politicians do different things at the same time and feel different desires and solidarities simultaneously. In other words, the rational actor model is right in the sense that many politicians, managers and other staff often behave primarily in their own interest. One the other hand, the model is wrong because it highlights only one dimension of human behaviour. For most people life is more complicated than the 'rational actor' model assumes. People want to improve their own situation but they also feel some responsibility for others and, perhaps, for the organisation they happen to work in.

It is not difficult to give examples of activities and behaviour of politicians and managers pursuing their own interests. Given the contradictions and dilemma's which face the corporation's managers and staff, the most rational behaviour is to avoid taking any risk and do as little as possible. Indeed, there are many staff members who do not take any interest in the work they do and who "simply sit in the office".[22] There are many who come late and leave early. A staff member within the KeSCSC recounted in an interview:

> Once I visited a Super*Maveli*; the manager was very nervous. I asked "What's the matter?" and he said he was worried because the sales were so high. You see, the more sales, the more responsibilities and the more activity. In a bureaucratic organisation as ours it is best to do as little as possible; you won't get any questions and you won't get any difficulties. If I write a sales report, I get a lot of questions. If I don't write it, nothing happens. Decisions that you take with good intentions often work out against you. So, it's better to do nothing. When people start working within the corporation they are motivated and have good ideas sometimes, but in the course of the years it becomes less and less. Their position is secure anyway. Even when you do nothing, nothing happens.

Apart from doing as little as possible, another way to further one's private interests is by indulging in various kinds of illegal activities. To mention a few of such activities: cooperation in blackmarketeering of the foodgrains by some warehouse managers; political interference in transfers; accepting bribes when concluding contracts with sub-contractors or suppliers; attempts to give jobs within the corporation to political followers; use of corporation funds for other purposes, etc. (Mooij, 1999).

But, fortunately, there are also examples of behaviour showing a concern with the corporations or the public at large. I will discuss three of them. The first is the initiative to organise the *Maveli* stores and the *Onam* markets in Kerala. This initiative can be put, largely, on the account of the CPI Minister for Civil Supplies E. Chandrashekar Nair, who took office in 1980. Although this government remained in power less than 2 years, he left a major mark on the Civil Supplies Corporation. E. Chandrashekar Nair himself recounted in an interview:

> Kerala is a very food deficient State. Since the food scarcity in 1964, we receive foodgrains from the Centre through PDS. The problem is, however, that this FCI rice is of very bad quality. We are here at the receiving end; we have to accept it. Apart from PDS, open market prices are uncontrolled. The prices are set by important traders in Bombay and elsewhere. Our own Kerala traders are relatively small compared to the large companies outside the State. Anyway, we felt that we had to organise a countervailing power against the traders. In 1980, when we came to power, prices were rising and the opposition claimed that we cooperated with the traders and that we tolerated hoarding. My idea was that one cannot solve economic problems with coercive power. We had to find an economic solution. I thought, if we have a market share of 10-15%, that would be sufficient to control private trade. In principle, PDS can have this function, but the quality is not good enough. PDS has a downward effect on the price of low-quality rice. But so far nothing has happened to good-quality rice. The KeSCSC could fill that gap.
>
> A second motive was the general price rise during festivals. Here, *Onam* is the most important festival. During this festival people change their usual eating habits. They prepare different things. What happens is that the prices rise very much. In 1980 the corporation started to organise temporary shops and vegetable fairs, where people can purchase all the special requirements for the festival.

The interesting thing of this example is not so much that a Civil Supplies Minister formulated a new food distribution scheme. That happens more often (e.g. the Rs. 2 per kilo rice scheme in Andhra Pradesh initiated by M.G. Rama Rao), and such proposals are often inspired by the wish to enhance political support (Mooij, 1998). The exceptional thing is that there was a clear vision behind the new scheme, that E. Chandrashekar Nair was not afraid to antagonise the foodgrain traders (see the earlier story about the conflict between the foodgrain traders and headload workers in Trichur and the role of the Kerala State Civil Supplies Corporation therein), and the feelings of enthusiasm and commitment that were generated amongst the people involved in the initiative. According to one informant, who was closely involved with the *Maveli* initiative:

> In those days (1980-82), we worked very hard. We started at 8.00 a.m. in the morning, and we went home at 20.00 p.m. or later, after the job was finished. I had a kind of control room, and we knew everything, the stocks in the various depots, how many train carriages were on their way, from where to where. Even now, when I telephone the Civil Supplies Corporation and happen to talk to someone who was there in that period, we often say: "It was fun, working in those days". We were very committed to the job. We were given no subsidy, and we were working very efficiently. We had an excellent team of around 10 senior officials only. Chandrashekar Nair trusted us and gave us a lot of freedom.

This same feelings of enthusiasm and commitment were confirmed in interviews with other managers of that period and by E. Chandrashekar Nair himself. After a Congress (I) government took over from the Left Democratic Front in 1982, it gradually disappeared. Some remains of it can still be observed, however, for instance during the *Onam* season, when the logistical organisation required to deal with the vegetables and fruits is much more complicated than in other periods of the year.

The second example refers to the way in which individual purchase managers in Kerala have tried to circumvent the rigidity of the Purchase Rules. According to the rules all procurement should be made by tender. In reality spot purchases and vendor development did take place occasionally, although it was illegal. According to a former manager:

> What we did was the following. We floated a tender, and we purchased some quantity from the lowest bidder. In addition we did spot purchases. We went to see whether there were other suppliers who could deliver at Rs. 5 per quintal less than the lowest tender price. In this way also the relatively small suppliers came into the picture. They all possessed readily available stocks, while the large traders who participate in tenders still have to buy after getting the contract. We could develop contacts with some seven or eight small wholesale traders who supplied regularly to the corporation.

This mode of operation is against the rules, and risky in two respects. One is that such semi-permanent contacts develop into a collusion of interests between suppliers and the managers of the corporation. This risk is not relevant for someone who is dedicated to the corporation. A second risk is that of allegations. As soon as this mode of operation is known to others, the responsible officers and politicians risk being accused of favouring certain private parties, regardless of whether this is true or not. This is not only a hypothetical risk. The activities of the Kerala Corporation are, indeed, closely watched by the opposition parties. The accusation that the ruling government is hand in glove with private trade is a common accusation. It is for this reason that most managers and politicians in charge of the corporation refrain from such a mode of procurement, but some were still willing to take the risk because they thought their procedures beneficial to the corporation.

The third example is the labour union within the Karnataka Food and Civil Supplies Corporation. This labour union is very active and concerned with the well-being of the corporation. On various occasions it has protested against the misuse of the corporation by the Food Minister. It has sent letters and organised strikes to protest against various 'irregularities'. To illustrate, in a letter to the Managing Director of the KaF&CSC (dated 19.07.91) the labour union formulated the following eight questions

> 1) whether the Corporation is an undertaking of the government, or whether it is a private institution; 2) whether the Corporation is having its own rules and regulations and administrative set-up; 3) whether the Corporation is following the Karnataka Civil Service rules of the government, or whether it is run by influential persons; 4) whether there is any provision or rule as to re-instate any person who has misappropriated thousands to lakhs of rupees; 5) whether, in a situation that there is a case registered against such a delinquent official by the police, and the case is before a court, it does not amount to contempt of court to re-install such official; 6) whether an officer who makes such an unethical order, deserves a KAS or an IAS degree; 7) whether -- in case the

> management says 'yes' -- the management will also reinstate all the other 50 people who are also involved in court cases for similar breaches of law without taking any action against them for their misappropriation; 8) whether the management passing such unethical orders will have any morals to impose a fine of 50-100 Rs. to sales assistants and weightmen who come late by 5 or 10 minutes to open their retail outlets?

This labour union is taken seriously by the management to some extent, even though it is also seen as a hassle.

These examples illustrate four important points. First, they show that not all people act only and always as individual optimisers. Often people do, but at other occasions they may be genuinely concerned with developments and processes which do not benefit themselves in the first place. They may subscribe to the objectives of the organisation they work for, even when this does not benefit them. They may even behave in ways which are irrational from their individual perspective, but which can be explained when taking their commitments into account. In other words, there is not only one behaviourial pattern. Most people can have different ideas and pursue different goals at the same time. How they chose to act in particular circumstances is, therefore, less predictable than assumed in the 'rational actor' model.

Second, perceived interests are (also) created in the social process itself. When the *Maveli* initiative was introduced it created enthusiasm and commitment. A sense of collective interest was shaped in the process itself. This means that even when people have no immediate stake in good performance or efficient management, they may chose this to become their interest. In other words, interests and preferences are not fixed but partly shaped in the policy process itself.

Related to these two points is a third point: corporations are no homogeneous and static organisations. There is diversity in behaviour, interests and commitment. Corporations have problems but they are not fully spoiled or corrupted. There are many managers and operational level staff members who are concerned with the performance of the corporation. Although some of the problematic features of the corporations are, in part, produced and reproduced by the behaviour or this staff, it is also something many of them dislike and sometimes try to change.

Fourth, the influence of politics and political processes on state-owned enterprises is not always negative. Politics may obstruct efficient management, but it may also be instrumental in the introduction of some valuable political commitments into the corporations. The first example from Kerala shows that a political commitment and vision can be very stimulating and important in making a corporation perform better.

5 Conclusion - What can we expect from bureaucrats in business?

This paper started with a review of the activities and performance of the Karnataka Food and Civil Supplies Corporation and the Kerala State Civil Supplies Corporation. It was argued that the impact on food availability and prices as well as the impact on the organisation of private trade are probably limited, and that the financial situation of both Corporations is delicate. There have been years in which sizable profits were made, but both corporations have also experienced years with substantial losses. The paper then proceeded with a description of the various dilemmas that define the environment and the workings of the corporations. Successively, I discussed the contradictions implied in the different sets of objectives, in the relations established with private traders and in the practices around control and interference.

Within this complicated arena with its different contradictory demands and tendencies, people react in different ways. Their behaviour is a mixture of pursuing their own interests and not being bothered about the corporation as a whole, and identification with the corporation and acting accordingly. Most bureaucrats in business are obstructive as well as cooperative in respect of efficient management and good performance.

The argument of this paper is certainly not that state-owned enterprises should be defended at all costs.[23] What the paper suggests, however, is that the World Bank's negative conclusions need some modification. The story of the two corporations shows that there are major difficulties with bureaucrats in business, but that there are also positive things to tell. There are several politicians, managers and other staff who are dedicated to the corporation and act accordingly. In other words, the logical and deductive models of the public choice theory underlying the World Bank's interpretation are not always right.

What this also illustrates is that the behaviourial model of the 'rational actor' has some limitations. It is not that the approach is always wrong in describing people's behaviour. Indeed, in many circumstances, people behave as rational actors pursuing their own self-interests. The point is that if they do, an explanation is required. There is nothing particularly natural about individual optimisation. So, when Indian civil servants and politicians do act as rational actors, the intriguing question is why, under which conditions, in which circumstances this is the case. And if they don't, why not. In other words, contextualisation of behaviour is required.

In view of the many contradictions within the corporations and their problematic performance I would agree with the World Bank that reform in necessary. But where the World Bank assumes that problems with bureaucrats in business are inevitable and that privatisation is therefore the solution, I would argue that a more contextual analysis of the state-owned enterprises is necessary. Since reforms (should) have the objective to create a new environment in which people are tempted to take more responsibility for the corporation as a whole, the question is what it is in the way the corporations function which makes people not identify (more) with the corporations but pursue their private interests instead. There is no reason to assume that privatisation is always the best solution.

The analysis so far points at three key issues: autonomy, accountability and legitimacy. The first refers to the close and dysfunctional relationship of the corporations with the government. The government decides almost everything: purchase procedures, prices, staffing, transfers etc. This large say of the government in day-to-day operations obstructs entrepreneurship of the corporations. Also within the corporations, there are disincentives for lower-level staff to take more initiatives. The second issue refers to the system of supervision, controls and checks. As illustrated in this paper, the present system does not work very well. Political and ministerial control often results in interference that is detrimental to the organisation. It obstructs proper decision-making and makes people timid and afraid to take initiatives. The third issue refers to the wider context in which the corporations operate. The present political climate put more emphasis on the weaknesses and limitations of public enterprises than on their potential to contribute to a better distribution of food. In such environment it is unlikely that staff and management identify with the corporations and 'go for it' than in an environment in which the legitimacy and potentials of the corporations are undisputed.

Reform proposals should address these three issues. The first issue means that reform is required which enlarges the power of the corporations, and the people working within them, to make decisions regarding the mode of operation. The second issue requires that new mechanisms of control and accountability should be created. The broad performance of corporations should be assessed, rather than whether the procedures are followed strictly enough and whether each rupee that is spent can be justified. The third issue cannot be solved with reforms. What is needed is a change in the political climate, some more faith in the public enterprises, in order to reverse the self-fulfilling prophesy of the 'rational actor' explanation of why state-owned enterprises do not work satisfactorily. In addition to these proposals, the analysis suggests that the *process* of reform is of crucial importance. (Perceived) interests are partly shaped in the policy process itself. In this light, reform which is imposed from above and has little support from the operation-level staff and management is much less likely to succeed than reform proposals which are 'owned' by the involved people themselves. There is a need to include the involved actors themselves in the debate about the implementation or reform proposals.

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APPENDIX

Table 1 Some financial details of KaF&CSC and KeSCSC

	KaF&CSC		KeSCSC	
	Turnover (million Rs.)	Profit/loss (million Rs.)	Turnover (million Rs.)	Profit/loss (million Rs.)
1973-74	69.337	0.131	---	---
1974-75	259.833	1.710	57.523	4.4
1975-76	271.610	1.565	127.546	2.2
1976-77	261.338	1.371	202.941	- 0.2
1977-78	322.985	- 1.392	71.267	- 13.4
1978-79	237.167	- 2.218	105.417	- 3.6
1979-80	488.401	- 3.438	231.367	- 1.2
1980-81	692.306	3.695	845.734	7.3
1981-82	989.706	2.849	1035.313	- 19.4
1982-83	1208.346	- 29.607	1192.783	- 41.5
1983-84	1502.055	4.717	1623.447	- 119.9
1984-85	1698.492	6.739	1745.622	56.4
1985-86	2097.489	7.757	1583.242	12.1
1986-87	2442.115	13.718	1678.450	43.8
1987-88	3100.609	14.495	2199.469	101.8
1988-89	1935.969	2.710	2502.888	- 29.4
1989-90	2513.115	- 8.706	2354.003	- 1.3
1990-91	2767.961	- 14.275	2244.686	- 1.0
1991-92	2827.007	- 2.172	2143.012	- 2.3
1992-93	3511.930	35.539	2749.898	- 1.7

source: Kerala State Civil Supplies Corporation
Economic Review, Planning Board, Government of Kerala, (various years)
Karnataka Food and Civil Supplies Corporation

Table 2 Main activities of the Karnataka F&CSC (1973-1992)

	Procurement (PDS)				Other purchases*)				Distribution activities		
	Paddy (tonnes)		Rice (tonnes)		O nes)	PS (ton	P nes)	OM (ton	Number of wholesale outlets (of total)		Number of retail outlets (of total)
1973-74		173		----		131		681	N.A.**)		N.A.
1974-75	987			----	4		0		N.A.		N.A.
1975-76		188		----		----		174	N.A.		N.A.
1976-77	169			----		----	59		N.A.		N.A.
1977-78		260		----		----		133	N.A.		N.A.
1978-79	552			----		999	736		N.A.		N.A.
1979-80		976		----	9			----	N.A.		N.A.
1980-81	06			454		496		----	N.A.		N.A.
1981-82		648	3		49			----	N.A.		N.A.
1982-83	04			827		243		----	N.A.		N.A.
1983-84		140	43		49			----	46		45
1984-85	911			----		756		----	N.A.		N.A.
1985-86		878		----	2			----		58	N.A.
1986-87	07			----		422		249	(196)		N.A.
1987-88		102		----	21		25			100	N.A.
1988-89	981			----		992		115	(270)		N.A.
1989-90		837		----		----	742			103	N.A.
1990-91	03			----		----		368	(266)		261 (16980)
1991-92		726		----		----	96			112	273 (17364)
	89			----		240		552	(267)		
		142		---		----	46			114	
	871					----		426	(267)		
		----				----	3			124	
		----				----		----	(273)		
		----				----		----		133	
		----						----	(282)		
		----						----			

		----									

*) Other purchases refer to the following foodgrains: paddy, rice, ragi, jowar and maize. PSO means price support operation; OMP means open market purchase.

**) N.A.: not available or not known by the author; ---- : no activity

sources: Karnataka Food and Civil Supplies Corporation
Annual Reports; Department of Food and Civil Supplies
A decade of dedication to the consumer; KaF&CSC, 1983

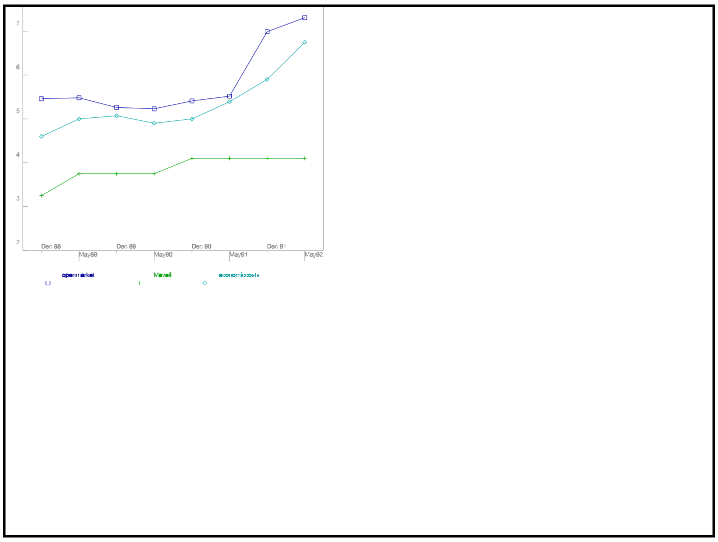
Table 3 Rice availability in Kerala and rice handled by KeSCSC (1980-1993)

	(1) Production (million tonnes)	(2) Imported from FCI (million tonnes)*)	(3) Handled by KeSCSC (tonnes)	(4) Rice handled by KeSCSC as percentage of available rice 3/(1+2+3) (%)
1980-81	1.27	1.62	31855	1.09
1981-82	1.34	1.57	42966	1.45
1982-83	1.31	1.20	42397	1.66
1983-84	1.21	1.30	156592	5.87
1984-85	1.26	1.36	69587	2.59
1985-86	1.17	1.46	45393	1.69
1986-87	1.13	1.65	64998	2.28
1987-88	1.03	1.66	51223	1.87
1988-89	1.01	15.5	91731	3.46
1989-90	1.14	1.27	136623	5.36
1990-91	1.09	1.65	81528	2.89
1991-92	1.06	1.67	75783	2.70
1992-93	1.08	1.80	48577	1.66

*) Figures in this column refer to calendar years

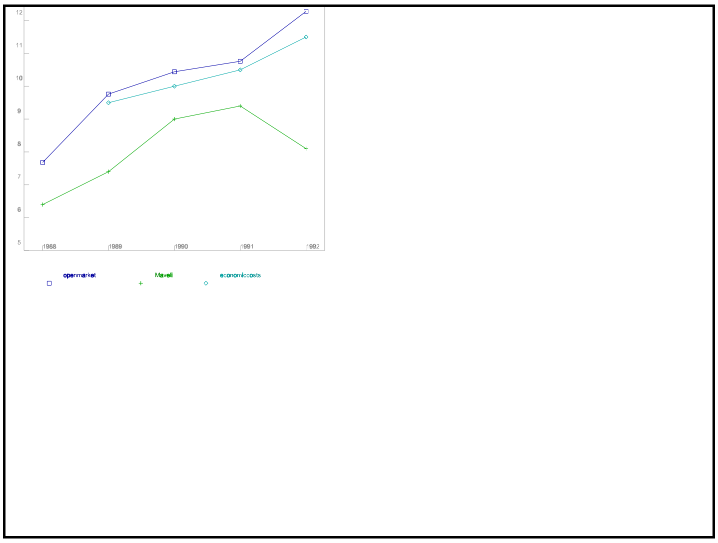
sources: *Economic Review*, Government of Kerala (various years)
Kerala State Civil Supplies Corporation

Figure 1 A comparison of KeSCSC economic costs, *Maveli* prices and open market prices: rice



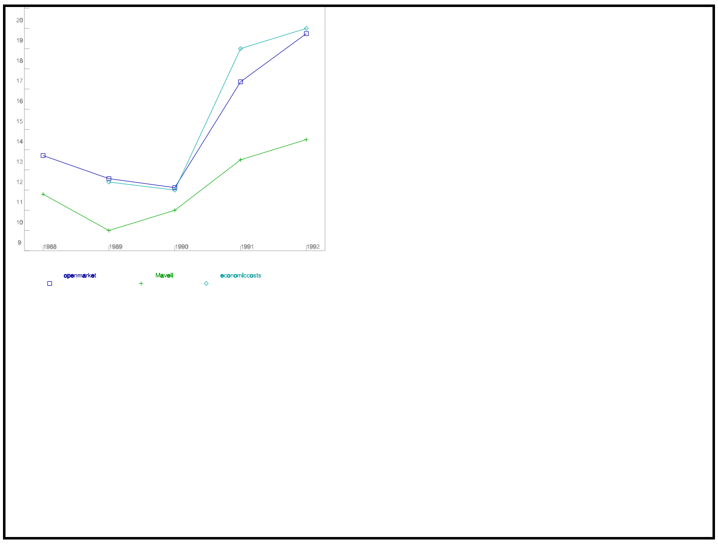
source: Monthly Price Bulletins, KeSCSC
Economic Reviews; GoKe

Figure 2 A comparison of KeSCSC economic costs, *Maveli* prices and open market prices: green gram



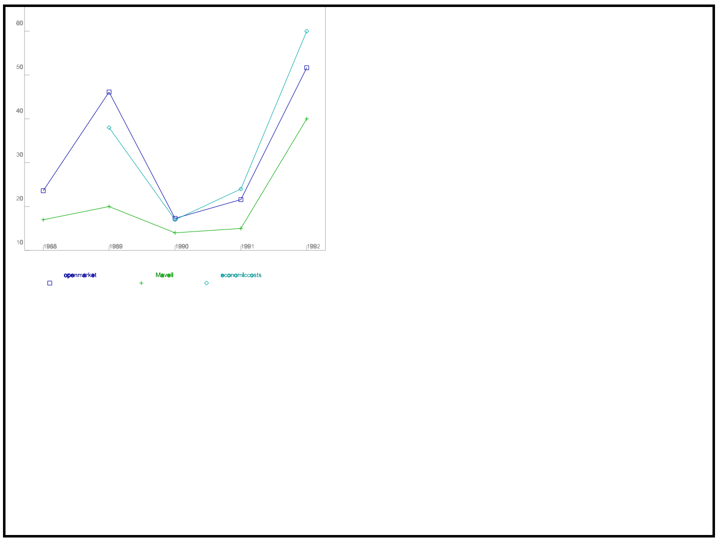
source: Monthly Price Bulletins, KeSCSC
Economic Reviews; GoKe

Figure 3 A comparison of KeSCSC economic costs, *Maveli* prices and open market prices: toor dhal



source: Monthly Price Bulletins, KeSCSC
Economic Reviews; GoKe

Figure 4 A comparison of KeSCSC economic costs, *Maveli* prices and open market prices: dry chillies



source: Monthly Price Bulletins, KeSCSC
Economic Reviews; GoKe

1. The two terms 'privatisation and reform' are often used together in the World Bank publication. The reforms proposed by the World Bank include divestiture, increasing competition in markets, introducing contractual arrangements with the private sector, restricting soft credits, and ending subsidies (World Bank, 1995:231-257).

2. State trading in foodgrains in India dates from the Second World War, when the colonial government started to purchase and distribute foodgrains in an attempt to prevent the outbreak of famines in important urban centres. After the War, the activity continued with fluctuating intensity, but it was only in 1964 that a proper institution was established to organise state trading in foodgrains at the All-India level: the Food Corporation of India. In the first half of the 1970s most State governments decided to initiate their own State foodgrain trading corporations.

3. See, for instance, various articles in the *Journal of International Development* 9 (6) and *World Development* 27 (1).

4. See, for instance, Sen (1977) and more recently Moore and Shankland (1998).

5. This is an almost literal translation of de Beus' description of Sen's conceptualisation of human agency (de Beus, 1995:19).

6. The PDS is a large-scale food rationing programme, which comprises between 10 and 15 per cent of the rice and wheat produced in India. The foodgrains are procured by the Food Corporation of India, especially in the surplus producing regions, and sold at fair prices in the whole of India.

7. Within Karnataka this foodgrain is partly handled by the KaF&CSC, partly by the cooperatives.

8. *Onam* is a very important annual festival in Kerala, when the return of *Maveli*, a mythical king, to earth is

celebrated.

9. The economic costs are the costs per kilo incurred by the corporation. Apart from the purchase costs, they include taxes, transport costs, storage losses, interest on purchase costs, administrative expenses, etc. The corporation calculates these costs partly on the basis of fixed estimates (e.g. administrative expenses are set at 3 per cent of the purchase costs plus taxes), and partly on the basis of costs really incurred.

10. This policy changed in 1993, when the Kerala government decided that the corporation was free to fix the selling price of rice, provided that this price was approximately 10 per cent lower than the open market price.

11. See table 3 in the appendix. This table gives only a rough indication as rice imports and exports by private traders are not included. These figures are not available. Rice import is considerable; rice export is much less. This means that the contribution of KeSCSC rice to overall rice availability is somewhat less than the percentages in the fourth column indicate.

12. In 1992, the functioning of the Kerala Corporation was evaluated by a team of Tata Consultancies. Unfortunately, I have not been able to get hold of a copy of the final report but reliable sources informed me that one of the conclusions of the report was that the corporation was not able to control the market or have any impact on the general level of prices, except during the *Onam* season. This supports the hypotheses expressed in the text.

13. The literal translation is: United Organisation of Merchants.

14. This reconstruction is based on several interviews with people who were involved in the strike and/or the Kerala traders' association, and the M.Phil. thesis of Vijayasankar (1986).

15. For the State governments, salestax is by far the most important source of income.

16. In Karnataka, subsidy is not an issue. I have not met anybody arguing that the Karnataka Corporation should be subsidised. In Kerala, the issue of subsidy is debated and contested. According to the Kerala Corporation, there was a commitment by the government between 1982 and 1987 to subsidise losses made on rice, although the reimbursement of the loss accumulated in this period has never happened.

17. This contradiction between financial and social objectives has also attracted the attention of other scholars studying public enterprises, including Bagchi (1994), Chakravarty (1987) Krishnaswamy (1980) and Ray (1989).

18. The assumption in these figures is that the quality of the products sold in the *Maveli* stores and in the open market is similar. Especially in the case of rice this is doubtful. There are huge differences in the quality of rice. The *Economic Reviews* published by the Government of Kerala give only one average retail price for open market rice, and do not indicate the quality of the rice. It may well be that the quality of this open market rice is, on average, higher than the quality of the rice sold in *Maveli* stores, but I do not have any data on this issue. The quality differences as far as the other commodities are concerned are likely to be less significant.

19. Only small initiatives have been taken to build upon previous experiences. The Kerala Corporation, for instance, keeps records of potential suppliers. Firms that perform badly are blacklisted.

20. This dilemma is also discussed by other investigators of public enterprises in India such as, for instance, Chaudhuri (1994), Iyer (1994), Ray (1989) and Shiva Ramu (1989).

21. The term 'entrepreneurial - or business style of working' refers to an archetypical style of working and management characterised by the ability to take decisions and organise the work in such a way that the tasks can be carried out efficiently, and the financial viability is secure. I realise that many private firms do not live up to this criterion, although it may be the objective of the managers to do so.

22. This was the answer of a FCI official when I asked him what he was doing in the lean season when there were no procurement activities. He himself was responsible for quality checks of levy rice. During these eight months of the year "I simply sit in the office", he told me, which indeed tallied with my own observations.

23. One aspect, not touched upon in this paper but important in the context of such defense, is the question of the necessity of the food corporations. Do they perform tasks which are not (or less well) performed by private enterprises, and if so, how relevant are these?