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No time for a holiday

The government must work to remove anomalies and accelerate the pace of reforms, says **Uttam Gupta**

WHATEVER may the official explanation for the IMF reportedly acceding to India's request for being allowed to slip the 1993-94 target for fiscal deficit by 1 per cent, the reality is that we are incapable of measuring up to the task.

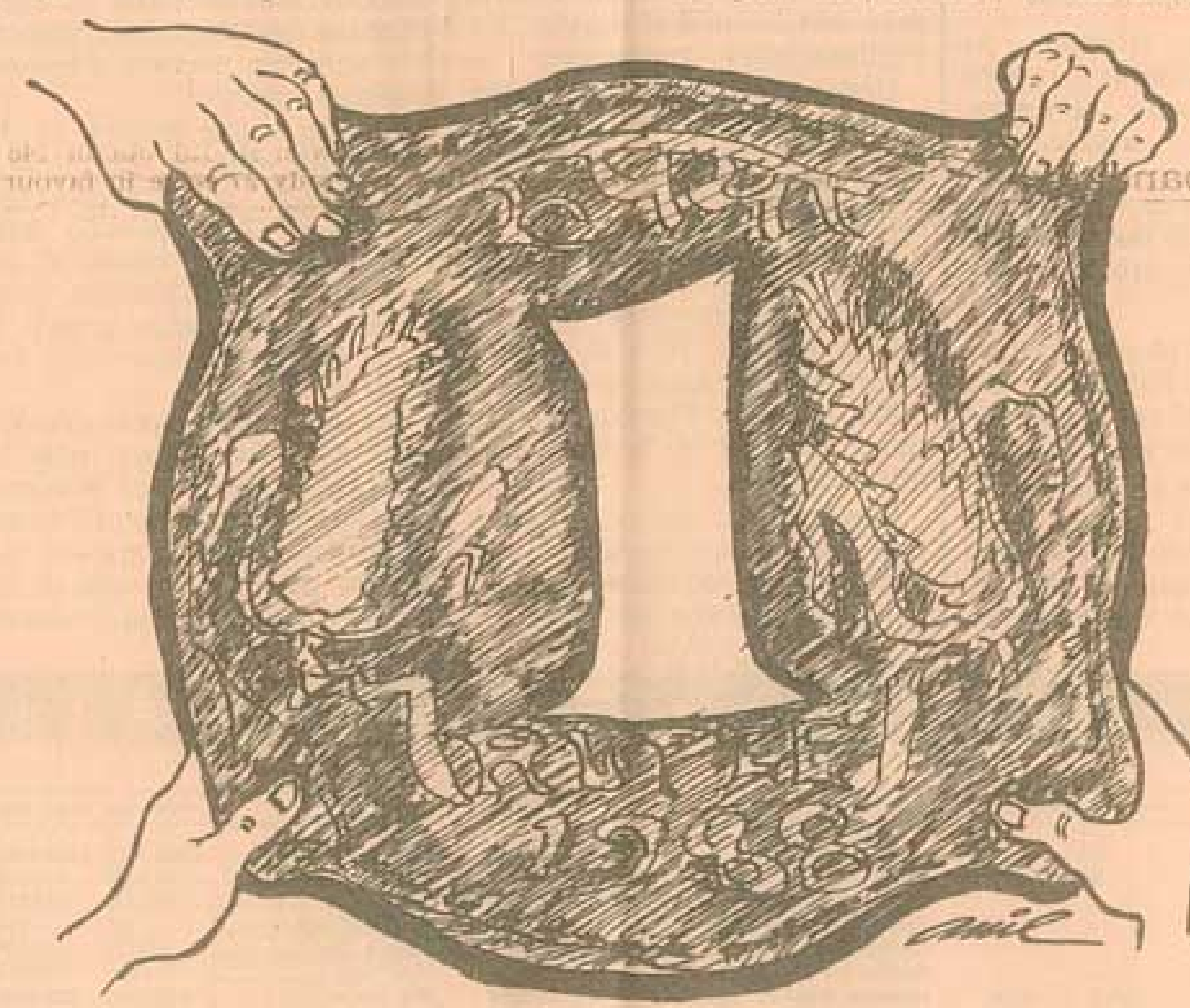
Revenue collections, both custom and excise, during the first quarter of 1993-94 have fallen substantially below the target. While the former is lower by about 20 per cent, reduction in excise is even more. That is not surprising as the lower rates of duty given effect through the past three budgets have not been accompanied by a broadening of the tax base. Having suffered seriously during 1991-92, industrial growth in 1992-93 too failed to pick up with the last quarter registering negative growth. The possibility of improvement during the rest of the year is ruled out. Available estimates point towards a staggering shortfall of about Rs 5,000 crore for the whole year on this account.

The food subsidy is likely to be much more than the budget estimate of Rs 3,000 crore in view of the steep increase in procurement prices of kharif crops on the one hand and storage cost of the huge accretion to the buffer which is now placed at about 25 million tonnes.

The assumptions with regard to internal and extra-budget resources (IEBR) are also likely to go haywire in view of the extremely bleak prospects for PSUs mobilising funds through bonds and strong resistance to possible hike in administered prices. Sick enterprises in the public sector have been a constant drain on the exchequer. There are many of them which are beyond redemption and, in some cases, the government has even announced its decision to close. And yet, nothing concrete seems to be coming up that would help curb this leakage. Lack of consensus on the proposed exit policy is clearly a major bottleneck.

But, what is even more worrying is lack of political will to move forward or else why should even "clear-cut" cases be referred to the BIFR. We have a classical case i.e. the HFC plant at Haldia, in which Rs 600 crore of public money has already been sunk, produces nothing and the government is spending about Rs 15 crore per annum only on paying wages and salaries to the workers and staff who have no work to do. This company too is with the BIFR.

In a desperate bid to contain fiscal deficit, and taking advantage of the surplus funds with the banks, the government is now on a hectic borrowing spree through 184/364 treasury bills having already garnered Rs 4,000 crore during the first quarter of 1993-94 against the annual target of Rs 6,000 crore. But, this can be catastrophic as the consequential additional interest liabilities will make the management of future budgets progressively impossible. That it is a self-frustrating exercise is demonstrated by the fact that the government has had to roll over treasury bills worth Rs 8,000 crore.



Putting together various shortfalls i.e, Rs 5,000 crore in tax collections, Rs 1,500 crore extra subsidy on fertilisers, at least Rs 1,000 crore additional subsidy on food and Rs 3,500 crores on disinvestment in PSUs, we would have slipped our goal by at least Rs 11,000 crore. That translates to about 1.5 per cent of the GDP. It is a fait accompli. Against this backdrop, the government's reported claim that we need a break and that the IMF would not mind it, seems to be no more than a cover-up operation.

The fiscal deficit during 1992-93 as per the revised budget estimate was 5.7 per cent of GDP; a substantial 0.7 per cent higher than target. Although during 1991-92, the target of 6.4 per cent to GDP was achieved, the price the country had to pay in terms of steep decline in government investment and deceleration in industrial growth was unprecedented. In fact, many sectors slipped into a recessionary phase from which they are yet to come out.

Something that prevented us from making a success of the reforms programme in the past two years and is now forcing us to abandon it in the third year i.e, 1993-94, is the blatant neglect of rising non-plan/development expenditure. For the current year, it would appear that the government is gearing itself to break all past records on this score.

Close on the heels of announcing the availability of Rs 1 crore to each MP for promoting development in his respective constituency, a number of schemes were announced by the Prime Minister on the Independence day. These include amongst others, a contribution of Rs 75 from the government for every Rs 300 put in by an adult woman in Bank, a subsidy of Rs 7,500 each in the loan of Rs 100,000 to be provided to educated unemployed etc. Observance of tight fiscal norms may be an unpleasant barrier, though not completely insurmountable, to the funding of "largesse" which seem to be crucial to the government in view of impending elections to the assemblies in four important states.

Surprising though it may appear as to how after having missed the target of fiscal deficit for 1992-93 by 0.7 per cent, IMF has once again permitted us to a substantially higher deviation of 1.7 per cent (Remember the target originally envisaged was 4.0 per cent) for 1993-94, the fact remains that the IMF authorities are still not quite satisfied with the progress of the macro-economic stabilisation programme.

The abrupt conclusion of the visit by the IMF team led by the director in charge of Asia Division, Mr Hubert Neiss, which came in July 1993 to negotiate a fresh loan under the extended fund facility (EFF) clearly buttresses this point.

The crux of the matter is that we are not inclined to negotiate the EFF loan during 1993-94 and in this we are being helped by the fairly comfortable forex availability of about $7 billion on the one hand and continued depressed industrial activity on the other. Just because we do not need the IMF support for a temporary period (by which time the political compulsions that have prompted soft peddling will be over), we should not allow complacency to breed. The experience of 1992-93 clearly demonstrates that we have not done too well. And, should we decide to remove the cap, the results by way of manifold increase in money supply and consequential double-digit inflation could be catastrophic . Besides, we will have to face the IMF again in the beginning of 1994-95 which is only a few months away. The conditionalities then would be more painful as to meet the targets then, the government will have no alternative, but, to put the axe on development expenditure on a much larger scale.

All said and done, we have to chose between what lies in the overall interest of the economy and welfare of the masses on the one hand and political expediency on the other. The government can't have both. If it is serious about its oft-repeated commitment to rejuvenating the economy, it must not put the reforms on hold and, instead, work to remove the anomalies that have surfaced in the first two years, thereby accelerating the pace of implementation.