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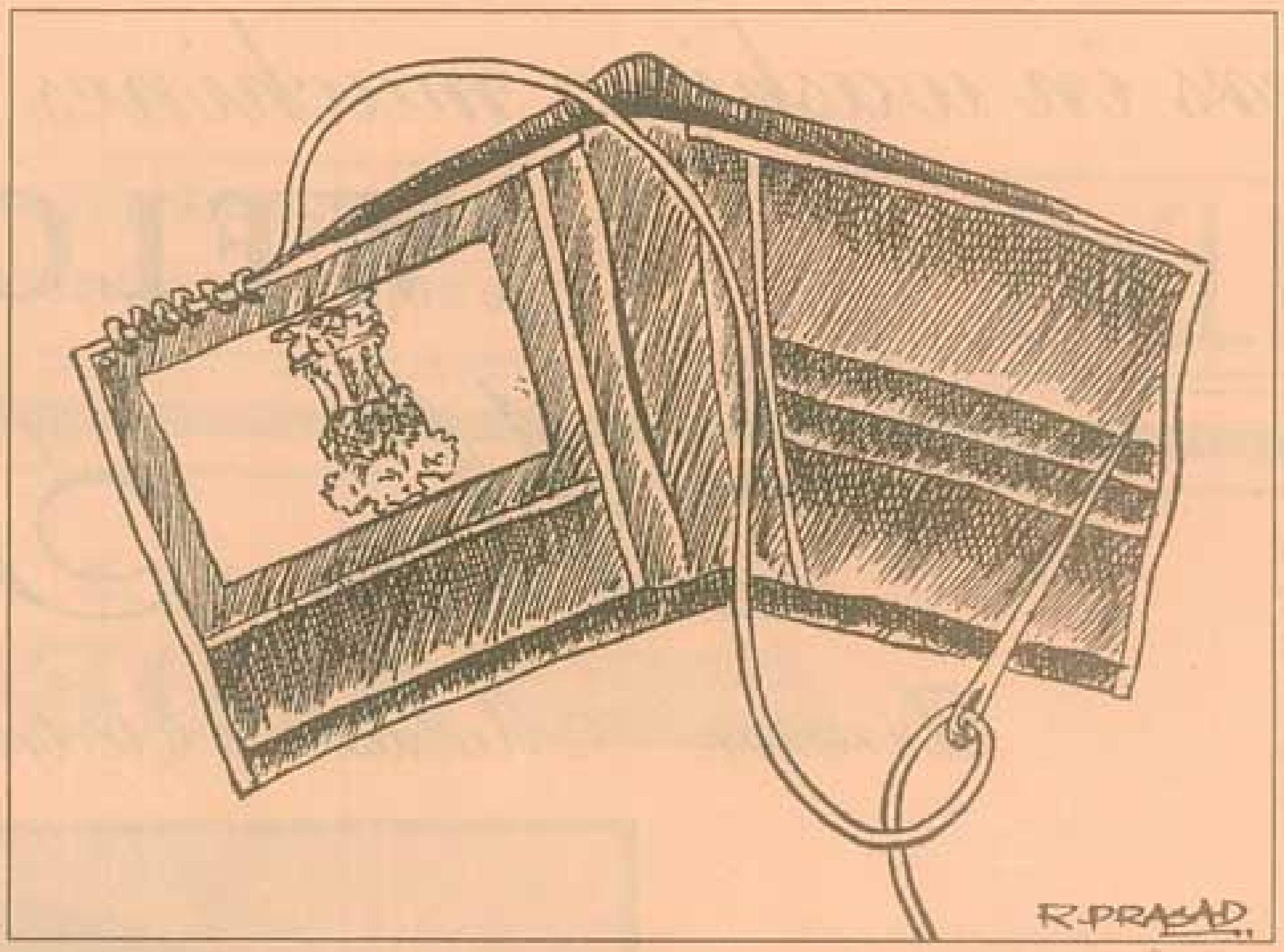
COMMENT

Government must tighten its belt

Uttam Gupta warns against an explosive financial situation arising out of the surge in revenue deficit

THE CAG report on the state of finances of the Government of India during 1993-94 identified rapidly growing indebtedness and concomitantly increasing interest payments as major areas of concern. During that year, the latter accounted for 48 per cent of the revenue receipts of Government and about 34 per cent of revenue expenditure. In the succeeding year i.e. 1994-95 the situation as per the revised Budget estimate was much worse with interest payments swallowing about 50 and 36 per cent of revenue receipts and expenditure, respectively. For 1995-96, the corresponding projections are 52 and 38 per cent, respectively.

At the early part of 1994-95, Government reached a memorandum of understanding (MOU) with the RBI, that its borrowings from the Central Bank would be restricted to an annual ceiling of Rs 6,000 crore. However, that is not the same thing as saying that it would reduce its overall "requirements". That this was not the case is amply demonstrated by its massive borrowings from the commercial banks.



This has even gone against the very philosophy behind the MOU although, for obvious reasons, the Government would not say so explicitly. Since borrowings from the market will have to be at the market-determined interest rates, which is much higher than what it pays on loans from the RBI, it would exercise restraint and, in the process, be forced to improve fiscal discipline. This has not happened.

On the contrary, even as the borrowing spree continues, the rate of interest that the Government has to pay on every succeeding instalment of borrowings is increasing progressively. In early May, for instance, the commercial banks subscribed to Government paper worth Rs 1,000 crore at the rate of 13.75 per cent. For the borrowings of about Rs 2,500 crore in early June the yield was still higher, 4 per cent. Thus, far from helping to improve overall fiscal management, the Government is moving towards an explosive situation in regard to the revenue deficit in the years ahead which would increase not only on account of the higher quantum of borrowings, but also borrowings at increasing interest rates.

With no external pressure to tighten the belt, constitutional or otherwise (CAG strictures generally go unheeded), far from contemplating any serious measures to reduce, the Government is now consciously drawing towards further increases in revenue expenditure (leave aside the interest element). After much bravado on reducing and even eliminating subsidies, these are now on a come-back trail. Suddenly, the political establishment has rediscovered the poor even as it deems the food and fertiliser subsidy to be the essential pre-requisites for maintaining country's food security. During 1994-95, about Rs 11,000 crore were spent on these subsidies. A similar scale of expenditure is likely to be incurred during 1995-96.

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Even the mechanism for administration of subsidy has come under a cloud and its effectiveness in terms of reaching out the intended benefits to the poor is suspect. Consider the food subsidy. During 1994-95, the Government spent Rs 5,200 crore on this account even as the sales of foodgrains through the PDS were only 14 million tonnes down from 20 million tonnes in 1991-92, when only half the amount i.e. Rs 2,600 crore was spent. In fact, one third of the subsidy amount during 1994-95 i.e. about Rs 1,700 crore, represented the carrying cost of excess foodgrain stocks with the FCI.

The additional subsidy on sugar of abut Rs 700 crore was totally unwarranted. In the past, the Government was arranging supplies, for sale through the PDS, from the producers at the lower price thus requiring no subsidy from the Budget. During 1993-94 (sugar season i.e. October 93 - September 94), thanks to gross mismanagement, even as producers made money on selling in the free market, the Government imported sugar at exorbitant prices.

The subsidy on decontrolled P and K fertilisers reappeared under a new incarnation i.e. ad hoc concession. During 1992-93 and 1993-94, the funds were given to state governments which delayed payments to manufacturers and interfered with the sale process in a manner that restricted the volume of sales and ultimately resulted in denial of the benefit of concession to the farmers. During 1994-95, even though the Centre decided to give the money directly to manufacturers, the involvement of state authorities by way of certification and price fixation continued which made matters worse.

Such forms of subsidy administration are likely to spread their tentacles to other sectors as well. For instance, presently the supplies of kerosene and diesel are being subsidised through the mechanism of the Oil Pool Account under which the surplus generated on sale of petrol, ATV, naphtha, fuel oil etc. at high prices, pays fully for such subsidies. Now, under the contemplated market-determined pricing mechanism (MDPM), the responsibility for subsidising the former is proposed to be passed on to the Union Budget. (On kerosene alone the subsidy would be about Rs 4,000 crore).

Under the arrangement proposed by the Soundar Rajan Committee, while the refineries will sell these products to dealers at the full price, the latter, in turn, would sell to consumers at the lower subsidised price. The dealer is expected to be reimbursed for the differential from the concerned state governments, which, in turn, would get necessary funds from the Centre. Such an arrangement is pregnant with possibilities of misuse, diversion of funds and overall ineffective implementation.

The establishment expenses of the Government continue to rise unabated. Contrary to claims that the Government had put a freeze on further recruitment, during 1994-95, there was an addition to staff by about a lakh in various Ministries/Departments. At about Rs 16,000 crore, the salaries and allowances of the Government employees constitute about 18 per cent of the total revenue receipts and about 80 per cent of the capital expenditure on plan account. Further, given the kind of numbers doing the rounds in various memoranda submitted to the Fifth Pay Commission, an unprecedented hike in Government's establishment expenses is imminent. An interim relief of 10 per cent of basic pay has already been announced effective April 1, involving an expenditure of Rs 1,600 crore annually.

All proposals in regard to restructuring of public sector boards, strengthening of the management and providing autonomy have been put on the back burner. In terms of functioning of these enterprises, there is no stress on cost cutting measures and efficiency is at a discount. Indeed, the Government has given the green signal to a pay hike to PSU staff. Approval of new projects including expansion is a nightmare with bureaucrats sitting on files for years till such time the cost escalations have made them economically unviable.

For anything and everything that goes wrong, an increase in administered price is handed down as the handy answer. With this option, who would care for reducing cost and improving efficiency, rationalising work force, taking quick decisions; in short, managing the enterprise well?

Some profit-making enterprises have generated funds through the disinvestment route. That money too, is not given to them for the much needed investment in plant modernisation and technological upgradation which would enable them to improve returns.

The monumental sums that the Government has spent, in the past, on rural development, employment generation and poverty alleviation programmes and funds that are being deployed now also do not generate any return as very little is utilised for building a stock of assets. In a way, the net outcome of these is not very different from consumption expenditure. The story of health and education is quite as dispiriting.

So far, the makers of the Budget have indulged, year after year, in gimmickry and cosmetic changes here and there, to give an impression that a lot is being done to improve the finances. But, the startling revelations in the CAG report show things to be otherwise. The Government can't go on postponing the fundamental issues indefinitely as some day the mounting debt will virtually paralyse the functioning of the economy.

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