

PUBLIC EXPENDITURE MANAGEMENT & EFFICIENCY

Presidential Address during Indian Institute of Public Enterprises and Public Administration,
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The Institute of Public Enterprises and Public Administration had earlier discussed subjects of topical interest like Panchayat Raj and Decentralisation and Market Economy in Welfare State, herein valuable and weighty contributions were made by the participants. The theme which we have chosen for the current seminar, namely, Public Expenditure Management and Efficiency is perhaps the most urgent issue which daunts the nation, Government and the people today. Unless the Nation, as whole co-operates to check the expenditure explosion, and to ensure efficiency and effectiveness of such expenditure, its deleterious consequences may overtake us very soon.

EXPENDITURE EXPLOSION

Between 1960 and 1990, current expenditure of the Government (Centre and States combined) increased from 11.8% of G.D.P. to 23%. Between 1989-90 (actuals) and 1998-99 (Budget Estimates), the total expenditure of the Centre Government increased from Rs.92,908 crores to Rs.268,107 crores consisting of Rs.210,242 crores on Revenue Account and Rs.57,865 crores on Capital Account. It is interesting to recall that in the 1948-49 Budget, there was a nominal deficit of Rs.1 crore while the deficit in 1997-98 (Revised Estimates) was Rs.86,345 crores. The total revenue also grew at an accelerated rate but the increase was insufficient to cover the increase in expenditure. The difference between the growth in expenditure and revenue was financed largely by domestic borrowings at progressively higher rates of interest. During my term as Finance Minister (1980) and earlier, there used to be an item in the Budget captioned Surplus from Current Revenues.

It is almost, two decades since that item had vanished from the Budget. Despite all the efforts of successive Finance Ministers, it has not been possible to contain the growth of Government expenditure. It is reported that almost two-thirds of the market borrowings are pre-empted by interest payments now.

Public expenditure must not be looked at in absolute terms. If the rise in public expenditure creates new assets, provides for increase in supply of goods and services or higher monetary benefits to the people through monetary transfers, it would have a salutary effect on the nation's economy. It is only that part of public expenditure which is unproductive that needs to be reduced to the minimum. It is this part which fuels inflation, increase deficit, balloons the national debt and causes all the miseries.

It is fashionable among Finance Ministers and bureaucrats to throw the entire blame for budgetary and fiscal deficits on the subsidies and welfare measures for the masses. In my view, the expenditure on food subsidies and welfare activities for the poor forms a negligible part of the G.D.P. of the country. In fact, the fastest growth in expenditure has taken place in those components of expenditure, which have no direct or indirect relationship to the welfare of the poor. Dr. Bimal Jalan, currently Governor of the Reserve Bank of India, has stated: "The burden of Central subsidies (including food subsidies) in India is, in fact, quite modest. It is around 1.1% of the GDP and has been declining in recent years. Similarly, the entire Central Plan

outlay on agriculture and rural development programmes which presumably benefit the poor is about 1% of the GDP. Moreover, central expenditure on social services such as health, education, children, women, and family welfare is less than 0.5% of the GDP. In the aggregate, the entire expenditure which can be assumed to even remotely benefit the poor is unlikely to exceed 3 to 3.5% of the GDP. This has also been the slowest growing component of Central Government's expenditure. In principle, even over a period of time, the fiscal deficit can be cut by half without taking a rupee from the poor."

As against this, the massive capitalisation of Banks in India for making good the huge non-performing assets in the last 6 years amount to Rs.17,000 crores. The demand for funds is still growing. (Source: Industrial Economist 15-29 Dec. '98 issue)

In the States, the categories of expenditure which provide some benefits to the poor by way of jobs or subsidies have, in fact, declined as a percentage of the GDP in the last ten years.

Much of the increased expenditure has been incurred to subsidies losses of public sector enterprises, payments of interest, and salaries to the employees. Consistent with my approach to our economic problems, I would appeal to the economists and administrators to identify the areas of unproductive expenditure and drastically cut them.

I would like to make the following suggestions in this regard: The Central Government has expanded enormously by duplicating the services, which are essentially the functions of the States under the Constitution. There is also over-centralisation of functions which has led to increasing number of persons being engaged by the Centre. The process of reporting, accounting, supervising and monitoring, assumes greater importance than the production of goods and services. In a proper allocation of functions and decentralisation of authority there is an immense scope for reducing the size of the Central service.

Secondly, the public sector losses and the subsidies to meet them have been burgeoning. The acute shortage of capital and the inability of the private sector to undertake massive investments are some of the reasons for the Five Year Plans to entrust this responsibility to the Government. For instance, the Neyveli Lignite Project was beyond the private enterprise in the early 1950s and this had to be entrusted to the public sector. Today the conditions have completely changed and the private sector is well developed and in a position to make massive investments on such projects. There is absolutely no reason for starting any new public sector enterprise explosion, through interest payments, the possibility of partial or outright sale of public sector commercial enterprises may be pursued. The public sector enterprises were started from borrowed capital and the sale proceeds should, therefore, be applied to the reduction of the debt and not retained as revenue to the Government. It is a strange phenomenon that, when the public sector incurs losses, there is a demand for sale of the enterprise to the private sector, and when the private sector incurs loss, the State is asked to take up the sick units.

The National Textile Corporation is a notable example of the latter. This kind of confusion should be avoided by the public, as well as the, politicians. There are several other areas, which may be examined, either by an Expenditure Commission or by the respective Department Committees.

Determined efforts for augmenting the revenue should be undertaken, and a balanced revenue budget should become the target. Unless due emphasis is laid on raising resources, and the citizens contributes towards the health of the national economy, the objective of balancing the revenue budget will become a mirage.

I am also of the view that a Constitutional limit may be imposed on the power of the Central Government to create money, or borrow from the market to finance deficits. It is an old Shakespearean adage that borrowing dulls the edge of husbandry.

Article 292 of the Constitution empowers Parliament to fix limits of borrowing by the Union Government. However, as no such legislation has been undertaken during the last fifty years by the Parliament, it is necessary to fix such limits in the Constitution itself.

I have mentioned only some aspects of the problem, which needs to be addressed with care, concern and a sense of urgency. Public Expenditure Management is not just a matter of making some across the board cuts or inconsequential economies. I am confident that the galaxy of eminent men, who have gathered here, will generate constructive discussions and meaningful conclusions.