Common Minimum Programme

At cross purposes with FRBM?

While the Government will have to reckon with monumental increase in liabilities on account of the plethora of additional commitments under the Common Minimum Programme, there appears to be little scope for effecting savings in subsidies, interest payments and other unproductive expenses, points out **Uttam Gupta**.

UNDER the Fiscal Responsibility and Budget Management (FRBM) Act passed last year, the NDA Government had promised elimination of the Centre's revenue deficit by the year 2008. The new Government headed by Dr Manmohan Singh promises to achieve this goal a year later — by 2009.

Already, a Task Force headed by Dr Vijay Kelkar is working out a detailed roadmap. The roadmap will have projections of revenue and expenditure under different heads for each year and spell out the complementary fiscal and related policy measures needed to meet this target.

To get an idea of whether the Government can do it or not, it may be worthwhile reflecting on the Common Minimum Programme (CMP), as this will be the guiding economic policy document. The CMP talks about continuing reforms but with a human face.

A lot of spending, but...

The proposed increase in spending on education from the existing 3 per cent of gross domestic product (GDP) to 6 per cent would require an additional expenditure of Rs 80,000 crore! Likewise, increase in spending on healthcare from the existing 1 per cent to 3 per cent will cost an additional Rs 50,000 crore!

The CMP talks of a substantial increase in investment in agriculture and rural infrastructure. At present, less than 50 per cent of the cultivated land area is under irrigation. Raising this to the desired level would require spending well over Rs 1,00,000 crore!

In physical infrastructure, completion of the National Highways project and the Golden Quadrilateral will require huge resources. The Sagarmala project for strengthening and developing various ports is estimated to cost more than Rs 1,00,000 crore.

The present Government is keen to work on the project for inter-linking rivers initiated by the NDA regime. The latter had estimated its cost as above Rs 5,00,000 crore. Even if the former were to drastically scale down the scope of the project, the cost would be huge.

Under the proposed National Employment Guarantee Act, one person in a family in rural, semi-urban areas will be provided work for a minimum of 100 days in a year on public work programmes. This, according to an estimate, will cost Rs 38,000 crore. The CMP also talks of social security to the unemployed. The liabilities thrown up by these schemes would be mind-boggling.

Other commitments, such as doubling of credit flow to farmers, insurance against crop-loss and maintenance of interest rate on small savings schemes above the market rate (the Government is likely to retain the existing rate of 9.5 per cent on Employees Provident Fund) too have the potential of making a deep hole in the treasury.

...where are the savings?

A cardinal principle of balancing the Budget requires that if you spend more money in certain areas, matching savings need to be generated in others.

In the instant case, the latter has to be substantially higher than the former, as only then will the deficit decline, leading to its complete elimination.

Does the Government have any plans for reducing the expenditure on subsidies, interest payments, salaries and other administrative overheads, etc., or increasing revenue? Currently, the expenditure on subsidies (primarily food and fertilisers) is Rs 44,707 crore (revised estimate for 2003-04).

During the 1990s, successive regimes failed to rein in the fertiliser subsidy. This was despite their declared commitment to remove it (remember the promise Dr Manmohan Singh made to the IMF in 1991-92 to eliminate subsidy in three years starting from that fiscal). The present Government does not even want to talk about pruning fertiliser subsidy.

The Minister for Chemicals and Fertilisers, Mr Ram Vilas Paswan, is reported to have stated that the fertiliser subsidy will not be reduced (forget about its elimination). He has defended this position by citing high subsidies given by the developed countries. However, let us not forget that those countries give subsidies to farmers, unlike in India, where fertiliser subsidy is not targeted.

The root cause of rising food subsidy is the "open-ended" procurement of foodgrains from the farmers at ever-increasing prices, on the one hand, and inefficiencies in the procurement, handling and distribution, on the other.

The CMP harps on ensuring a remunerative price to the farmers. This means the present Government has no intention of abandoning the system.

The emphasis on curbing the inefficiencies in the operations of Food Corporation of India (FCI) to reduce subsidy does not cut ice as this will simply not happen with present mindset of those managing the system. The CMP is silent on the dire need for reforming the administrative machinery. On salaries and other administrative expenses, the Fifth Pay Commission made a pitch for downsizing. But the Government did not do that and only settled for a freeze on fresh recruitment.

Now, the Minister for Railways is contemplating lifting the ban in his Ministry. Other Ministries could follow suit. One can imagine the consequences if the Sixth Pay Commission also comes into force!

Interest payments

Interest payments, at Rs 1,24,555 crore (2003-04), account for about one-third of revenue expenditure and take away nearly 50 per cent of the revenue receipts. In the last five years, these have increased by almost 40 per cent despite progressive softening of the interest rate.

Clearly, the Government has borrowed more and more over the years merely to finance consumption expenditure.

The only way to make a dent on interest payments is to extinguish a substantial portion of the outstanding debt. But from where will the Government get the money for this?

The NDA was keen to generate the required funds by privatising the PSUs. But the present Government has ruled out this option.

According to CMP, the navaratana PSUs will remain in Government's fold, profit-making PSUs will not be privatised and in case of loss-making undertakings, all options will be examined before contemplating sale as a last resort.

The Government will divest its equity in piecemeal which, as the experience of the 1990s shows, yields only small sums.

States' profligacy

Non-Plan grants to the States also takes away a significant portion of the Centre's revenue. The coalition partners have already started building pressure for extracting more money from the Government. Already, Bihar is demanding a huge compensation for the alleged loss due to bifurcation of the State.

The fiscal profligacy of the States has gained currency after the elections. Immediately after taking over, the Andhra Pradesh Chief Minister, Mr Y. Rajasekhara Reddy, announced supply of free power to the farmers. Tamil Nadu followed suit and many more States are expected to join the bandwagon.

These freebies will cost the States thousands of crores of rupees and, sooner than later, they will ask the Centre to bail them out.

Even though the Finance Minister, Mr P. Chidambaram, has stated that the former should absorb the cost within their respective Budgets, only time will tell how long the latter can remain immune to their demands.

Revenue deficit

On the revenue side, except for the service sector, there does not appear to be much scope for bringing about a substantial increase in tax collections. There may even be a reduction in the revenue from the petroleum sector (this accounts for a lion's share of Customs and excise) as demand for reducing the rates builds up to keep the prices under check.

In regard to the non-tax receipts, the Government should be prepared to take a major hit under the proceeds from divestment of its equity holding in the PSUs.

In 2003-04, the profits of PSU banks and in turn dividend got a boost primarily due to high treasury income under declining interest rate regime. This may not sustain as interest rates begin to move up.

To sum up, in the unfolding scenario, while the Government will have to reckon with monumental increase in liabilities on account of the plethora of additional commitments under the CMP, there appears to be little scope for effecting savings in subsidies, interest payments and other unproductive expenses.

Inevitably, therefore, there will be a huge surge in the revenue deficit. Against this, the promise of complete elimination of the deficit over a period of six years (taking current figure of about Rs 1,00,000 in 2003-04, this would require a reduction of Rs 17,000 crore per annum) sounds like a big joke! During the last five years, despite the commitment of NDA Government to utmost fiscal discipline, the revenue deficit increased by Rs 32,264 crore.

This was when several revenue-enhancing measures (including strategic sale of PSUs) were introduced. Now, when the Government is all set to retreat on many of these fronts — privatisation, subsidies, power sector reforms, and so on, the concurrent talk of FRBM is not only illogical and inconsistent but will also subject it to a lot of embarrassment.

(The author is Resident Director, CropLife India. His views are personal.)