

GUEST COLUMN

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An act that won't bite

UNDER the Fiscal Responsibility Act, the Government has proposed a ban on borrowing by it from the RBI. It will take recourse to only ways and means advances (WMA) from RBI to plug mismatches between actual inflows/outflows under various heads on one hand and respective targets on the other. But, WMA is only a temporary facility. All liabilities under it have to be fully extinguished at the end of year. This will, however, be possible only if mismatches during any part of the year are corrected by corresponding adjustments in the other part. For instance, if, there is shortfall in revenue during first half, this will have to be made good by additional collections during second half.

As proposed in the Act, the Government will monitor inflows and outflows on a quarterly basis, identify deviations and implement necessary corrective measures. Will this by itself, facilitate restoration of balance and keep actuals in line with targets?

For this to happen, two basic requirements have to be met (i) the targets in respect of various items of revenue and expenditure are set 'realistically' and (ii) the Government makes concerted efforts to achieve these. Unfortunately, in respect of both, the underlying facts do not provide any basis for hope. In regard to (i), by insisting on complete elimination of revenue deficit in five years timeframe, the Act bounds the present Government (as well as its successors) to achieving a reduction of about Rs 15,000 crore per annum (taking revenue deficit in 2000-01 at Rs 77,000 crore). This is highly theoretical, especially when, seen against the backdrop of an increase of about Rs 9000 crore per annum during last five years.

In respect of (ii), we need to take a cue from past experience. A quick peep into major areas of expenditure shows that even small changes in underlying policy parameters have not been possible over long timeframe. For instance, there was no increase in selling price of urea in the whole of 80s. And, in 90s, it increased by only Rs 2,250 per tonne. Increase in production cost — caused mainly by steep increase in feedstock price — being much sharper, this led to ballooning subsidy. Now, if, urea subsidy bill has to be cut by 1/4th of its current level ie, by about Rs 2,000 crore then, price will have to increase by about Rs 1,000 per tonne which is nearly half of increase in last two decades. In June 1998, Yashwant Sinha tried to increase price by precisely this amount but, was forced to roll it back by 50 per cent the very next day and in full in less than two weeks.

In respect of foodgrains, the economic cost has gone up to a high of about Rs 8 per kg wheat and Rs 12 per kg rice. This subsumes monumental inefficiencies and leakages as pointed out even by CAG. As a result, despite increase in price on supplies to households below poverty line (BPL) from Rs 2.5 per kg to Rs 4.0 per kg wheat and from Rs 3.50 per kg to Rs 6.0 per kg rice, subsidy bill has zoomed. The Prime Minister has recently announced Antodaya Scheme under which poorest of the poor families will be given 25 kg per month at a special price of Rs 2 per kg wheat and Rs 3 per kg rice. Given the huge differential between this and price to APL households ie, Rs 8 per kg wheat and Rs 12 per kg rice, diversions are inevitable.

While, the poorest will not benefit, food subsidy will increase by about Rs 2,000 crore. With regard to wages and salaries, despite loud talk of downsizing, number of government employees have gone up by about 110,000 since the Fifth Pay Commission recommendations were implemented. Thus, yawning gaps between 'targets' and 'actuals' are inevitable. Consequently, there will be no escape from borrowings on an increasing scale. Against this backdrop, if, RBI window is shut and when, even access to public sector banks cannot be taken for granted — in view of their imminent privatisation (a bill proposing reduction in government equity to 33 per cent is already pending in Parliament) —, a crisis situation is inevitable.

But, the Government has no reason to worry as in the Fiscal Responsibility Act, it has kept an escape route. The proposed ban on borrowings from RBI will be made effective only three years from now. Until then, it can afford to rest in peace!

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