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Reforms have failed to correct fiscal deficit

Having failed more than once on the fiscal front, what is the basis for hope? Far from undertaking a serious introspection to set things right, the government has sought to utilise the Budget for launching its election propaganda, says Uttam Gupta.

HAVING missed the fiscal deficit target for the third year in succession in 1995-96, Dr Manmohan Singh, has once again exuded confidence that within a period of three years from now i e by 1998-99, the government should aim at lowering the deficit to 3.5 per cent of the GDP. Incidentally, this is the level it had promised to the IMF to reach during 1995-96; instead, we landed up with 5.9 per cent which was 0.4 per cent higher than even the budgeted figure.

Having failed more than once, what is the basis for hope? Has the government taken cognizance of what went wrong in the past and what we need to do now to avoid the slippages? Far from undertaking a serious introspection and setting an agenda and plan of action to set things right, the government has sought to utilise the Budget for launching its election propaganda.

Interestingly, the government also maintains that the direction of reforms is clear; that the process is irreversible; that this would be the case irrespective of the which party forms the new government.

Having passed on the buck to someone who will take over the reins of the economy after about two months, the government has given a clinching evidence of its fiscal profligacy at an accelerated pace. Apart from making substantial allocations for schemes like mid day meal, social assistance programmes, employment assurance scheme and Indira Awas Yojana etc, it has kept a provision of Rs 5,000 crore towards the pay hikes of government employees on account of implementing the recommendation of the Fifth Pay Commission. Pending that, it has already announced additional DA for them that would cost the exchequer Rs 1,600 crores.

The expenditure on fertiliser subsidy which during 1995-96 at Rs 6,235 crore is already substantially higher than the Budget provision of Rs 5,400 crore, has been hiked to Rs 6,800 crore for 1996-97. This is mainly due to subsidy provision of Rs 2,300 crore on imported urea up from Rs 1,935 crore being the actual for 1995-96 and still lower budgetary provision of Rs 1,650 crore. The allocation for food subsidy has also been significantly hiked.

Investment lays the foundation of sustained rapid growth and it is precisely this that has been the main casualty of the government's fiscal extravaganza. In fact, during 1995-96, apart from virtual absence of government support, the failure of the PSUs to mobilise the required internal and extra budgetary resources (IEBR) has led to a whopping shortfall of Rs 4,255 crore in achieving the central plan outlay. The proposed increase in outlay during 1996-97 by Rs 10,410 crore is predominantly dependent on increase in IEBR by Rs 8,225 crore. When PSUs have failed miserably on this front during the current year, on what basis you expect them to do better in 1996-97?

What then is the outlook for fiscal deficit during 1996-97? With an interest burden of about Rs 60,000 crore (against only Rs 21,000 crores in 1990-91), this alone will take away about 64 per cent of the estimated tax revenue. Subsidy on food and fertilisers at about Rs 13,000 crore accounts for another 14 per cent. While there is no easy way to contain outgo on interest, even on subsidy, the government has conveniently left the task of undertaking reduction to the next government.

In regard to receipts other than tax revenue also, the government has assumed much more than what one could realistically hope for on the basis of ground reality. Considering that during 1995-96, the government realised a meagre Rs 350 crore against a target of Rs 7,000 crore, the estimate for 1996-97 (Rs 5000 crore) is far fetched.

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In view of the above and considering the likely shortfall in tax collections, the non-tax receipts and making allowance for some slippage in non-plan revenue expenditure, it will be virtually impossible to contain the fiscal deficit at 5 per cent of the GDP for 1996-97 despite almost nil support to building the productive base of the economy.

Continued neglect of investment in the infrastructure in the public sector and failure to make private sector do so because of unclear policies, bureaucratic red-tapism and lack of transparency, will come in the way of even sustaining the present level of deficit in the years ahead. The 3.5 per cent target is just a nightmare.

The government would do well to spare time from the political battle field to attend seriously to the economic issues and implement the reforms agenda in the true spirit. This will involve fiscal stabilisation through controlling revenue deficit, PSU reforms, and getting the private sector to invest by removing all barriers to entry.