



GOPAL JAIN

The author is managing director, Gaja Capital, a private equity firm

Stop generational theft

The unfunded government pension liability is an off-balance sheet debt that must be extinguished by asset sales; otherwise, it will be left to haunt future generations

Until the adoption of the National Pension Scheme (NPS) this May, India's civil servants received an indexed, defined pension benefit, which was not accounted for as a liability in the government books. This generous, but unfunded 'pay-as-you-go' pension liability, payable to approximately 23 million Central and state government employees, is estimated at over \$150 billion (almost equal to India's foreign debt). Some state governments report that 40 per cent of their employee costs are pension payments and this will only grow as the cohort that arose from the recruiting binge by the government in the 1970s and 1980s begins to retire.

Unfunded, indexed pensions can be quite a curse, as the recent bankruptcy filing of GM demonstrates. The adoption of the NPS for new civil servants, which uses a defined contribution methodology, was visionary, but it does not extinguish the already existing pension liability. The new government should act like any honourable debtor does and fill this hole once and for all through asset sales.

The government may not actually have a choice in this matter. As recent figures suggest, it can no longer fund its fiscal deficit by merely usurping public savings. Public deposits continue to grow, but the government's debt sales are growing faster. The inability of the government to reduce real lending rates to companies is a symptom of this deeper malaise.

The message is clear – the government needs to sell its family silver. However, opposition to disinvestment, let alone privatisation, from trade unions, Left parties and a faction within the Congress, makes asset sales difficult, if not impossible. After endless debates, the amount of disinvestment allowed is like a drop in the ocean. This year's target of Rs25,000 crore is around 6 per cent of the estimated government deficit of Rs400,000 crore.

The government can kill the privatisation debate and fund the pension liability in one stroke by increasing the amount of disinvest-

ment and handing back the proceeds to its citizens through a public pension fund. The Central Pension Fund (CPF), as this fund can be called, can merely be obligated to invest its entire corpus in Central and state government debt, which will ensure that the government is still able to spend this money. This CPF can be overseen by a combination of government and trade union nominees.

The benefits of this scheme are too many. By acting as the antidote to all intellectual debates on this subject, the CPF will help the government move towards real privatisation, as opposed to merely piecemeal disinvestment. We all know that the government has better things to do than run hotels and airlines.

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More importantly, the CPF can help realise the original dream of *roti, kapda aur makaan*. Modern India does not even dare dream about the third, namely housing. Nearly 80 per cent of Indians live in slums, shanties, *jhuggies* or badly-built houses, which is primarily a result of high land prices. The government can easily address this, as it is the largest landowner in the country. However, all attempts to sell land run into

opposition over ethical and procedural issues.

The government can end all opposition to land sales by offering to consign all proceeds to the CPF. This will, in turn, unlock unproductive land assets and drive down land prices. The CPF can ensure that retirees will indeed be paid a pension, but it may also provide the common man with the opportunity to live in a decent house, as opposed to a *jhuggi*.

Asset sales earmarked for pension assets not only have good optics (because most of the opposition of state divestment comes from state employees), but genuinely represent an unbeatable 'value for money' asset liability swap (because unproductive assets are used to extinguish a liability and create a captive buyer of government debt). But whatever the government decides, it must do so soon, because pension liabilities are like ice cream; the more you wait, the more it melts. ♦