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India blows gains from disinvestment
By Kunal Kumar Kundu

NEW DELHI - Is the Indian government suffering from a messiah complex? In a distorted sense, maybe yes. But before that - what is a messiah complex? It is defined as a state in which the individual believes themselves to be, or destined to become, the savior of a group or even the world.

The United Progressive Alliance coalition government prides itself on championing the cause of the poor - messiah of the poor, if you will. But this is a messiah with a difference. Being a messiah of the poor is good politics. Maybe, in a different way, they are a messiah unto themselves.

It is not just spending money on the poorer section of the society that is important; it should be seen to have been spent. In other words, the poor should be able to see the benefits immediately, irrespective of whether it enables them to improve their lot in the long run or not. It is this visibility that makes them to vote for the giver.

Why this contention? Lets take the Mahatma Gandhi National Rural Employment Guarantee Act, a scheme that every government legislator will swear by, as it enabled them to retain power in 2009. The concept, though commendable, has had less than desirable outcome. The huge amount of money that was spent on this scheme hardly created any asset that could be leveraged upon in the future. Also, apart from well-documented incidence of massive corruption, what it led to was an increasing desire of the beneficiaries against moving to other places that offer better job opportunities.

Essentially it turned out to be an exercise of mere transfer of income, which, apart from an immediate benefit, makes the beneficiaries too dependent on the dole for their own good.

Or take the case of the Integrated Child Development Scheme, which is close to completing the fourth decade of its existence. Touted as one of the world's largest and most distinct programs for early childhood development, it has recently been rapped by the Comptroller and Auditor General for its corruption while every second malnourished child in the world is still an Indian.

Or the Food Security Bill. As pointed out by the economist Arvind Virmani, a former International Monetary Fund executive director, the country's problem is malnutrition and not hunger. Yet the food security bill insists on spending humungous amounts of money on distributing cheap cereals, which while important to take care of hunger does precious little to fight malnutrition. However, for impoverished people who are resigned to their fate of lowly existence, getting two square meals a day from the government (irrespective of the nutritional value) is like a gift from god. This food security bill is the plank on which the government hopes to be re-elected in the 2014 general election.

The common thread to all of these schemes is that the apparent benefits are immediately visible to the intended beneficiaries, irrespective of the long-term implications. To the recipient, therefore, the government is the messiah. To keep up with this image and to keep the votes flowing, the messiah needs to find resources to keep the ruse going.

So, when a steady stream of income (read tax revenues) fails to satiate the appetite for spending, there is an increasing dependence on one-time revenue generation to get started a scheme that will entail perpetual spending. While there is a potential for once-in-a-while revenue generation through the auction of scarce resources, including telecom spectrum, disinvestment - the sale if government stakes in state-owned companies - is the UPA's answer to the challenge of garnering a steady stream of revenues every year.

Disinvestment, in principle, is an excellent idea, since the government has no business to be in business. However, the best way to utilize such revenues is either to create newer assets or to reduce liabilities. Instead, these revenues are being used to create newer liabilities, so that the messiah can live up to the expectations. In essence, while the economy suffers from lack of investment, unimaginative and poorly targeted social sector spending grabs all the resources.

Investors now seem to be suffering from disinvestment fatigue. Over time, various ad-hoc government action has mostly resulted in value destruction (either in absolute terms or relative to their private counterparts) of the listed state-owned companies, as the government, being the majority owner, rides roughshod over the minority shareholders, especially retail investors.

With the reputation of the government and its governance slowly reaching a nadir, investors are wisely deciding to look the other way when the government offers its shares for sale.

Yet revenue generation is crucial. Earlier, we have seen the government forcing one state-owned company to buy the government's shares in another company. Then there are instances of the government forcing India's largest insurer (the state-owned Life Insurance Corporation, or LIC) and largest bank by assets (the state-owned State Bank of India, or SBI) to buy shares in companies earmarked for disinvestment but shunned by investors.

A note by equitymaster.com mentions that LIC was also the single largest buyer of government bonds last financial year. In fact, of the total 4.70 trillion rupees (US$86 billion) raised by the government during the year, LIC has provided as much as 1.1 trillion rupees.

For the current financial year through to next March, the government has an ambitious target of raising 558 billion rupees through disinvestment. To achieve this target, the plan is to force cash-rich companies to buy back the government's shareholdings in their own companies.

Since late 2012, the articles of association of four cash-rich state-owned companies - National Mineral Development Corporation, the Steel Authority of India, National Thermal Power Corporation and Coal India Ltd - have been amended so that they can buy back the government's share in their companies irrespective of whether it makes for a prudential investment decision or not.

Early this month, the Department of Disinvestment moved a proposal for selling the government's 5% in Coal India and another 5% through share buyback - a process through which it aims to collect around 200 billion rupees.

When the messiah is at work, a struggling economy or weakening state-owned companies are but mere collateral damage.

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