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No more soft options

Financing development activity has to take priority, says **Uttam Gupta**

RECENTLY, in a full meeting of the Planning Commission, the Prime Minister exhorted the states to improve resource mobilisation in order to prevent a substantial cut in their plan size. According to the figures released by the Planning Commission deputy chairman, the states face a staggering shortfall of about Rs 5,000 crore in the funds that they would be able to mobilise during 1993-94 through internal generation and extra-budgetary resources vis-a-vis the target envisaged for them. Unless the trend is corrected, they have been told, investment in the social and infrastructural sector will be affected severely, with power experiencing a reduction of 15 per cent.

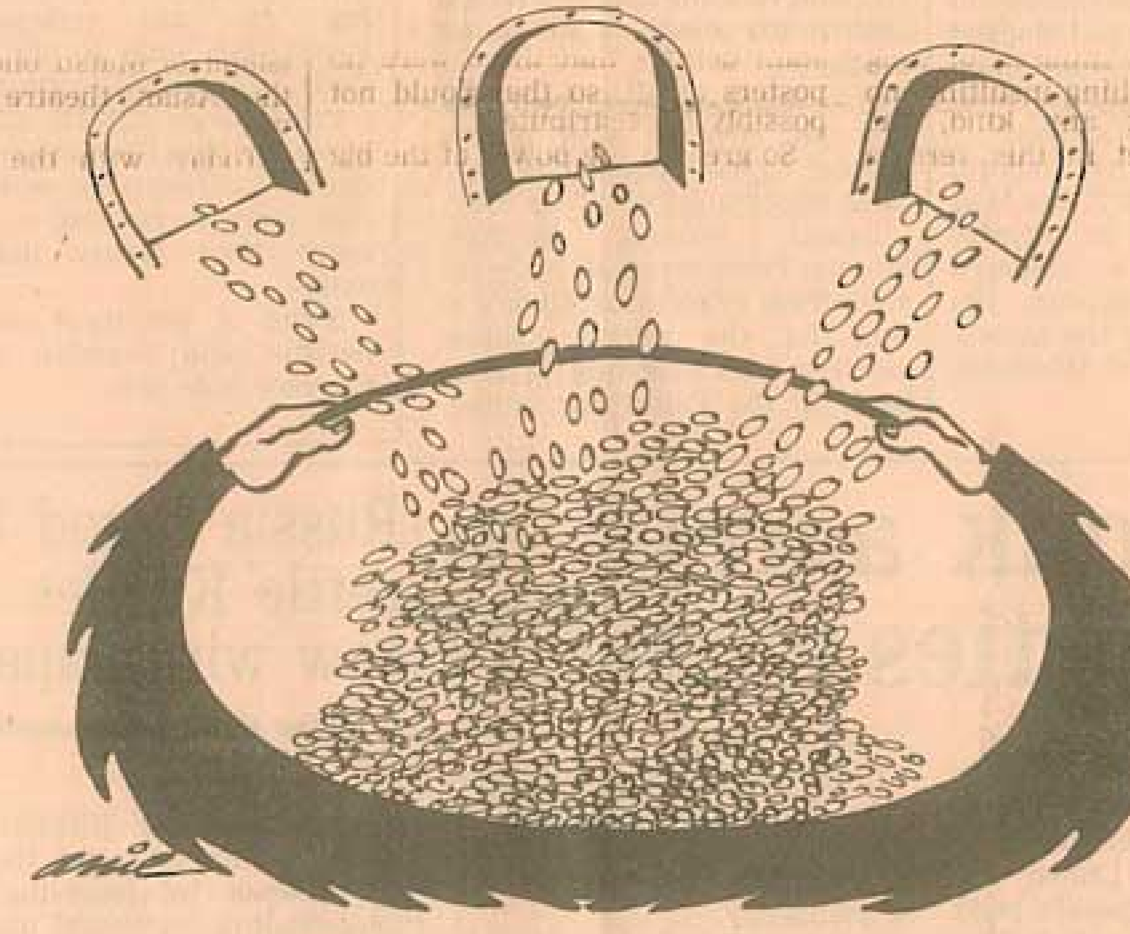
The warning does not carry much of a moral conviction as even the Centre is facing a more or less similar situation in managing its own finances. Determined not to touch the burgeoning non-plan/non-development expenditure and faced with the daunting task of bringing down fiscal deficit to the IMF-prescribed level, it has ruthlessly applied the axe on plan expenditure. During 1992-93, central plan outlay for PSUs faced a shortfall of about 14.4 per cent. This was not very different from the shortfall of 15.6 per cent experienced by the states vis-a-vis their approved outlay for the year.

All along, it has been a classical case of the government spending beyond its means to finance ever-increasing expenditure. However, until a few years ago, development activity has never been out of focus although progressive increase in deficit financing by the central government and overdraft by states from the RBI has been a matter of serious concern. Now, with the overriding preoccupation of bringing down fiscal deficit per se, development has been the primary casualty as neither has the government bothered to check the growth in non-plan expenditure, nor have the innovations for additional resource mobilisation yielded any fruitful results.

Disinvestment of government holding in PSUs is one such area. This was tried during 1991-92 with some success, but, in 1992-93, a similar venture contemplated on a much larger scale failed to evoke the desired response. That even the government-controlled financial institutions and banks who largely picked up the shares in 1991-92, have not found it worthwhile to bid for the shares of even some of the good companies this time shows that there must be something fundamentally wrong. Even as the government is now busy clearing up the mess and may perhaps, do a better job during 1993-94, the resources generated through this route can't provide permanent support to the budget unless used for retiring past debt, which seems quite unlikely.

While ceremoniously announcing withdrawl of budgetary support to PSUs, another *mantra* being handed down to them in the context of additional resource mobilisation is by way of flotation of bonds. These bonds too, despite all the extraordinary sops appended to them, have met with a lukewarm response. In fact, as per Planning Commission estimates, during 1992-93 only about Rs 1,000 crore could be collected against a target of about Rs 6,000 crore.

Banning of ready forward deals in public sector bonds in the wake of the securities scam has been cited as a possible reason for lack of interest, but, a more fundamental factor is the question of the credibility of these undertakings. That some of them are reportedly lobbying intensively with the credit rating agencies to secure a better grade speaks volumes about their inherent weaknesses that has a lot to do with their dismal profitability record.



Rationalisation of administered prices is another option that has been made available to PSUs to mobilise resources. Throughout the 80s, this has been frequently and religiously used by almost all of them. Now, these practices have been sought to be legitimatised and given a fillip by announcing that the goods and services that the state undertakings provide are heavily subsidised. But, this is a self-destructive approach as on the one hand, this deflects the attention of the management enforcing the hike from cost reduction and improvement in efficiency and on the other, cripples the ability of the user industries to generate more resources.

The government has also sought to involve the private sector to invest in certain core areas such as power, transport, telecommunications etc., which have so far been the exclusive preserve of the public sector. Given the acute shortage of funds with the government, the underlying philosophy is that the private sector could undertake, at least a part of the job to facilitate realisation of the overall sectoral targets. Herein also, the results have been extremely disappointing with the proposed changes in the policy environment not quite matching the private sector's expectations.

The policy initiatives on the taxation front, too have so far failed to generate the desired buoyancy in the revenue. During the first quarter of 1993-94, there has been a substantial shortfall in both custom and excise collections. The scheme of presumptive tax launched with tremendous fanfare in the 1992-93 budget, has turned out to be a damp squib with collections under it being negligible.

Clearly, the new policy orientations are far from being translated into resources actually saved or mobilised. But, far more important is the inability of our institutions/administrative and legislative machinery to get tuned to the requirements of the new policy.

All this has to change fast. Reforms simply do not mean change of policy but also an attitudanal change on the part of institutions. This applies with equal force even to the tax authorities. Unless they become sufficiently responsive and pro-active in administering the system in an impartial and efficacious manner, the much adumberated objective of collecting more on a broader tax base would remain a pipe dream.

And finally, the public sector needs to be run strictly on the principle of autonomy and accountability if the government is really serious about getting more resources through it irrespective of the route chosen i.e., bonds, disinvestment of shares etc.

While these measures may help, to some extent, in improving the budgetary position, much bigger problem would remain. This relates to the galloping non-plan expenditure and the ad hoc manner in which the funds allocated for various schemes are spent. That we have no intention of tackling this would be clear from a number of decisions recently announced based on purely political expediency.

The announcement of Rs 756 crore ad hoc subsidy on decontrolled fertilisers and making Rs 1 crore available to every MP reportedly out of allocations for Jawahar Rojgar Yojana are two such instances that make a mockery of our much-touted concern for increasing development expenditure. The sooner we get out of this mindset, the better or else, any amount of effort in garnering more resources will come to naught, in the process bringing the development activity in the country to a grinding halt.