

**GROWING GOVERNMENT
EXPENDITURE IS A
CAUSE FOR CONCERN**

D. R. PENDSE



**FORUM OF FREE ENTERPRISE
PIRAMAL MANSION, 235 DR. D. N. ROAD
BOMBAY 400001**

GROWING GOVERNMENT EXPENDITURE IS A CAUSE FOR CONCERN

by
D. R. Pendse*

Now that the din of debate over the Budget presented by the Finance Minister on March 15 has died down, one should not lose sight that for the last two or three years the underlying Budget situation has taken quite a beating:

- (1) Consider, for example, the outstanding debt of the Central Government. By the end of 1995-96, it will be over Rs. 600,000 cr. [Incidentally, this is arguably the largest figure one could spot in all the volumes of budget papers!]. This debt has been used broadly as shown in the Table:

TABLE

How is the Centre's Outstanding Debt Used ?

As on March 31, 1996.

	<u>Rs. (crores)</u>
1. Loans	1,78,000
(i) to State Govts. & Union Territories	1,27,000
(ii) to Public Sector Enterprises	50,000
(iii) Others [including Govt. servants]	1,000
2. Central Govt.'s own investments [Capital outlay]	2,05,000
3. Used up in Central Govt.'s own consumption	<u>2,16,000</u>
Total Outstanding Debt:	<u>6,00,000</u>

- * The author is an eminent economist and is Chief Consulting Economist, Industrial Development Bank of India. The text is based on a note prepared by him for an interview with the United News of India. The views expressed are his personal views.

"Free Enterprise was born with man and shall survive as long as man survives".

— **A.D. Shroff**
1899-1965
Founder-President
Forum of Free Enterprise

In other words, the Centre has consumed away about 36% of the money it borrowed. Government must really find a revenue surplus to bring the debt under control. Instead, for several years now, government every year is actually borrowing more and more in order to match its spending spree — This is a phenomenon known in the economists' jargon as 'surplus on capital account', and it is certainly a costly luxury which a developing country can ill afford.

- (2) Next, a closer look at the Government's own capital outlay shows that a good part of the capital outlay is even officially declared to be not commercial, and no financial return is to be expected by the taxpayer from it. For example, a capital outlay of Rs. 55,500 crores has so far been made in defence services. The taxpayers pay for it and also for the year to year maintenance of these services. From the budget point of view, much of such capital expenditure is akin to consumption.
- (3) Even as regards the so-called "investments" in the public sector undertakings, the picture is singularly disappointing. The PSUs had by 1993-94 over Rs. 1,59,000 crores as capital employed. The net profits of these PSUs have been around a measly 2.3% of the capital employed at least for the last five years.

The Government has had to offer higher and higher rates of interest of late to attract the funds that it wishes to borrow. For example, the current yield on Government securities hovers around a high of 14%. So, we have a situation where government borrows a huge amount at 14% or so and consumes over one third of it. Out of the balance, only a small part can be called "commercial

investments" and on these it fetches, a paltry return of about 2.3%.

- (4) Government has been receiving Rs. 1,500 crores as dividends from the profits of the Reserve Bank of India, making the RBI easily the single highest profit making enterprise in the Government's stable! How come? The economic logic, if any, has always been beyond my comprehension. In substance, it means that (other things being equal), the larger the deficit financing, the larger are the profits of the RBI — hardly a thought to be proud about. Outside the RBI, the dividends and profits from all other public enterprises put together amount to Rs. 1,446 crores, less than the single RBI figure.
- (5) As regards, loans to State Governments and others, Government will receive a total interest of Rs. 18,419 cr., or an average of about 10% still less than Government's own cost of borrowing. And we have to accept the fact that quite a large part of these loans is not repaid, but is merely carried forward.
- (6) Next a quick look at the external "assistance". First, let us be clear that much of what is included as "assistance" is pure and simple commercial lending. It benefits the lender at least as much as it is intended to benefit the Government of India, which is the borrower. During 1995-96, the Centre will borrow afresh about Rs. 11,526 crores worth in foreign currency. Of this, Rs. 4,325 crores will be spent in paying interest on our previous and outstanding loans. Another Rs. 5,916 crore will be spent on a repayment of instalments of capital borrowed in the past. Only

the balance, viz., Rs. 1,284 cr., or just 11% of the total "external assistance", will be available for our use. So eighty nine out of every Rs. one hundred that the Centre will borrow from abroad will be pre-empted for repayment.

- (7) Finally, the fiscal deficit. The Finance Minister expected in the Budget, that it will be Rs. 57,634 crores. This will be a third year in succession when the fiscal deficit will be an enormous figure exceeding Rs. 50,000 crores. But will the Budget expectation be fulfilled? We have the Finance Minister's word for it; but we cannot ignore also the unfortunate fact that in the two previous years his estimates regarding fiscal deficit have gone astray by a wide margin. In 1993-94, he said it would be less than Rs. 37,000; It now turns out that it was Rs. 60,000 crores. In 1994-95, he expected it to be Rs. 55,000 crores, but in fact it will exceed Rs. 61,000 cr.
- (8) In 1995-96, I must reiterate that the fiscal deficit will turnout to be close to Rs. 71,000 crores. There are several clear pointers : For example, the Finance Minister says that the total expenditure will increase by only Rs. 10,000 crores, when it had increased by over Rs. 20,000 crores in 1994-95. I see no specific plan to ensure that expenditure growth will be cut to half. In fact, the Budget concedes that the interest payments will grow by Rs. 6,000 crores and that the defence expenditure and the establishment expenditure also by Rs. 2,000 crores each. Moreover, I see no provision for the six new departments which the Centre plans to set up to fight poverty — each surely with its own Minister of State, at least one

Secretary and the whole lot of the other paraphernalia. There is also no provision in the Budget figure for the financial burden of the Pay Panel's decisions in the offing. Further, it is inconceivable that in a pre-election year, the plan outlay and other election-friendly expenditure will not show a substantial, though unanticipated, increase.

- (9) As regards revenue, it is unrealistic to expect it to increase by Rs. 11,000 crores. True, it showed a massive Rs. 14,000 crores increase last year. But it was largely a response of a recession-hit industry shifting to a 8% industrial growth mode. To achieve yet another increase of this magnitude in government revenue from this high base, an industrial growth of 12% or so may become a pre-requisite. One hopes of course that the Government will use the so-called disinvestment proceeds to retire a part of its previous debt and not as a budget support and an alibi for increasing it totally non-productive expenditure further.
- (10) One is left with a suspicion that the Finance Ministry is losing control over the overall level of expenditure being incurred by other spending arms of the Government. Will the fiscal situation slip out of hand? I feel perturbed at that prospect because, it was precisely a similarly fast deteriorating fiscal situation, that landed us into our economic crisis of 1991.

*The views expressed in this booklet
are not necessarily those of the
Forum of Free Enterprise*

TABLE 2.2
Central Government Deficit
(Per cent of GDP)

	Budget	Revenue Deficit	Gross Fiscal Deficit	Gross Primary Deficit
1	2	3	4	5
1975-76	0.5	1.1	4.1	2.5
1980-81	1.8	1.5	6.2	4.3
1981-82	0.9	0.2	5.4	3.4
1982-83	0.9	0.7	6.0	3.8
1983-84	0.7	1.2	6.3	4.0
1984-85	1.6	1.8	7.5	5.0
Average				
Sixth Plan	1.2	1.1	6.3	4.1
1985-86	2.0	2.2	8.3	5.5
1986-87	2.8	2.7	9.0	5.8
1987-88	1.7	2.7	8.1	4.7
1988-89	1.4	2.7	7.8	4.2
1989-90	2.3	2.6	7.8	3.9
Average				
Seventh Plan	2.1	2.6	8.2	4.8
1990-91	2.1	3.5	8.3	4.3
1991-92	1.1	2.6	5.9	1.6
1992-93	1.8	2.6	5.7	1.3
1993-94(RE)	1.2	4.3	7.4	2.7
1994-95(BE)	0.7	3.6	6.0	1.0

The budget deficit is the difference between total receipts and total expenditure, both revenue and capital. The revenue deficit denotes the difference between revenue receipts and revenue expenditure. The fiscal deficit is the difference between the revenue receipts plus certain non-debt capital receipts and the total expenditure including loans, net of repayments. The primary deficit is the fiscal deficit less interest payments.

(Source: Economic Survey 1994-95 of Government of India)

TABLE 2.5
Outstanding Liabilities of the Central Government
At the end of :

	1980-81	1989-90	1990-91	1991-92	1992-93	1993-94 (RE)	1994-95 (BE)
	1	2	3	4	5	7	8
	(Rs. Omre)						
1. Internal liabilities	48451	239849	283033	317714	359654	426027	483546
(a) Internal Debt	30864	133193	154004	172750	199100	242729	277561
(i) Market borrowings	15676	62565	70565	78075	81751	99443	114143
(ii) Others	15188	70628	83439	94675	117349	143286	163418
(b) Other Internal liabilities	17587	106656	129029	144964	160554	183298	205985
2. External debt (outstanding)	11298	28343	31525	36948	42269	45892	49508
3. total outstanding liabilities (1+2)	59749	268192	314558	354662	401923	471919	533054
4. Amount due from Pakistan on account of share of pre-partition debt	300	300	300	300	300	300	300
5. Net liabilities (3-4)	59449	267892	314258	354362	401623	471619	532754
6 Total assets	58999	209623	236740	261478	290963	326854	355536
7. Excess of liabilities over assets (5-6)	450	58269	77518	92884	110660	144765	177218
As per cent of GDP	(percent)						
1 Internal liabilities	35.6	52.5	52.9	51.6	51.2	54.2	53.2
(a) Internal Debt	22.7	29.2	28.8	28.0	28.3	30.9	30.5
(b) Other Internal liabilities	12.9	23.3	24.1	23.5	22.8	23.3	22.6
2. External debt (outstanding)	8.3	6.2	5.9	6.0	6.0	5.8	5.4

3	Total outstanding liabilities	43.7	58.7	58.7	57.6	57.2	60.0	58.6
4.	Total assets	43.4	45.9	44.2	42.4	41.4	41.6	39.1
5.	Excess of liabilities over assets (5-6)	0.3	12.8	14.5	15.1	15.7	18.4	19.5
Memorandum items								
External Debt								
	(Rs. crore) ²	13479	54100	66314	109677	120979	127798	132199
	(as per cent of GDP)	9.9	11.8	12.4	17.8	17.2	16.3	14.5
Total outstanding liabilities (adjusted)								
	(Rs. Crore)	61930	293949	349347	427391	480633	553825	615745
	(es per cent of GDP)	45.5	64.3	65.2	69.4	68.4	70.4	67.7
Outstanding liabilities (Non-RBI) ³ (Rs Crore)								
		48495	231884	275292	346504	387973	453434	699354
Outstanding liabilities (Non-RBI)								
	(as per cent of GDP)	35.7	50.8	51.4	56.2	55.2	57.7	56.0

1. External debt figures represent borrowings by the Central Government of external resources and are based up to historical rates of exchange.
2. Converted at current year end exchange rates. For 1980-81, the rates prevailing at the end of March, 1981, For 1986-87, the rates prevailing at the end of March, 1987 and so on. However, for 1994-95 (BE) the rates pertain to end-September, 1994.
3. This includes marketable dated securities held by the RBI

(Source: Economic Survey 1994-95 of Government of India)

TABLE 2.8
Budgetary Transactions of the Central and State Governments and Union Territories (Including extra-budgetary resources of public sector undertakings for financing their Plans)

	1980-81	1989-90	1990-91	1991-92	1992-93	1993-94	1993-94	1994-95	
						(RE)	(BE)	(BE)	
	1	2	3	4	5	6	7	8	
	(Rs. Crore)								
I. Total Outlay	36845	158107	176548	199370	224688	261224	258477	294960	
(a) Develop-mental	24426	98501	105922	118715	134020	151154	153911	168233	
(b) Non-develop-mental	12419	59606	70626	80655	90668	110070	104566	126727	
II. Current revenue	24563	103115	110607	133834	153195	168685	178958	191932	
(a) Tax-revenue	19844	77693	87723	103198	114165	121930	131805	140945	
i. Direct Taxes	3268	11165	12259	16656	19386	22470	22888	26682	
ii. Indirect Taxes	16576	66528	75464	86542	94779	99460	108917	114263	
(b) Non-tax-revenue	4719	25422	22884	30636	39030	46955	47153	50987	
III. GAP(i-ii)	12282	54992	65941	65536	71493	92339	79519	103028	
Financed by:									
(i) Domestic capital receipts	7161	40812	50192	52284	52969	75799	66428	88917	
(ii) Net External assistance	1670	3567	4263	6171	5984	5136	6820	5644	
(iii) Budgetary deficit	3451	10613	11486	7081	12540	11404	6271	8467	

As per cent of GDP		(Per-cent)							
I. Total Outlay	27.1	34.6	33.0	32.4	32.0	33.2	32.9	32.4	
(a) Developmental	18.0	21.6	19.8	19.3	19.1	19.2	19.6	18.5	
(b) Non-developmental	9.1	13.0	13.2	13.1	12.9	14.0	13.3	13.9	
II. Current revenue	18.1	22.6	20.7	21.7	21.8	21.5	22.8	21.1	
(a) Tax revenue	14.6	17.0	16.4	16.8	16.2	15.5	16.8	15.5	
(i) Direct Taxes	2.4	2.4	2.3	2.7	2.8	2.9	2.9	2.9	
(ii) Indirect taxes	12.2	14.6	14.1	14.0	13.5	12.6	13.9	12.6	
(b) Non-tax revenue	3.5	5.6	4.3	5.0	5.6	6.0	6.0	5.6	
(iii) GAP (i-ii)	9.0	12.0	12.3	10.6	10.2	11.7	10.1	11.3	
Financed by									
(i) Domestic Capital receipts	5.3	8.9	9.4	8.5	7.5	9.6	8.4	9.8	
(ii) Net external assistance	1.2	0.8	0.8	1.0	0.9	0.7	0.9	0.6	
(iii) Budgetary deficit	2.5	2.3	2.1	1.1	1.8	1.5	0.8	0.9	

Note: For clarification regarding the scope of some items in this table, see footnote to Table 2.2 in the Statistical Appendix.

(Source: Economic Survey 1994-95 of Government of India).

TABLE 2.6
Interest on the Outstanding liabilities of the Central Government

	1980-81	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95
		(RE)	(BE)				
	1	2	3	4	5	6	7
	(Rs. crore)						
1. interest on internal liabilities	2373	16241	19637	23892	27439	33625	41839
(a) Internal debt	1369	8273	9814	11317	13542	15823	21331
(i) Market-borrowings	808	5368	6366	7355	8147	8809	10380
(ii) Others	561	2905	3448	3962	5395	7014	10951
(b) Other Internal liabilities	1004	7968	9823	12575	13897	17802	20508
2. Interest on external debt	231	1494	1834	2704	3529	3875	4161
3. Gross interest payments	2604	17735	21471	26596	30968	37500	46000
4. Net interest payments	809	9269	12687	15674	18480	22962	30022
Average rate of interest		(Percent)					
1. Internal liabilities	N.A.	8.0	8.2	8.4	8.6	9.3	9.8
(a) Internal debt	N.A.	7.2	7.4	7.3	7.8	7.9	8.8
(i) Market borrowings	N.A.	9.7	10.2	10.4	10.4	10.8	10.4
(ii) Others	N.A.	4.9	4.9	4.7	5.7	6.0	7.6
(b) Other internal liabilities	N.A.	8.9	9.2	9.7	9.6	11.1	11.2
2. External debt	N.A.	5.8	6.5	8.6	9.6	9.2	9.1
3. Total liabilities	N.A.	7.7	8.0	8.5	8.7	9.3	9.7

Note: The interest liabilities indicated above are on cash basis and not on accrual basis.

(Source: Economic Survey 1994-95 of Government of India)

"People must come to accept private enterprise not as a necessary evil, but as an affirmative good".

— **Eugene Black**

HAVE YOU JOINED THE FORUM?

The Forum of Free Enterprise is a non-political and non-political organisation, started in 1956, to educate public opinion in India on free enterprise and its close relationship with the democratic way of life. The Forum seeks to stimulate public thinking on vital economic problems of the day through booklets and leaflets, meetings, essay competitions, and other means as befit a democratic society.

Membership is open to all who agree with the Manifesto of the Forum. Annual membership fee is Rs. 50/- (entrance fee Rs. 50/-) and Associate Membership fee Rs. 20/- (entrance fee Rs. 10/-). Graduate course students can get our booklets by becoming Student Associates on payment of Rs. 10/- only (No entrance fee).

Write for further particulars to the Secretary, Forum of Free Enterprise, 235, Dr. Dadabhai Naoroji Road, Post Box No. 209, Bombay 400 001.

Published by M.R. PAI for the Forum of Free Enterprise, 235, Dr. D.N. Road, Bombay 400 001., and Printed by S. V. Limaye at India Printing Works, 42, G. D Ambekar Marg India Printing House, Wadala, Bombay 400 031

17/July/1995