

# Fiscal discipline a chimera

The present obsession with pinpoint targetry has occluded the real tasks of reform, says Uttam Gupta

**W**HILE presenting the budget for 1993-94, the finance minister had described the current phase of reforms as one of fiscal consolidation. This assessment was based on a presumed fiscal deficit-to-GDP ratio of five per cent for 1992-93. Recent reports however, indicate a shortfall of well over Rs 5,000 crore in the Centre's revenue realisation during the year, as compared to the budget estimate. Consequently, the fiscal deficit will touch Rs 42,000 crore, that is, about six per cent of the GDP.

A careful scrutiny of receipts and expenditure under different heads would show that there could be further deviations. For instance, revised estimate for fertiliser subsidy mentioned in the budget is Rs 5,800 crore, whereas, in reply to a question in Parliament, the actual requirement on this account has been stated to be Rs 6,577 crore.

Likewise, the actual requirement for food subsidy is placed at about Rs 4,000 crore as against the revised budgetary estimate of Rs 2,800 crore. The government will do well to consider these aspects as well.

Apart from being a major embarrassment to the government, emerging facts have created uncertainties regarding the possibility of securing another loan from the IMF after the present standby arrangement comes to an end in June 1993. After all, whether it is the extended fund facility or some other medium-term arrangement, the IMF is bound to insist on fulfilment of the targets.

Our problem has been that the areas that should have been the focus of structural reforms have escaped our attention. And, the issues which required meticulous planning and careful handling have been the target of indiscriminate attack.

The expenditure on the staff of the central ministries or departments is a colossal amount, even higher than the outgo on food and fertiliser subsidies put together. During 1991-92, this was Rs 11,764 crore as against Rs 8,653 crore in 1988-89 — a whopping increase of 35 per cent in just three years. The estimate for the current year is placed at Rs 14,575 crore. That already there is largescale surplus manpower in the government is well-known. To cope with the situation, it even announced a ban on fresh recruitment. And

yet, during 1992-93, as many as 62,000 were added to the staff. Ironically, the expenses on allowances and travel alone during 1992-93 were Rs 6,744 crore.

Interest payments have assumed horrendous dimensions. Herein, the endeavour should have been to devise innovative means to reduce the existing burden of debt, on the one hand, and to ensure that there is minimal addition to it on the other. Whereas in regard to the former, the government is yet to come out with concrete steps, even in respect of the latter, there are hardly any indications of

these continue to be treated as sacred cows and are not even open to public scrutiny. For example, even to parliament, the precise dimensions of the Bombay serial blasts have not been revealed.

Secrecy and confidentiality considerations are undoubtedly vital to the process of effective investigations. Unfortunately, in our case, these have become convenient cover for not only delaying action but also financial irregularities. All this means heavy fiscal cost to the economy. The crippling burden of the public sector enterprises on the exchequer is well

when it became "absolutely" necessary. We seem to believe only in breaking promises.

There is no gainsaying the fact that meaningful and sustained efforts in the listed areas would have constituted reforms in the real sense of the term. Unfortunately, these have been religiously ignored. And yet, the obsession to achieve the predetermined targets have forced the government to tread a path that could be dangerous.

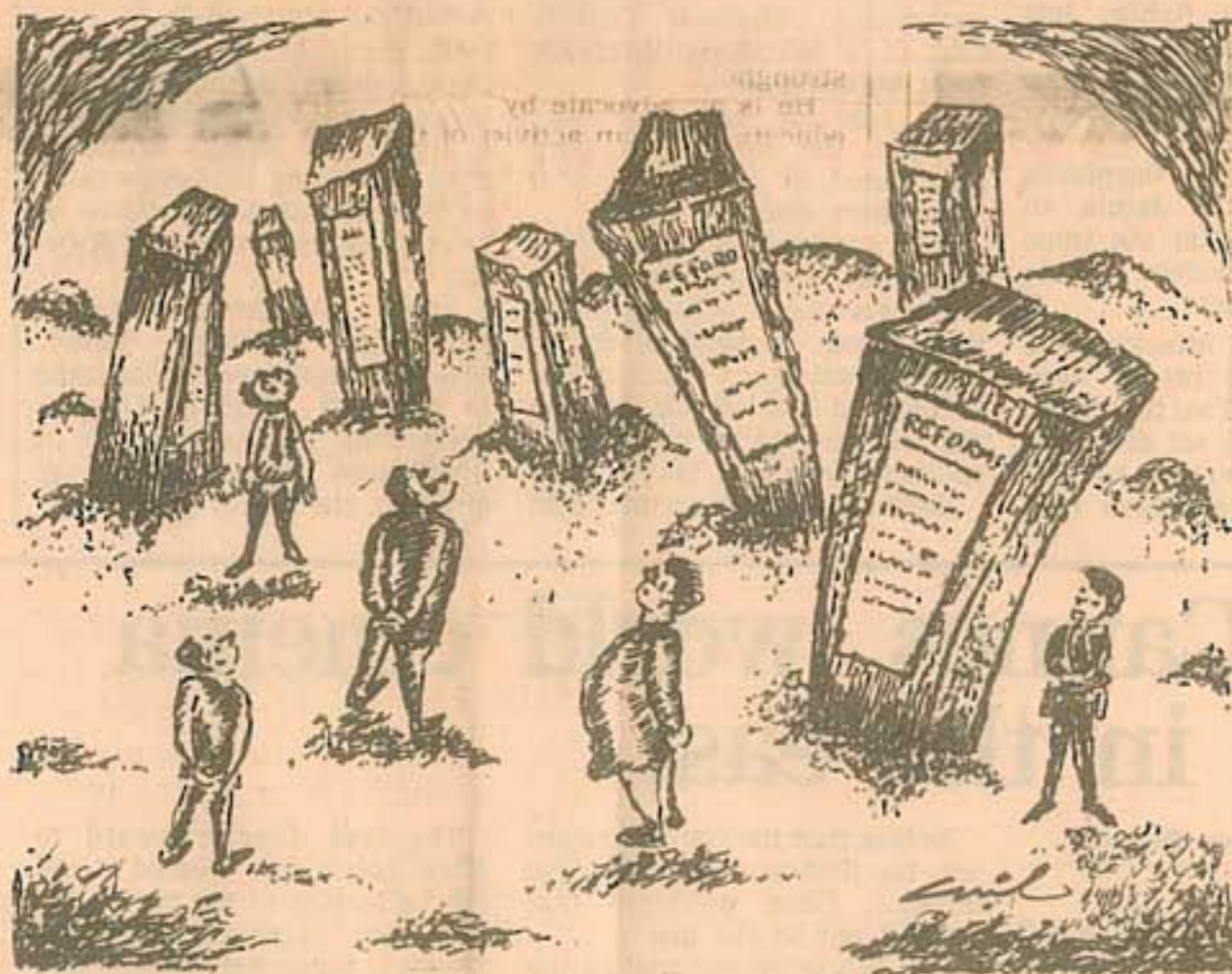
Removal of fertiliser subsidy has already adversely affected fertiliser use. Together with a not-so-good monsoon, the possibility of a substantial reduction in foodgrains production during 1993-94 is not ruled out. Apart from bringing large scale misery to the people, this will upset all calculations with regard to the fiscal deficit and inflation.

Likewise, a 50 per cent depreciation of the rupee in less than two years has caused all round cost increases. Any management would blame the depreciation of the rupee for the steep hike in the investment and operating costs of its projects.

Substantially inadequate provision, particularly for infrastructure — roads, ports, railway, power and telecommunications — has been a major failing of the present syndrome of fiscal discipline. Increase in the outlays of the department of agriculture and rural development during 1993-94 is only cosmetic and is far from effectively addressing the problem of sluggish investment in Agriculture.

As the process of reforms on the adopted track gathers momentum, more will follow by way of steep increase in the cost of power, railway freight, petroleum products, fertilisers and even food. So much so that now our eyes are set on farmers' credit at market rates.

While we must implement structural reforms, this would require a complete change of the present mindset which ignores the national interest in the pursuit of new models. Many drastic things that have been done under the banner of reforms ignore the fact that we are basically a poor nation. The need of the hour is to seek to achieve the fiscal targets by disciplining ourselves and reforming the institutions. With this, we won't feel the necessity of changing the model every time the nation faces an economic crisis.



serious corrective action.

The borrowings of the central government during 1993-94 have been budgetted at Rs 15,450 crore which is nearly Rs 2,000 crore more than in the year 1992-93. Notwithstanding pronouncements to the contrary, we are yet to shed the practice of borrowing more and more to finance current consumption. And with this, progressive increase in the burden on posterity continues unabated.

Defence and maintenance of law and order bite into our fragile finances at an unbridled pace. It is true that here the options are constrained to some extent by the uncertainty of the security environment around us and the overall socio-political situation. But, the fact cannot be ignored that

known. So is the need for their urgent reform. But there is hardly anything concrete being done. This apart, by allowing them to raise administered prices at will, we have removed all incentives to improve efficiency. Recent reports tell us that DESU, which owes Rs 2,400 crore to the NTPC has been given the go ahead to raise power tariffs.

While the CAG brings out in its various reports the sordid state of affairs in public undertakings and departments, the impact is limited only to some of its finding getting coverage in the media.

Not long ago, the government had come out with a policy paper on administered pricing in which it made a pledge to allow price hikes only