12

MINISTRY OF FINANCE
(DEPARTMENT OF ECONOMIC AFFAIRS)
FISCAL POLICY—MANAGEMENT OF DEFICIT—EXTERNAL AND INTERNAL DEBTS

ESTIMATES COMMITTEE 1991-92

TENTH LOK SABHA

LOK SABHA SECRETARIAT
NEW DELHI

TWELFTH REPORT

ESTIMATES COMMITTEE
(1991-92)

(TENTH LOK SABHA)

MINISTRY OF FINANCE
(DEPARTMENT OF ECONOMIC AFFAIRS)
FISCAL POLICY—MANAGEMENT OF DEFICIT—EXTERNAL AND INTERNAL DEBTS

Presented to Lok Sabha on 28.2.1992

LOK SABHA SECRETARIAT
NEW DELHI

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(1991-92)

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*Resigned from the Committee w.e.f. 11.12.1991.

INTRODUCTION

I, the Chairman of Estimates Committee having been authorised by the Committee to submit the Report on their behalf, present this 12th Report on the Ministry of Finance (Department of Economic Affairs)—Fiscal Policy—Management of Deficit—External and Internal Debts.

2. The Committee inherited the subject from its predecessor Committee which had taken up for the examination the subject in May, 1990. Considerable ground-work had been done and evidence recorded in February, 1991. However, the Ninth Lok Sabha was dissolved in March, 1991.

Meanwhile momentus developments on the economic front have taken place. The Government have introduced sweeping economic reforms with the result that much of the work already done became outdated. However, taking note of tremendous importance of the subject and its unquestionable topicality the Estimates Committee (1991-92) decided to examine this subject *de nove.* Despite the shortage of time available, the Committee accorded the top priority in the examination of the subject. The Committee nevertheless wish to place on record their appreciation and thanks to the Estimates Committee 1990-91 for considerable effort they had put in doing the useful ground-work on the subject.

3. The Committee considered the detailed written notes and other information furnished by the Ministry of Finance (Department of Economic Affairs) to the Committee and took evidence of the representatives fo the Ministry of Finance and the Department of Public Enterprises on 11th and 12th December, 1991 and 6th January, 1992.

4. The Committee wish to express their thanks to the officers of the Ministry of Finance as also the Secretary, Department of Public Enterprises for placing before them detailed written notes on the subject and for furnishing whatever information was desired of them in connection with the examination of the subject. The Committee also wish to place on record their appreciation for the frankness with which the officials of the Ministry / Department shared their views, perceptions and constraints with the Committee. The Committee also wish to express their gratitude to the National Institute of Public Finance and Policy, New Delhi for furnishing valuable information and assistance rendered by the Director of the Institute on the subject.

5. The Report was considered and adopted by the Committee on 26th February, 1992.

6. The Report seeks to examine the three inter-related areas of public finance viz. fiscal deficit, internal debts and external debt. While dealing with these subjects the Report also dwells upon the reforms initiated by the Government in relation to the management of public finances.

7. The Committee have stressed, *inter alia*, upon the need to ensure definitional clarity in regard to depiction of deficit in the Budget documents as lack of such clarity in the past, in their opinion had led to soft focussing of the burgeoning gap between revenue receipt and revenue expenditure. The Committee in their Report have, therefore, called for depiction of deficit in all its connotations viz. fiscal deficit, primary deficit and monetary deficit.

8. While generally welcoming the economic restructuring and other measures aimed at restoring financial discipline in the Government expenditure and fiscal balance the Committee have in their Report also given the expression to the apprehensions being felt by the citizens of the country in regard to actual implementation of these measures. They would like the least necessary burden to be thrown on the common man and maximum effort made to tone up the productivity of Government expenditure. In this context, they have cautioned the Government against hasty and indiscriminate measures to cut expenditure or raise revenue and have called for a balance between measures for economic restructuring, expenditure contraction and revenue augmentation.

9. The Report also focusses on the dangers of inflation and unemployment which together can obliterate the possible benefits of economic restructuring as levels of public dissatisfaction rise. The Committee have cautioned the Government against abruptly doing away with such subsidies as affect the poorest sections of the society including small farmers and people living in remote, hilly and tribal regions. In this context, they have called for better targetting of subsidies on food as well as fertilizers.

10. In relation to Defence expenditure the Committee have drawn attention to various areas of saving the income generation and have called for an early action on the recommendations of the Arun Singh Committee Report on the Defence Expenditure.

11. In the same context, case by case approach in closing unviable public sector units has been recommended. The need for adequate social security to the affected employees and workers has also been underlined.

12. The Report also underlines the need for wider acceptance of financial discipline in the entire public sector of the economy including State Governments. The Committee would like the Government to actively work in this direction.

13. In relation to borrowings the Committee have expressed themselves in favour of a ceiling on borrowings and called for a flexible approach in determining the figure at which such savings should be imposed year after year after due discussion and voting in the Parliament. They have also called for depiction of debt service payments as well as payment of prinicipal in the expenditure budget in absolute terms as well as in relating to total revenue receipt.

14. In regard to revenue augmentation the Report calls for widening of the tax base and a comprehensive approach to the problem of unaccounted income and wealth.

15. In regard to public debt the Report comments upon the inefficient use of foreign debt by the Government hithertofore. The Committee, therefore, calls for a conservative approach to commercial borrowings abroad and would like the existing debts on this account to be redeemed as early as possible.

16. The Committee in their Report have also desired that in pursuing the new economic policy the Government should give the highest priority to creation of employment opportunities giving greater importance to agriculture, development of small scale industry and encouragement to construction activity. They also would like the Government to closely monitor the actual implementation of economic reforms to ensure that these do not work in the reverse gear resulting in loss of domestic markets without any accretion to the existing export markets foi the indigenous industries.

17. For facility of reference the recommendations / observations of the Committee have been printed in thick type in the body of the Report and have also been reproduced in the consolidated form in Appendix of the Report.

NEW DELHI;

February 27, 1992

Phalguna 8, 1913 (S)

MANORANJAN BHAKTA
Chairman
Estimates Committee

I. FISCAL POLICY

Significance in Macro Economic Management

1.1 The Central Government has been incurring deficits righ\ from 1947.

1.2 Throughout the policy of Government has been to contain budgetary deficit and debt burden within manageable proportions. Successive Finance Ministers have felt that within these parameters certain amount of deficit financing was inevitable given the circumstances.

1.3 In a note submitted to the Committee, Director, National Institute of Public Finance and Policy, New Delhi, stated:

> "Public debt in India has registered sharp growth in recent years. This has given rise to concern about the viability of the present method of financing government expenditures and stability of the economy."

1.4 Explaining the present Fiscal Policy of the Government the Finance Minister, while presenting Budget for 1991-92 said "In the macro-management of the economy, over the medium term, it should be our objective to progressively reduce the fiscal deficit of the Central Government, to move towards a significant reduction of the revenue deficit, and to reduce the current account deficit in the balance of payments. It is only such prudent management that would enable us to curb the exponential growth in internal and external debt and limit the burden on debt servicing, for the Government and the country, to manageable levels. Indeed, we must make a conscious effort to reduce the internal debt of the Government and the external debt of the nation, so that we rely more and more on our own resources to finance the process of development."

1.5 During evidence before the Committee the Finance Secretary stated:

> "When I say that Government is borrowing it means that amount of money is made available for expenditure. The goods equivalent to that amount are not basically available....Then import of various items becomes necessary. The trade deficits crosses the bar. It may arise from profligacy of excess expenditure in the government account. It is, therefore, necessary to try to control the fiscal deficit. This itself would become one of the instrument for correcting the imbalance in the economy."
>
> He further stated:
>
> "Out of Rs. 37,000 crores borrowed Rs. 24,000 crores went into investment; the rest of it went into revenue expenditure. If

whatever we borrow we spent on our consumption we cannot generate any income. The Secretary, Economic Affairs, added: "One of the problems that has arisen in the last several years is that we have been resorting on an increasing scale, to revenue deficit and it is really because of this that we have been forced to borrow not only for current expenditure but also in order to meet investment expenditure. I think this is one factor that indicates that the deficit is really too high on the internal front."

Deficit: Definition, Scope and Magnitude

1.6 It has been observed that discussions on the implications of deficit financing and growth of public debt are not always very well informed. Probably more uninformal statements have been made on the issue of Public Sector debt and deficits than over any other topic in macro-economics. However when deficits are incurred to finance expenditures which do not help to augment real output by putting to use idle resources there is reason to worry. Moreover deficits financed by borrowing from public and those by borrowing from RBI have different implications for the economy. Any enquiry into the sustainability of debt and deficit financing therefore should look not merely into the size of the debt and deficits but also into the composition of expenditure and the sources of borrowing. However one must start with a clear definition of 'debt' and 'deficit'.

1.7 In this context the Ministry in a written note stated:

"The term 'Overall deficit or Budgetary deficit' represents the excess of aggregate disbursements over aggregate receipts, both capital and revenue. This conventional definition of the deficit depicts only a part of the resource gap in current fiscal operations and is financed by net issue of 91 Day Treasury Bills and running down of Government's cash balance with the Reserve Bank of India.

The concept of 'fiscal deficit' used internationally refers to the excess of all expenditure both revenue and capital plus net lending, over total revenue receipts and external grants. This concept has been adopted in the Budget documents of the Central Government and indicates the total resource gap or the overall financing requirments in the Government's fiscal operations, and hence reflects the total borrowing by Government.

However, the gross fiscal deficit does not necessarily reflect the extent to which current discretionary fiscal actions improve or worsen the Government's net indebtedness. In particular, interest payments in the current period are obligatory but reflect past budgets.

The concept of 'Primary deficit' indicates the precise extent to which current fiscal action affects the indebtedness of the Central Government and it is measured by gross fiscal deficit minus net interest payments (viz: interest payments-interest receipts).

The term 'monetised deficit' represents the changes in the borrowing of the Central Government from RBI; hence it captures the monetary impact of fiscal operations. This is given by net increase in the RBI's credit to Central Government which is arrived at by taking into account claims of the RBI on Central Government and adjusting it for changed in Central Government's deposit with the RBI. Movements in the RBI's claims on Central Government which represent the quantum of credit extended to Government by the RBI arise from variations in its holdings of ad-hoc treasury bills, changes in its portfolio of rediscounted treasury bills, changes in its holdings of other securities and variations in its holdings of rupee coins and notes.

The phrase 'deficit financing' refers to the borrowings from the RBI by net issue of 91 Day Treasury Bills. This is not synonumous with borrowing from the RBI. The term 'monetary deficit' represents the changes in the borrowing of the Central Government from the RBI.

Prudent level of deficits

1.8 The Director, National Institute of Public Finance and Policy, New Delhi in a note submitted to the Committee stated that economic theory or Experience throws little light as to at what point public debt becomes unsustainable. To quote another renowned theorists:

> "Past experiences of debt accumulation are varied in their eventual outcomes. There are important cases of painless re-entry to a more normal situation, mostly in Anglo-Sax on countries; cases in which the overhang of a high debt stock became a primary cause of instability, leading eventually to inflation, which in turn provided a drastic remedy to the original problem by curtailing the real value of the outstanding debt, as in France in the 1920s; cases in which a high debt stock was one of many factors producing conditions of hyperinflation, as in the Republic of a Germany and many other countries after the first world war; cases of forced loans, wealth taxes, or forced consolidation, as in Piedmont in the early nineteenth century or in Mussolini's Italy in the 1920s. The one safe lesson one can draw from both facts and theory is that it is meaningless to look for a critical value of the ratio of debt to GDP beyond which the system breaks down and traumatic solutions become necessary; after all, the ratio was lower in France in the 1920s than in the United Kingdom between 1790 and 1840."

This is not to suggest that deficits or debt do not matter but only to point out that financing of government expenditures through borrowing is not necessarily an evil in all circumstances or that growth of public debt inevitably spells disaster. Where there are large unused resources and expenditure programmes can be suitably designed to increase output of basic and essential commodities within a short period, financing of government expenditure by borrowing has its utility. But where deficits are incurred to finance expenditures which do not help to augment real output by putting to use idle resources (e.g., giving higher emoluments to existing government employees or development programmes where leakages are high and no worthwhile productive assets are created), there is reason to worry. Moreover deficits financed by borrowing from the public and those by borrowing from the RBI have different implications for the economy. Any inquiry into the sustainability of debt and deficit financing therefore should look not merely into the size of debt and deficits but also into the composition of the expenditure and the sources of borrowing.

Consequences of Deficits

1.9 In the context of steep increase in the deficits particulary from mid-eighties, the Ministry of Finance, in a written note, stated that the potential consequences of the increasing budget deficit would depend primarily on the mode of its financing and the ultimate use of the funds. If the deficit is financed by extending RBI credit to Government, the reserve money created in the process would lead to monetary expansion, thereby accelerating inflation. Recourse to external financing would aggravate the pressure on balance of payments through the enhanced debt-service burden

To the extent borrowing is used to lower the revenue deficit it would be increasingly more difficult to service the public debt.

Factors Responsible for Growing Deficits

1.10 The increase in budget deficit is mainly a reflection of the increasing gap between revenue receipts and revenue expenditure. The share of tax revenues retained by the Centre fell sharply, due to the recommendations of the Seventh Finance Commission when the States share of Central excise duties was increased from 20% to 40%. Eighth Finance Commission further increased it to 45%.. Non-tax revenues did not grow much because of the poor returns from public enterprises; pegging dividend payable of the Railways at 6% pursuant to the recommendations of the Railway Convention Committee; subsidised rate of interest charged on loans to State Government, etc.

On the other hand, there was a spurt in spending mainly on account of interest payments, subsidies, plan and non-plan grants to State Governments and on defence. While the revenue receipts grew at an average rate of 16.7 per cent per annum during 1981-82 to 1991-92, revenue expenditures increased at an average rate of 17.1 per cent per annum. Because of the negative balance from the current revenue, additional borrowing had to be resorted to for financing plan and non-plan expenditure. This has resulted in further outgo by way of interest payments and repayments of principal

Magnitudinal Profile and Trends

1.11 The following Table indicates the secular trends in the deficits of the Central Government from 1981-82 to 1991-92 (BE):

Revenue Deficit, Fiscal Deficit, Monetised Deficit, Primary Deficit and Budgetary Deficit

Year	Revenue deficit	Fiscal Deficit	Monetised deficit (Net RBI cr to Central Govt.)	Primary deficit	Budgetary deficit
1	2	3	4	5	6
1981-82	396(.25)	8668(5.4)	3207(2.0)	7688(4.8)	1392(0.9)
1982-83	1310(.73)	10625(6.0)	3368(1.9)	9539(5.4)	1656(0.9)
1983-84	2540(1.2)	13030(6.3)	3949(1.9)	10903(5.2)	1416(0.7)
1984-85	4225(1.8)	17416(7.5)	6055(2.6)	15405(6.7)	3745(1.6)
1985-86	5888(2.2)	21857(8.3)	6190(2.4)	18940(7.2)	5315(2.0)
1986-87	7776(2.6)	26342(9.0)	7091(2.4)	22449(7.7)	8261(2.8)
1987-88	9137(2.7)	27044(8.1)	6559(2.0)	21548(6.5)	5816(1.7)
1988-89	10515(2.6)	30923(7.8)	6503(1.6)	23626(6.0)	5642(1.4)
1989-90	11912(2.6)	35630(8.0)	13813(3.1)	26361(6.0)	10592(2.4)
1990-91 (RE)	17585(3.4)	43331(8.4)	15374(3.0)	31054(6.0)	10772(2.1)
1991-92 (BE)	13854(2.3)	37727(6.5)	7719(1.3)	21286(3.7)	7719(1.3)

Note:—1. Figures in brackets are percentages to GDP at current market price.

2. GDP for 1990-91 and 1991-92 are estimated to grow at 16 per cent and 13 per cent respectively over the preceeding year.

1.12 The Ninth Finance Commission in its Second Report presented in March, 1990 had made an analysis of the trends in revenue and expenditure and observed:

"Incurring of revenue deficits on a large scale year after year implied an infraction of one of the fundamental principles of sound public finance in any economy, particularly in a developing economy."

Fiscal Correction

1.13 During evidence the Finance Secretary informed the Committee that a fiscal correction can be done through two ways. One is to augment the revenue over and above the normal level. The second is contraction in expenditure over the given normal growth

In a written note the Ministry stated that:

"The Union Budget for 1991-92 presented to the Parliament on 24th July, 1991 is a first step in the direction of correcting the fiscal imbalance arising out of growing fiscal deficits. As indicated in the Finance Minister's Budget Speech, in the macro-management of the economy over the medium term, the objective should be to

progressively reduce the fiscal deficit of the Central Government and move towards a significant reduction of the revenue deficit. The Union Budget for 1991-92 programmed a reduction in the fiscal deficit by two percentage points of GDP, which implies a fiscal correction of nearly Rs. 12,000 crores. The Budget has sought to reduce non-plan expenditure excluding interest payments by almost 15 per cent in 1991-92 in relation to what would have had to be provided in the absence of correctives."

1.14 In this context the Finance Secretary during evidence before the Committee stated:

"This year the Government of India is borrowing about Rs. 37,000 crores. Ideally speaking this much of borrowing in itself is not bad. If entirely utilised for very high productive purposes within a period of about 5 years it will yield results.

GDP Approach

1.15 During evidence the Finance Secretary of Ministry informed the Committee that "in the current year the fiscal correction being effected by the Government is from an actual level of 8.9% last year to 6.5%."

1.16 The Finance Secretary further informed the Committee that this would go down further to 5 or 5.5% in the susequent year.

1.17 Asked how accurate was the GDP figure in money terms, the Finance Secretary stated:

"GDP will fluctuate. I have talked of the limit of 6.5 percent. When it is translated into operational documents you will not find 6.5% anywhere... What goes to the Budget Document is not 6.5% of the GDP but the specific limit in respect of market borrowings, external assistance and so on. These figures are capable of being controlled and regulated."

Deficit in the Public Sector

1.18 During evidence the Finance Secretary further stated:—

"We would like to bring within the fiscal deficit criteria the performance of the public sector as well as Centre and the States. This year we are reducing centre's fiscal deficit by 2 percent. The chances are that the total fiscal deficit of the system as a whole—Central Government, State Governments, State Undertakings etc. will be less than 10% : 6.5% for the Central Government alone and 3.5% or a little less than that for the rest of the system. The figure was a little less than 12% last year. The total needs to be controlled. We cannot let loose the public sector and the State Government to borrow. This matter of fiscal contraction requires from-hard decisions. We will take the State Governments into confidence."

Monitoring Deficits and borrowings of State Governments

1.19 In a written note the Ministry informed the Committee that

"Under the Overdraft Regulation Scheme of Reserve Bank of India, no State can remain in deficit of more than the ways and means limits permitted by the Reserve Bank of India, beyond 7 working days. For all the States (excluding J & K and Sikkim which do not bank with the RBI), the total ways and means limit (and the limit on their deficits with RBI) is presently Rs. 953.66 crores. The ways and means position of the States are monitored on daily basis and timely releases and advance releases of entitlements are made to enable the States to clear their overdrafts.

(2) The loan component of Central assistance, market borrowings, etc. are allocated by the Centre as part of the States Plan funding. Further, under the provision of Article 293(3) of the constitution, a State Government which has outstanding loans from the Central Government, cannot raise any loan without the consent of the Central Government and under Article (4) *ibid*, Central Government while giving the consent is empowered to put such condition as it may think fit.

(3) Total quantum of market borrowings, out of which States are allocated a share, is determined keeping in view the likely growth in market resources, expansion in money supply and expected growth of output. The Present restrictions on Reserve Bank's credit to the States and the relatively small size of the deficits of the State Governments, moderate the effect of these deficits on the rate of inflation and impart monetary discipline."

Role of RBI

1.20 During evidence the representatives of RBI informed the Committee, as follows:—

"We take into account the totality of the borrowings of the Centre, State Governments and the public sector undertakings. We do monitor it closely in this regard. But by taking the totality of the States and the public sector undertakings, the figure does not get doubled. There are a large number of institutions which the Centre gives loans to. All those come into the total picture."

1.21 In reply to a question, he further stated that State Governments borrowings from the market was included in the total deficit. In this connection, the Finance Secretary added:

"We have been monitoring and we have been seeing the numbers. We have not taken corrective action in the past. This year, for the first time, we are taking corrective action for the Centre.

All these things have been brought out in the last Finance Commission's Report also."

Need for Fiscal Discipline in the Public Sector of Economy

1.22 The Committee enquired what corrective measures for ensuring fiscal discipline for a stable fiscal policy and economic development, were being initiated with particular reference to the State Governments. Explaining the position the Finance Secretary during his evidence before the committee stated:

"When we talk in terms of fiscal discipline, we have to take into account the entire thing which we call as 'General Government' which included the Central Government, all the State Governments and the public Sector undertakings under the Centre and the States, because, it is a combined borrowing of all these organisations that effect the total fiscal discipline. It is our estimate that the total combined borrowing of all entities was close to around 12 per cent of the GDP last year that is around Rs. 65,000 crore.

"Since we are starting an experiment in the country for the first time this year, we have limited it to the Government of India. But the intention is that, next year, we will tackle the problem of the Public Sector undertakings and the State Governments. The instrument for this is the annual plan, through which we do transfer a lot of money to the States every year".

1.23 He added:

"Because of the inability of the Government of India to make available larger and larger resources, because we ourselves will be under fiscal discipline, we will have to control our expenditure. If States went to have larger plan outlays, either they have to raise more resources and increase their productivity, price their goods and services correctly or economise their expenditure. In the discussions which we will have with States, we will tell them that we are not in a position to give them more."

1.24 The Finance Secretary further stated:

"The Central Government has been borrowing more and more not only because of the undertakings but also because of the general deficit.

The State Governments and the Central Government have different political compulsions. It is not necessary that all the State Governments will be taking a uniform stand. But this has to be done through the NDC when all the Chief Ministers are present or the Planning Commission."

1.25 In the context of different political parties in power at the Centre and in the States, the Finance Secretary added:

"There may be differences in perceptions between one State and another. But as far as the fiscal policy is concerned, that can still be pushed through."

II. MANAGEMENT OF DEFICIT

Non-Plan Expenditure

1.26 Concept of Non-Plan expenditure as explained in the Expenditure Budget is as follows:

"Non-Plan expenditure is a generic term used to cover all expenditure of Government not included in the Plan. It includes both developmental and non-developmental expenditure. Part of the expenditure is obligatory in nature *e.g.* interest payments, pensionary charges and statutory transfers to States. Part of the expenditure is an essential obligation of a State *e.g.* Defence and Internal Security. Then, there are special responsibilities of the Centre like external affairs, and currency and mint, and co-operation with other developing countries. Expenditure on maintaining the assets created in previous Plans is also treated as Non-Plan expediture. Similarly, expenditure on continuing services and activities at levels already reached in a Plan period is shifted to Non-Plan in the next Plan *e.g.* educational and health facilities, continuing research projects and operating expenses of power stations. Thus as more Plans are completed a large amount of expenditure on operation and maintenance of facilities and services created gets added to Non-plan expenditure, besides the interest on borrowings to finance the Plan."

Growth of Non-Plan Expenditure

Defence, Subsidies, Grants to States and Interest Payments

1.27 Details of Revenue Expenditure on Defence, Subsidies, Grants to States and Interest Payments are given in the following table:

Revenue Expenditure of the Centre on Defence, Subsidies, Interest Payments and Grants to States

(Rs. Crores)

Year	Defence	Subsidies	Grants to States	Interest Payments
1981-82	3849 (4334)	1941	2654	3195
1982-83	4499 (5025)	2220	3398	3938
1983-84	5188 (5831)	2749	4119	4795
1984-85	6324 (7061)	4038	4858	5974
1985-86	7021 (7988)	4796	6612	7512
1986-87	9179 (10477)	5451	7199	9246
1987-88	8861 (11968)	5980	8977	11251
1988-89	9558 (13341)	7732	9837	14278
1989-90	10194 (14416)	10677	8445	17757
1990-91(RE)	11012 (15750)	12121	12834	21850
1991-92(BE)	11139(16350)	10395	14887	27450

Note: Figures in brackets represent total Defence Expenditure.

Expenditure on police has increased from the level of Rs. 353 crores in 1981-82 to Rs. 1758 crores in 1991-92 i.e. 398% for meeting requirements of internal security.

In addition to the above, expenditure on pay and pensionary charges has also grown significantly, mainly due to implementation of recommendations of the Fourth Pay Commission.

Further benefits extended to Defence pensioners has resulted in large increase in pensions.

Quasi-Subsidies and Financial Reliefs

1.28 The Ministry in a written note has stated:

"Apart from the explicit subsidies there are "Quasi subsidies" consisting of postal deficit and net expenditure on certain other departmental commercial undertakings. There are "hidden subsidies" which include

(i) Non repayment of principal and interest dues as well as dividends by Public Sector Undertakings and write off loans, and interest.

(ii) Interest below current cost of borrowings charged from State Governments, NABARD, REC, Government servants, etc., and on recovery of fees / charges for services provided or charging concessional rates by educational institutions, hospitals, etc."

There are no quantifications of the hidden subsidies.

In addition to the hidden substance of the type indicated above some public sector undertakings have received other financial reliefs. The recent examples of such reliefs are as under:

(a) Dues outstanding as on 31.3.1989 payable by DESU to Badarpur Thermal Power Station amounting to Rs. 1427.16 crores were waived. DESU has not made payment for subsequant billings also (around Rs. 290 crores per annum).

(b) Outstanding interest of Rs.297.42 crores as on 31.3.89 from DESU to Central Government was waived.

(c) Rs. 611.46 crores outstanding as on 31.3.86 against Delhi Transport Corporation (Rs. 277.27 crores by way of loans and Rs. 334.19 crores by way of interest) were written off.

(d) Rs. 109.06 crores outstanding as on 31.3.86 against Central Inland Water Transport Corporation (Rs. 51.60 crores by way of loan and Rs 57.46 crores by way of interest) were written off.

(e) Loans of Rs. 259.12 crores and interest of Rs. 87.42 crores outstanding against Heavy Engineering Corporation were written off."

1.29 The Committee pointed out that ratio of non-plan expenditure component had not altered over the years even through non-plan expenditure had grown almost four times. This showed either very little flexibility or very little discipline in the public expenditure programme of the Government. The Ministry of Finance, in their comments, stated as follows:—

"Interest payments as a percentage of total expenditure are increasing rapidly. This is a direct consequence of large borrowings made to finance Government expenditure, especially plan expenditure in the past. As stated in Finance Minister's Budget (1991-92) speech. The exponential increase in interest payments can be brought under some measure of control, by 1994-95, only through a strict discipline on Government borrowing for a period of three years. The Union Budget for 1991-92 is the first step in the direction of reducing the fiscal deficit as proportion of GDP. Progressive reduction in the fiscal deficit will ensure that expenditure growth is controlled."

Subsidised Rate of Interest charged on Loans to State Governments

1.30 The Committee enquired whether a part of the deficit had been contributed by subsidised rate of interest charged on loans to State Governments, the Ministry of Finance in their written reply stated:

"As against an average interest cost of around 11.50% on market loans raised by the Government in 1990-91 the rate of interest charged on plan and non-plan loans to State Governments was 10.25%. It has been revised to 10.75% with effect from 1.6.1991. It may also be mentioned that 30% of Central assistance to States (90% in respect of special Category States) is provided in the form of grants-in-aid, even though Central Government has to raise the entire amount required from borrowings.

In respect of loans out of net collections of small savings, the interest paid by State Governments is 13.5% per annum The cost to the Central Government is however, much higher as the States repay the loans over a 25 year period with an initial moratorium on repayment of loan of five years, whereas the Central government is required to repay the investors within approximately 6 years. Some of the popular small savings schemes also have higher rates of interest than 13%. It is, however, difficult to quantify the amount due to the subsidised rate of interest charged on small savings loans to State Governments.

In the case of foreign loans passed on to States Governments, there is also the element of exchange risk which the Central Government bears."

1.31 Justifying the subsidy on interest the Ministry of Finance stated that the interest subsidy was provided to organisations, undertakings when it was assessed that it would not be economically viable (to the loanee) if the normal rate of interest was charged. These arised at the time of initial advancement of the loan as well as due to capital restructuring of the organsiation.

Non-Plan Expenditure 1991-92

1.32 Important items of Non-plan expenditure included in the Budget for 1991-92 are indicated in the following paragraphs:

1. *INTEREST PAYMENTS (Rs. 27450.00 crores)*

These relate to interest on internal debt (Rs. 11582.44 crores) which mainly comprise market loans and discount on Treasury bills (Rs. 9588.44 crores); external debt (Rs. 2680.41 crores), small savings deposits and certificates (Rs. 5704.65 crores), Provident funds including deposits of provident funds of non-Government employees (Rs. 7021.41 crores), Reserve funds of commercial departments of Government (124.23 crores) and other obligations (Rs. 336.86 crores) which include deposits of public sector agencies lodged with Government.

2. *DEFENCE (Rs. 16350.00 crores)*

This includes revenue and capital expenditure on Defence Services net of revenue receipts. The components are Army, (Rs. 8079.13 crores), Navy (Rs. 892.06 crores), Air Force (Rs. 2054.96 crores), Ordinance factories (Rs. 112.63 crores) and capital outlay on all the above services (Rs. 5211.22 crores.)

3. *MAJOR SUBSIDIES (Rs. 7824.00 crores)*

Food (Rs. 2600.00 crores):

The Food Corporation of India purchases foodgrains for the central pool on procurement prices fixed by Government from time to time. These grains are issued to (a) public through public distribution system (b) roller flour mills and (c) for rural employment programmes and other relief schemes at issue prices fixed by Government. The difference between economic cost and the issue price is reimbursed to the Corporation as consumer subsidy. The Corporation also carries buffer stock on behalf of Government and is reimbursed the carrying cost including handling, storage, interest and administrative charges.

Indigenous Fertilisers (Rs. 2900.00 crores):—

A retention price scheme for indigenous fertilizers is in operation since 1977. This scheme is intended to make fertilizers available to the farmers at reasonable prices and give producers of fertilizers a reasonable return on their investment. The fertilizers are sold at issue prices fixed from time to time.

The retention price scheme allows a 12% return on net worth. The difference between the retention price so fixed less distribution margin and the statutorily controlled consumer's price is allowed as subsidy. The retention price is fixed on each plant over the pricing period. Necessary adjustments are, however, made during the pricing period on account of variation in the prices of major inputs. The quantum of subsidy, therefore, depends on the retention price, the consumers' price and the level of production. In addition, the manufacturers are also allowed freight subsidy for movement of fertilisers from factory to delivery points.

Imported fertilizers (Rs. 1100.00 crores):—

As indigenous production is not adequate to meet the demand for fertilisers, imports are arranged to make up the shortfall. Mainly, three varieties of fertilizers viz. Urea, Di-ammonium phosphate and Muriate of Potash, are imported. The estimates are based on the likely imports.

Export promotion and Market Development (Rs. 1224.00 crores):—

This comprises market development assistance in the form of supplementary cash compensatory support in lieu of duty drawback for deemed exports (Rs. 998.00 crores). export credit facilities to provide subsidy of 1.5% in interest charges on export finance provided by banks to eligible institutions (Rs. 200.00 crores) and grants-in-aid to export promotion council etc. (Rs. 26.00 crores).

Debt Relief to Farmers (Rs. 1500.00 crores):—The subsidy is towards providing debt relief to borrowers of eligible loans under the "Agricultural and Rural Debt Relief Scheme, 1990".

Interest subsidies (Rs. 315.55 crores):—

Interest on loans sanctioned by the Government is normally payable at the rates prescribed from time to time. In specific cases where a concession is allowed in the rate of interest to a party or where the loanee is exempted from payment of interest on the loans, subsidies are paid in lieu of interest. An amount equal to the subsidy is taken as interest receipt of the Government.

Subsidised interest rates are allowed on loans for khadi and village industries. Interest exemption has also been allowed as a part of restructuring of capital base of certain public enterprises like Steel Authority of India; Delhi Transport Corporation, and the Central Inland Water Transport Corporation.

Details of interest subsidies are given in Statement No. 5.

Other Subsidies (Rs. 755.03 crores)

Two major items of other subsidies for which the provisions are made are explained below:

(a) Railways (Rs. 314.11 crores)

In terms of the recommendations of the Railway Convention Committee, the Railways have been given concessions in payment of dividend to general revenues on a number of items. These have been explained in the Receipts Budget. The dividend concessions, except that relating to loss in the working of strategic lines is provided to Railways in the form of subsidy from general revenues.

(b) *Mill made and handloom cloth (Rs. 240.00 crores):* Under a scheme financed from the proceeds of additional excise duties levied in textiles and textile articles, the consumer is supplied mill made controlled cloth and also dhoties and sarees produced in the handloom sector at subsidised rates. Provision for subsidy on handloom cloth is Rs. 205.00 crores, while that for mill-made cloth is 15.00 crores.

POSTAL DEFICIT (Rs. 243.00 crores)

This represents the net deficit of the Postal services. Working expenses of the Department are estimated at Rs. 1203.00 crores and receipts at Rs. 960.00 crores leaving a deficit of Rs. 243.00 crores.

Fiscal correction during 1991-92

1.33 Indicating the measures taken to control Non-Plan expenditure during the Budget year 1991-92 the Ministry stated that the following correctives were applied:

These corrective include:

(1) Reduction in subsidies by increasing the prices of fertilizers by 30 per cent (except for marginal and small farmers) and increase in the issue price of sugar from Rs. 5.25 per Kg. to Rs. 6 per Kg.

(2) Abolition of Cash Compensatory Support for exports.

(3) A marginal increase of 3.8 per cent in defence outlay.

(4) Increase in the prices of motor spirit, domestic LPG and aviation turbine fuel by 20 per cent.

(5) Changes in tax rates to yield a net additional revenue of Rs. 2005 crores to the Centre.

This is in addition to the directions to the Ministries/Departments to absorb, as far as possible, unavoidable additional commitments like expenditure on fresh instalments of DA, etc. against their approved Budget provisions.

1.34 Summary of Expenditure Budget, 1991-92 is produced below:

(Rupees in crores)

	Actuals 1989-90	Revised 1990-91	Budget 1991-92
TOTAL EXPENDITURE	92906	106717	113422
Plan Expenditure	28401	29956	33725
1. Budget Support for Central Plan	18159	17594	19015
2. Central assistance to states & UT plans	10242	12362	14710
Non-Plan Expenditure	64505	76761	79697
1. Interest Payments	17757	21850	27450
2. Defence (including Capital outlay on Defence)	14416	15750	16350
3. Subsidies	10677	12121	10395
Food	2476	2450	2600
Fertiliser	4601	4400	4000
Export Promotion	2089	2700	1224

(Rupees in crores)

	Actuals	Revised	Budget
Debt Relief to Farmers		1500	1500
Other Subsidies (including interest subsidies)	1511	1071	1071
4. Pensions (including Freedom Fighter's Pension)	2313	2311	2465
5. Police (including Buildings for Police)	1424	1829	2018
6. Grants and Loans to State & UT Governments	7960	10285	9547
7. Non-Plan Loans to Public Enterprises	1131	1070	632
8. Grants & Loans to Foreign Governments	901	1460	1214
9. Other Non-Plan Expenditure**	7926	10085	9626

**Apart from salaries, administrative expenditure, etc. this includes investments in defence PSUs, Postal deficit, net expenditure on departmental commercial undertakings, Capital outlay on Coast Guards, Border Roads, non-plan outlay of C.P.W.D. etc.

1.35 Referring to the preceding table, the Finance, Secretary during evidence stated:

"The contraction in expenditure has been achieved notwithstanding the fact that during the year under review we have had an increase in interest expenditure. We have not reduced the plan expenditure. Budget support for plan has gone upto Rs. 33,725 crore and interest charges by nearly Rs. 5,600 crore which.......is to be seen with reference to what it would normally have been because when you are talking in terms of fiscal correction, we are talking of increase in revenue. For Defence, we allowed only 3 per cent growth over Revised Estimate 1990-91. We fixed it as Rs. 16,350 crore. There is reduction in Defence expenditure from the projected demand. Even if inflation was to be neutralised, the outlay would have been much larger.

In the normal course, the figure of Rs. 10085 crore would have gone up. But we find that the amount is only Rs. 9626 crores. This is where the major saving comes. We did announce in the Parliament there will be an extra expenditure of Rs. 8 crore towards fertilizer which we will save elsewhere. Bearing this, in the first supplementary. We did not ask for extra provision

The revised estimates as finalised are below the original budget estimates....... we are confident that this year, the final expenditure on petrol, electricity and telephone may ultimately lead to a saving of about no more than Rs. 50 crores or Rs. 100 crores. However, it is absolutely necessary to reduce expenditure in regard to austerity measures in government".

Limitation to Expenditure Control

1.36 In regard to limitation to expenditure control accounts on the management of deficits, the Secretary, Finance explained that the sale price for all potash and phosphatic fertilizers is fixed. They are all imported. Supposing the import price is going up and we continue to sell it at the subsidized rates, then the deficit naturally goes up. We have a system which determines the expenditure on a totally different basis and not on the basis of allocation. In our system, there are three to four areas for which expenditure is not determined on the basis of allocation but on a totally different basis. Those areas are fertiliser subsidy, food subsidy and technical credit. Defence is something like security oriented and I think we should not go into its details. So, these are the areas in which we are working various formulae and these things can be brought under discipline. Barring these three areas, in the rest of the areas, we can say that we have a system of expenditure control and we tell them that we cannot go back to the Parliament and if they want any additional provisions they can kindly surrender or cut their expenditure elsewhere. We have examined this aspect since three years and we have deficit indications and I am able to assure the Committee this much that we will end the year at 6.5 per cent fiscal deficit. And next year, we will go to give per cent *i.e.* contraction of about Rs. 9000 crores.

He further added that "this year, export subsidy is the major element by which we will have about Rs. 3000 crores but having abolished it we cannot do it again in the next year.......As interest cannot be reduced, in fact it would increase substantially, how? So, we are working on in the Budget in order to reduce the fiscal deficit."

Revenue Augmentation

1.37 In regard to bridging of revenue deficit the Committee examined various aspects including the position of tax revenues, augmentation of non-tax receipts, improving returns from public sector undertakings, etc. In a written note the Ministry stated:

> "The increase in budget deficit is mainly a reflection of the increasing gap between revenue receipts and revenue expenditure. The share of tax revenues retained by the Centre fell sharply, due to the recommendations of the Seventh Finance Commission when the States share of Central Excise Duties was increased from 20% to 40%. Eighth Finance Commission further increased it to 45%. Non-tax revenues did not grow much because of the poor return from public enterprises, pegging dividend payable of the Railways at 6% pursuant to the recommendations of the Railway Convention Committee; subsidised rate of interest charged on loans to State Governments, etc. On the other hand, there was a spurt in expenditure mainly on account of interest payments, subsidies, plan and non-plan grants to State Governments and on defence. While the revenue receipts grew at an average rate of 16.7 per cent per annum during 1981-82 to 1991-92, revenue expenditures increased at an average rate of 17.1 per cent per annum. Because of the negative balance from the current revenue, additional borrowing had to be resorted to for financing plan and non-plan expenditure. This has resulted in further outgo by way of interest payments and repayments of principal."

1.38 The following table indicates the position of tax receipts during the years from 1975-76 onwards:

Table: States' Share in Central Taxes

(Rs. crores)

Year	Gross Tax Revenue	States' share in Central Taxes	States' share as % of Gross Tax Revenue
1975-76	7609	1599	21.0
1976-77	8271	1690	20.4
1977-78	8858	1798	20.3
1978-79	10525	1957	18.6
1979-80	11974	3406	28.4
1980-81	13149	3791	28.8
1981-82	15816	4274	27.0
1982-83	17696	4640	26.2
1983-84	20722	5246	25.3
1984-85	23471	5777	24.6
1985-86	28670	7491	26.1
1986-87	32638	8476	26.0
1987-88	37666	9598	25.5
1988-89	44474	10669	24.0
1989-90	51636	13232	25.6
1990-91(RE)	58916	14535	24.6
1991-92(BE)	68835	16255	23.6

1.39 The Ministry in a written note stated that as a result of implementation of the recommendations of the 7th Finance Commission State's share in Central taxes and commodities increased significantly from 18.6 per cent in 1978-79 to 28.4 per cent in 1979-80. However, it is apparent from the table given above that after 1981-82 the State share as a percentage of gross tax revenue has continued to decline, obviously, as a result of relatively larger increases in the non-divisible tax revenues.

Growth of Non-tax Revenue of the Central Government

1.40 The following table presents the growth of total non-tax revenue-interest receipts, dividends and profits from 1980-81 onwards:

Table : Growth of Non-tax Revenue of the Central Government

	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91 (RE)	1991-92 (BE)
1		2	3	4	5	6	7	8	9	10	11
Total Non-Tax evenue of which	3493	4440	4270	5815	6895	8764	9022	9840	13947	13063	15029
(i) interest Receipts	2215	2852	2668	3963	4595	5353	5755	6981	8466	9573	11009

1	2	3	4	5	6	7	8	9	10	11
From State & UT Governments	908	1029	1264	1616	1872	2754	3158	3770	4424	5592	6808
—On Railway Capital	338	392	353	244	559	553	614	689	783	927	1037
—on Posts & Telecom Capital	52	71	97	135	170	213	0	161	180	204	225
—Other interest Receipts	917	1360	954	1968	1994	1833	1983	2361	3079	2850	2939
(ii) Dividends and Profits	321	419	451	407	515	507	605	475	715	779	967
—Profits from RBI	210	210	210	210	210	210	210	210	210	210	350
—Other dividend recepits	111	209	241	197	305	297	395	265	505	569	617

Tax exemptions to RBI, UTI, IDBI and Mutual Funds

1.41 In a note on exemption to RBI, UTI, IDBI and Mutual Funds from payment of income tax to the Central Government, the Ministry of Finance have stated as follows:

The profits of IDBI were exempt from income-tax right from its inception in 1964, under section 35 of the IDBI Act. This section has been deleted with effect from the first day of April 1992 through the Finance Act, 1991. As a result, IDBI has become liable to income-tax or any other tax in respect of the income, profits or gain accruing or arising to it.

(2) There is no change with regard to the tax exempt status of Reserve Bank of India, Unit Trust of India and Mutual Funds.

(3) The Reserve Bank of India functions as the country's 'Central Bank'. It is not engaged in commercial activity and is, therefore, not called upon to bear the burden of corporate tax.

(4) The basis for exempting UTI from income-tax is that it is only a conduit or an institutional arrangement of the nature of a Mutual Fund for investment of funds by small investors who do not have the time or expertise in this regard. The same rationale applies for providing exemption from income-tax to the Mutual Funds.

1.42 The Committee pointed out that there were large variations in the dividend and profit payments to the Central Revenue in different years. In this connection, the Finance Secretary stated as follows:

"I am afraid, I will have to look into it. But basically, this is something which the Finance Commission has also drawn attention to. In all the investments, if we get a six per cent dividend, then we should at least get another Rs. 1700 crore in the kitty."

Constraints on growth of tax and non-tax Revenues

1.43 The Committee enquired about the constraints on the growth of tax and non-tax revenues. The Ministry of Finance in a written note explained:

"The major constraints on the growth of revenue from direct taxes is a narrow tax base given the developing nature of the economy, low per capita income of the population and the existence of a large informal sector. The possible adverse impact of higher rates of taxation on input costs and their cascading effect on prices in general and regressive nature are among the main constraints in raising revenue from indirect taxes.

(2) There is scope for raising non-tax revenue through recovery of cost of services. However, socio-economic considerations limit the scope and extent of this option."

1.44 As regards the long term strategy being adopted for raising more non-tax revenue through recovery of cost of services, the Finance Secretary said:

"There are two things. As far as Government of India is concerned the raising of non-tax revenue is by way of payment of interest charges by the public sector undertakings on the loans taken by them and the payment of dividend. The Ninth Finance Commission had gone into it in great detail. They have observed that even if this particular activity is taken care of, we can generate an extra amount of Rs.1700 crores in the Budget. This year expect about Rs. 800 crores on this account. But we have to go a long way."

Cost of Services

1.45 In regard to cost of services rendered by Government through educational institutions, hospitals etc. during evidence Finance Secretary said:

"We spend a lot of money on IITS and AIIMS. Of course, the return for the services rendered will not be substantial. But the State Governments need to do a lot on this account. It would not mean charging from every village dispensary and every village school. But most certainly there is a case for charging 30% to 50% for the services rendered in the field of higher education, higher medical facilities. We need to change for the facilities provided in term of irrigation system, road/transport undertakings, electricity boards. All these matters have been taken up with the State Governments. The Planning Commission during the normal plan discussions with the State Governments, spend a lot of time on these aspects saying that your outlay would depend to the extent to which you will be able to minimise the subsidies. The scope is tremendous."

Tapping Unaccounted Money

1.46 In the context of Government's efforts to bring out black money for augmentation of tax revenues the Committee discussed the latest schemes brought out by the Government to mop up unaccounted money. In this context the Finance Secretary stated:

> "Under the National Housing Bank Scheme.... anybody can bring in his money. We will retain 40% as levy to be used for slum clearance etc. and the balance 60% will allow him to use for any purpose he wants."

1.47 Asked about the response had the scheme drawn, he added:

> "It has resulted in gettng about Rs. 1700 crores or so. But it will gain momentum towards the end of the Scheme....We expect that the Scheme will be quite successful."

Tax Reform

1.48 Asked what reform were being made in the tax laws and structure in order to improve tax compliance, the Secretary Finance informed the Committee:

> "The Government is trying to restructure the system-both direct and indirect taxation—and remove unnecessary regulations in the system. The steps that can generate higher rates of taxation and encourage evasion of tax will be looked into."

1.49 Amplifying his statement he added:

> "The number of the people who are on the tax net is only seven million and a good part of them are salaried-class. It is really not conceivable that in a country of 850 million people, only seven million are paying taxes to support the remaining population. Over a period of time all these people should be brought into the tax net."

1.50 The high-level Committee of experts headed by Dr. Raja J Chelliah, to examine the structure of direct and indirect taxes, had recently submitted its report to the Minister of Finance December, 1991.

Explaining the position the Finance Secretary said:

> "Dr. Raja Chelliah Committee Report has been received. It is being processed as part of the Budget exercise. If the suggestion about excise and customs is made public at this stage, it will lead to a situation where some people may take advantage of this and think of whether to import it earlier or later. So I would seek the indulgence of the Committee in not discussing this at this stage.

1.51 Commenting about the broad findings of Dr. Raja Chelliah Committee Report the Finance Secretary said:

"I would seek the indulgence of the Committee for not discussing this at this stage. But, broadly I would say that the report is in two parts: The first part deals with income tax to a large extent, and customs and excise to some extent. The Second part covers not only the corporate and excise taxes, but it would cover the cleaning up of the entire tax structure. Dr. Chelliah Committee would address itself to the cleaning it up totally and restructuring it in a way that it leads to stricter and easier tax compliance."

Realisation of Arrears

1.52 Referring to a large amount of arrears the Committee enquired about the efforts being made for realisation of arrears. The Finance Secretary stated:

"The total amount of arrears under direct taxes is close to around Rs. 6500 crore. The total arrears under the indirect taxes will be a little less than Rs. 3000 crore. Our analysis shows that a very good part of that is tied up in various Court proceedings. Basically, therefore, if you want to collect the arrears, you have to do two things. Firstly, take it as a missionary zeal, as an objective and go heavily on defaulters. Secondly, expedite the Court cases.

As far as first is concerned, necessary directions have already been given to both the Boards. We are launching a major drive. .....Nearly Rs. 1,000/-crores will be collected by the end of March, 1992. This is the target that has been set internally for the two Boards."

Arresting Revenue Shortfall

1.53 In regard to the impact of revenue shortfall on the position of deficit, the Finance Secretary informed.

"The total shortfall in revenue is not likely to be more than Rs. 2000 crores. We have reviewed the whole budget. There has been some significant imporvement. The fiscal deficit we will manage to keep at the earlier estimated figure. There will be further tightening of the expenditure. We are going to take stringent action."

1.54 On being pointed out that there had been a report that there were shortfalls of about Rs. 4,000 crores in the excise duty because of import restrictions. To this, the Finance Secretary said.

"In the current year, hopefully under the income tax, corporate tax, and the excise duty the final collections will be higher than the budget estimates figures as given in the statement. Two steps have been taken to retuce the shortfalls. One is regarding bonded ware-house facility. Earlier they were allowed to put it in the warehouses duty free for

90 days. They requested the Government that this facility may be extended for one year. Now, we allow them to keep their goods in the warehouses for a period of three months. That will be reduced to one month; and even the party should pay 50 per cent to start with. We have launched a drive for expediting clearance in all the customs airports. These two processes, I think, will give substantial additional revenue."

1.55 It had been reported in Press that Government intended to reduce customs duties under the new economic policy. The Committee enquired: Will it not necessitate lowering down existing rate structure of the Central excise as well? And if so, what will be the impact of revenue realisation and the management of deficit? Explaining the position, the Chief Economic Consultant stated as follows:

"Actually, we are not convinced that reducing tariff rate means reducing tariff revenue. Suppose our imports are doubled next year, the tariff revenue could still go up at lower tariff rates. As far as revenue implication is concerned, I would like to say that lower tariff rates could lead to lower tariff revenue. It is also possible to reduce tariff rates and at the same time reduce concessions and still set a higher revenue. I would like to say that this would not necessarily come from excise. It could come from direct taxes."

Zero Base Budgeting

1.56 At the instance of the Committee, the Ministry of Finance furnished a note on application of Performance Budget and 'Zero Base Budgeting' for checking unproductive inefficient use of funds and the degree of success achieved in this respect. The Ministry explained the position as follows:—

Performance Budget

All Ministries/Departments in charge of developmental programmes are preparing and presenting to Parliament Performance Budgets in pursuance of recommendations of the Administrative Reforms Commission on 'Finance, Accounts and Audit'. The Performance Budget presents the budget of the Ministry/Department in terms of functions, programmes and activities as per format prescribed for this document. Performance Budgets are meant to serve the management as a tool of administrative and financial control in the implementation of developmental programmes.

Performance budgeting comprises three essential ingredients viz. (i) indentification of functions and objectives of various departments of Government (ii) recasting the accounting structure to reflect the functions and programmes of Government and (iii) evolution of norms or standards of performance so that targets can be scientifically set and performance measured — leading to a correlation of inputs and outputs. Of these the first two stages have been accomplished. The third stage of evolution of norms has run into difficulties owing to the vast spread of Government expenditure, the diversity of operations and practical difficulties in standardisation and correlation.

Zero Base Budgeting

In the Chapter on Frame work of Economic Policy included in the Seventh Plan it had been recommended that as one of the means of achieving expenditure control the principle of Zero base budgeting should be introduced and that it should be applied not only to non-development expenditure but also to development expenditure. The main thrust of zero base budgeting is to replace the conventional incremental budgeting and bring about a fresh look at the contents, strategies structures and mechanisms of Governmental operations to ensure and optimal allocation of resources available. ZBB requires identification of each of the activities presently undertaken in such a manner so that it can be evaluated and ranked against activities competing for limited resources.

The Central Ministries/Departments were advised in 1986 to adopt Zero base budgeting in their area of operation. The Ministeries/Departments were required to rank various programmes. A Model questionnaire was also cirulated to the Ministries for this purpose. This evoked little response and the Ministries filled the questionnaire in a routine manner.

The need for Zero base budgeting was once again impressed on the Ministries/Departments in 1987. They were asked to draw up a time bound programme for review of all the programmes and activities, to be completed over a period of 3 years by covering 1/3 of the budget each year. In so far as Plan schemes were concerned Planning Commission was to be associated in the review.

Even this did not evoke a satisfactory response. When the Ministries were asked for a report about completion of the review, many Ministries merely reported that they have completed the review without any result. Certain others said that all their programmes were equally important and nothing can be given up.

In July 1991 the Ministries/Departments have again been requested to make an effort to prioritise the activities and schemes both on Plan and Non-Plan side and identify those schemes and activities which can be eliminated or reduced in size.

1.57 The Committee during evidence observed that while the Ministry of Finance was itself convinced about the benefits of the system of Zero Base Budgeting, it had not been able to persuade other Ministries and Departments in this regard. However, the response of other Ministries have been routine or lukewarm. In this contest, the Committee desired to know as to why no serious efforts had been made for adoption of the system. Admitting the failure, the Finance Secretary submitted as follows:

"I must frankly admit that it has not been a success at all. In fact a number of Ministries, which have taken the zero-base budgeting very seriously and drafted schemes here and there, is very little. Earlier they could come and weep before the Government and somehow money will be provided to them. But now we are telling them that we have a bottom line and we have a commitment to Parliament and our deficit is so much and we cannot pay you more, and ask them to set their house in order. We only say that there is the cloth and cut your suit according to it. I expect that from now onwards there will be incentive for each Ministry to check it very seriously because the penalty for not doing so at the end of the year will be severe. I do hope that at least from now onwards this concept of zero-based budgeting, pruning of expenditure will be taken seriously. This exercise has, therefore, been again taken up by the Cabinet Secretary. He has already had very major discussions on two issues-Industry and Commerce, where maximum deregulation has to be done. He has already given directions in respect of these two Ministries.

In respect of other Ministries also, it is now being told to them for the first time. But I must admit that all these years it has not been a success. It has been a failure."

Return on Investments in Public Sector Undertakings

1.58 The Ministry in a written note stated. "The overall return on investments in the Public Sector Undertakings computed on the basis of ratio of net profit to capital employed is 4.5 per cent for the year 1989-90.

(2) Capital output Ratios are used to estimate the amount of investment needed to achieve certain rates of growth of economy. The Incremental Capital-Output Ratio (ICOR) measures the extra output obtained from an extra unit of capital. Commonly, changes in capital stock are related to changes in output without any reference to other inputs, thereby, assuming implicitly that the other factors always maintain optimum technical relations. Even when capital output ratio is measured in this limited sense, two important factors are required to be taken into account, viz., gestation lag between investment and production and evaluation of capital stock and output generated therefrom.

(3) The Planning Commission, in its technical note, on the Sixth Plan, had worked out the ICORs for 14 different sectors for the Sixth Plan Period (1980-85). No exercise has been made by the Planning Commission to work out the ICORs for the Public Sector and the Private Sector separately. The ICORs for the Seventh and the Eight Plan periods have not been worked out in respect of different sectors of the economy."

1.59 As regards the steps taken or proposed to be taken to improve the use of Government funds and the productivity of Government investments, the Ministry of Finance in their note stated as follows.

"At micro level, the administrative Ministries/Departments take appropriate steps to improve the functioning of the public sector enterprises under them and also to improve the productivity of Government investments in them.

(2) On a general basis Government has taken several steps to improve the performance of public sector enterprises, some of which are mentioned below:

—organisational restructuring through formation of holding companies,

—mergers,

—introduction of the concept of Memorandum of Understanding(MOU),

—improving monitoring and information system,

—increased delegation of power to facilitate fast decision making,

—induction of professionals and specialists in the management of public sector enterprises and provision of longer stability of tenure at the top level,

—linking of price fixation of certain essential products with the long term marginal cost,

—introduction of voluntary retirement scheme to reduce the surplus staff etc. and

—streamlining the procedures for grant of approvals by the Government.

(3) In the Industrial policy Statement of 24th July, 1991 and the announcement made by the Finance Minister in his Budget Speech, the policy thrust is on performance improvement by—

Rationalising Portfolio—

—Reduction in reserved list from 17 to 8 industries

—Competition even in reserved areas

—Board of PSUS to be strengthened and professionalised.

Dealing with chronically sick PSUs through—

—Reference to BIFR or

—Offer to workers' Cooperatives

—Partial Disinvestment to raise resources and broaden ownership base. The relevant extracts from the Industrial Policy Statement are given in the Annexure.

(4) In addition to the above, other steps taken to improve the performance of the public sector enterprises are : technological upgradation, renovation and modernisation, introduction of better management practices changes in product mix, provision of captive power plant, quality control, cost control laying emphasis on market competitiveness, etc."

Annexure

Relevant portions of public sector policy which is part of New Industrial Policy Statement of 24th July, 1991 are given as under:—

PUBLIC SECTOR

(i) Portfolio of public sector investments will be reviewed with a view to focus the public sector on strategic, high-tech, and essential infrastructure. Whereas some reservation for the public sector is being retained there would be no bar for areas of exclusivity to be opened up to the private sector selectively. "Similarly the public sector will also be allowed entry in areas not reserved for it.

(ii) Public enterprises which are chronically sick and which are unlikely to be turned around will, for the formulation of revival/rehabilitation schemes, be referred to the Board for Industrial and Financial Reconstruction (BIFR), or other similar high level institutions created for the purpose A social security mechanism will be created to protect the interests of workers likely to be affected by such rehabilitation packages.

(iii) In order to raise resources and encourage wider public participation, a part of the Government shareholding in the public sector would be offered to mutual funds, financial institutions, general public and workers.

(iv) Boards of public sector companies would be made more professional and given greater powers.

(v) There will be a greater thrust on performance improvement through the Memoranda of Understanding (MOU) system through which managements would be granted greater autonomy and will be held accountable. Technical expertise on the part of the Government would be upgraded to make the MOU negotiations and implementation more effective.

(vi) To facilitate a fuller discussion on performance. the MOU signed between Government and the public enterprise would be placed in Parliament. While focussing on major management issues, this would also help place matters on day to day operations of public enterprises in their correct perspective.

1.60 In this connection extracts from Monograph on the Performance Status of Central Public Sector Enterprises are reproduced as Appendix.

Appendix

As on 31-3-1990, there were 244 Central Public Sector Enterprises (PSEs) owned by the Government of India with a total investment of Rs. 99.315 crores. 60% of this investment is in the core sector industries. Total profits of these enterprises increased from Rs. 1172 crores in 1985-86 to Rs. 3782 crores in 1989-90 and the percentage of net profit to capital employed increased from 2.73 to 4.48 per cent during this period. While the oil group of enterprises increased their net profits from Rs. 1651 crores in 1985-86 to Rs. 2900 crores in 1989-90, the non-oil group of enterprises showed marked improvement by changing over from a net loss of Rs. 479 crores in 1985-86 to a net profit of Rs. 282 crores in 1989-90. These enterprises employ about 23 lakh people and generate value added worth Rs. 29,000 crores a year.

(2) The disaggregated analysis indicates that during 1989-90, a total of 131 enterprise earned and overall net profit of Rs. 5741 crores and 98 suffered a net loss of Rs. 1959 crores. It is notworthy that 85% of the total capital employed in these 131 PSEs is giving a fairly reasonable rate of return......

(3) Based on a bench mark of 8% rate of return......84(64%) of the 131 profit making PSEs, whose contribution to total net profit is about 34% still show room for increasing their profitability. This is the thrust area for MOU policy, since a 5% improvement in cost of production could result in an additional gain of about Rs. 5000 crores for the economy without further investment.

(4) The main reason for poor overall performance of the public enterprises can be traced to the loss making PEs to talling 98 in number. They are numerically large but account for only 14.5% of the capital employed and about 35.6% of employment in the public enterprises.....These 98 enterprises are inefficient in more than one sense. First, all these 98 enterprises have shown negative profits in 1989-90. Secondly, they have total accumulated loss of the order of over Rs. 10,000 crores which account for 78% of the accumulated losses of all public enterprises. It may be mentioned that in this group 15 enterprises are monopolies while 83 enterprises are operating in competitive markets......The 15 monopoly public enterprises are functioning in core sectors of economy such as Steel, Coal, Mines, Shipyards, Transportation Services like DTC, Indian Airlines, etc., and essential trading services such as Food Corporation of

India. Solutions to their problems have to be found within the Public Sector system. It is, however, obvious that any policy for reorganisation and restructuring of PEs has to be directed first towards findings solution to the loss making public enterprises in the competitive sector.

(5) 83 public enterprises operating in competitive markets are the ones who have mainly contributed to the accumulated loses of the public enterprises, their share being 79.3%.....

(6) Of these 83, 32 are taken over enterprises from the private sector.....

(7) Employment in the taken-over loss making enterprises was 2.04 lakhs in 1989-90 as against that of 3.75 lakhs in all the 83 loss making competitive enterprises. The capital employed in taken over loss making enterprises was of the order of Rs. 648.48 crores whereas the total capital employed in all the loss making enterprises was Rs. 2357.40 crores. Thus the taken-over loss making enterprises accounted for a little over 54% of the employment and about 27.5 per cent of the capital employed in the 83 loss making enterprises. The taken-over enterprises represent mainly those units which were rendered sick earlier by the private sector, and they were taken over by the Government mainly to protect employment. However, these units have continued to incur losses over a number of years. Efforts made in the past to improve the performance of these taken over enterprises have not produced the desired results so far, it does not, therefore, stand to logic to perpetuate such losses in the future as well.....

(8) The annual loss per employee of the 58 chronically sick loss making enterprises worked out to Rs. 38714 in 1989-90 the capital employed per employee in these enterprises was of the order of Rs. 13093 and the accumulated loss per employee as on 31-3-90 was of Rs. 2.09 lakhs......

(9) While enterprise-specific causes of sickness are given in Volume II* of this monograph, the two main causes in most of these enterprises are out moded technology and over employment.....Being in the competitive sector many of the loss making enterprises would have low priority for fresh investments which would naturally flow towards core and socially more relevant sectors.

(10) In Volume-II, detailed analytical performance of loss making public enterprises with diagnosis, steps taken/proposed, various options with cost and benefits, market structure etc., against each PSE are given for finding appropriate solutions.

Impact on Workers

1.61 The Committee pointed out during evidence that "actually in view of the present changes in the economy and the current fiscal policy, since unemployment is likely to increase. How are you going to correct it? How do you propose to attned to the growing needs of the country?"

With regard to the review of Central Public Sector enterprises performance as contained in the Monograph on the Performance Status of Central Public Sector enterprises circulated to the Members of Parliament for discussion in the House in December, 1991, the Secretary, Department of Public Enterprises during evidence said:

"The monograph contains specific proposals in regard to 58 companies which we consider sick according to the definition under the Sick Industries Act. If you were to add up all the proposals that have been made in it for revival and rehabilitation, the amount would come to Rs. 15,600 crores. If you were to take all the loss making companies, which were 98 in number, this figure goes up to Rs. 24,000 crores. In fact, you should not bother about these 98 companies. You should worry about Rs. 15,000 crores. For new industries, licensing requirements have been taken away and all investments can take place. Our estimate is based on the capital required for creating employment and Rs. 15,000 crores will thereby provide employment to 15 lakh people. Look at the equation. You are protecting four lakh people. By reviving whereas with the same amount you can give employment to 15 lakh people. It is a question as to how you are going to deploy your finance? We have to judge everything in this context."

He, however, added,

"The Public sector policy of the Government still remains to be a policy for improving the performance of public sector and nothing more. There is no privatisation policy; there is no closure policy. You cannot have them as ideology in this country. When you look at the performance improvement concept, you will have to know whether you are competitive or highly protected. A question arises as to how you would reduce your reserve list of public sector from 17 to 8. If you have a nature industrial sector, which is both in the public sector and in the private sector it should be possible to open up public sector to become more competitive."

1.62 Referring to another exercise in the Department of Public Enterprises, the Secretary (Public Enterprise) further stated: "When we take decisions in regard to increasing competitiveness of public sector enterprises there is bound to be some impact on the labour. It cannot remain in the same form. It requires to be retrained where it is possible. Where there are too many people and you require less, then those people will have to go out.

Disinvestment

The other part is the dis-investment part. What we are trying to do is to distribute the equity, the ownership of the public sector in the public. There is a mis-conception in the minds of some of that this disinvestment is in favour of some industry. It is not so."

1.63 Enquired as to whether the profitability of some public sector enterprises was due to higher administered prices, the Secretary (Public Enterprises), stated as follows:

"No, that is not true. Out of 131 companies which made profit, 76 are in the competitive sector and they are doing well. Therefore, to think that the public sector does well only with the administered price is wrong. This is the perception I want to correct."

Sickness

1.64 The Committee pointed out that sickness of an undertaking did not come all of a sudden; it took quite some time for the sickness to grow. As the Government do have periodical reports from its representative as the Board of Directors of PSU, the Committee enquired what corrective measures were taken. The Secretary (Public Enterprise) submitted:

"This is really the responsibility of the administrative Ministry and the Bureau of Public Enterprises does not deal with the operational matters. I can say that most of the sickness here has been the acquired sickness."

In this connection, the Finance Secretary explained:

"As a Finance man, I was represented on the Board of Directors of the Heavy Engineering Corporation some years back, In each one of our reports, I was submitting to the Government that this organisation is sick and various decisions will have to be taken. As Secretary (Expenditure), I used to get the reports of the Additional Secretary and the Financial Advisers of the Commerce Ministry and the Textiles Ministry that the following units of the NTC are sick."

1.65 In response to a query, the Finance Secretary clarified:

"I would not go to the extent of saying that the finance representative on the Board of Directors is always very good. But mostly he will do exactly what he is supposed to do and will submit his report, which may not be palatable to many.

I will give one example. I will not name the industry. One Units was sanctioned in 1971; it should have been completed in 1975; but it was completed in 1981; and from 1981 till todate this particular unit has not produced a single tonne or a single unit of anything. In the meantime the workers have not only been paid salary but also overtime and canteen allowance. Such things become major issues. The finance man has to give his report in such a way only."

1.66 The Finance Secretary further stated:

"The basic point that comes out invariably is the assessment that has been made that this sickness has to be removed and the basic restructuring is necessary. There is a large surplus manpower, for whatever reason. We will have to shed it. The huge investments will have to be out. This is where you found the Government are generally not able to either thin the staff requirements or get rid of surplus manpower. It is not a sudden finding that the manpower is excess. The Chari Committee report, presented then years ago, is there. It says that in Eastern Coalfields alone 70,000 people are exccess. These assessments are made periodically and repeated. Then the Chairman-cum-Managing Directors do their assessment. Then the bottom line is arrived at."

Loans advanced to State Governments and amounts written off

The Ministry of Finance at the instance of Committee furnished a note on details of loans advanced to State Government and amount of loan written off on the basis of the recommendation of Finance commission, stating the position as follows:

Loans advanced

The information regarding total Plan and Non-Plan loans advanced by the Central Government to State Governments from 1985-86 to 1991-92 (BE) is given below year wise :—

	(Rs. crores)
1985-86	9907
1986-87	7685
1987-88	9388
1988-89	10017
1989-90	11279
1990-91(RE)	14393
1991-92(BE)	14993

WRITE OFF OF CENTRAL LOANS

2. The amounts of outstanding loans to State Governments which have been written off on the basis of recommendations of the Finance Commissions (Sixth Finance Commission onwards) are given below:

	(Rs. crores)
A. On the recommendation of Sixth Finance Commission	22.19
B. On the recommendation of Seventh Finance Commission	938.61

C. On the recommendation of Eighth Finance Commission:	
(a) Amount written off in respect of repayments to be made by State Governments	324.16
(b) Loans for relief and rehabilitation of displaced persons, repatriates:	132.33
D. On the recommendation of Ninth Finance Commission (2nd Report)	
(a) Loan Liabilities of erstwhile Union Territories—Arunachal Pradesh, Goa and Mizoram as on 31-3-1990	355.22
(b) Drought loans to States advanced during 1986-89 (outstanding as on 31-3-1989)	519.57
(c) Entire Loans for relief work relating to Bhopal-Gas Leak Tragedy advanced during 1984-89.	91.62

1.68 The Committee pointed out that some States may have already reached the debt trap situation, and enquired as to how many States are in such a situation and whether there was a way out for them. To this the Secretary, (Expenditure) stated as under:

> "It is true that States' debt liabilities are increasing. In a recent assessment made by us we found that as high as 70% to 80% plus of the total plan outlay of the States is financed by fresh borrowings. Further, when we did in analysis we found that some States have reached a level where fresh borrowings equal their plan outlay. There are two or three factors for this. One basic malady is which the Government of India has started correcting as its budget position is that the revenue account of the State Governments is progressively falling into heavier and heavier deficits. With the result that for meeting even their normal salary type of requirement, they have to rely on borrowings. These borrowings are once in one year.
>
> Suppose a State requires Rs. 100 crores in addition to capital investment for their salary, next year apart from Rs. 100 crores plus the original cost requirement, they will have to borrow more on interest. So, a vicious circle is there and the State is unable to come out of it."

1.69. On being pointed out that if the States have no resources how will these can overcome the debt situation, the Finance Secretary stated:

> "Basically the States in the North-East have this problem where the resource base is extremely weak and over a long period of time, the Government of India is funding both plan and non-Plan for the special category States including States like Assam, Jammu and Kashmir, Himachal Pradesh and Sikkim."

1.70. What was the solution then, the Committee asked? The Finance Secretary informed:

> "The Planning Commission has set up a Committee. I expect they will come with a formula."

1.71. On the question of writing off State Governments loans, the Finance Secretary explained the position as follows:

> "We do not ourselves write off any amount. These write offs are based specifically on the recommendations of the Finance Commission.
>
> The Finance Commission assessed the totality on the receipts, expenditure and the deficit position of the various State Governments. They feel that in their assessment, these are the gaps in the various states and for filling up the gap, they make various recommendations. One of the recommendations is that of write-off."

Manpower Restructuring

1.72. In relation to pruning the size of the Government Departments the Committee observed that if a fiat is put on creation of new posts or filling up of vacancies that might arise might result in some savings but will, at the same time create social tension. They desired to know whether the Government would be able to control such tensions and how it was proposed to be done. The Finance Secretary in his reply said:

> "Being a finance man, I will be happy, if the expenditure goes down. The attitude of the Government of India is now known and now there are about 55 lakh people in the Railways, Telecommunications, Defence Production and Defence Services and in the normal course not even one single person out of these essential services is going to be sent home. What will happen in the process of sqeezing will be, some reduction in the annual replacement which is about three per cent or one and a half lakh people. But on account of the Union Territories like Andaman & Nicobar Islands and Delhi and the Police much additions take place. The net reduction may not, therefore, be much. Some reduction may be there here and there but I do not think even one per cent will be sent home even within the Government system.
>
> He further explained:
>
> "You have about 22 lakh employees in the public enterprises. They have again identified 50 units or so where the employment is over 3 lakhs. To make these units viable we require Rs. 13,000 crores. If you really can save and invest in new viable units you will create another 13 lakh jobs. The question is if you do not have the money what is to be done. In the public sector where you have a scheme of golden handsake not all will accept it.

There is a scheme called National Renewal Fund to be introduced in this year and it has been given a final shape and will be given effect shortly. In the public sector a certain number of people are going to be given golden hand shake scheme. That number will not be four or five lakhs. It may be about 15,000 or 14,000."

1.73. The Committee enquired whether by not filling up the posts may be a disruptive step as demand for employment would rise. The Secretary Finance replied:

> "I am only pointing out that if the Government acts only as an employment agency the economy goes down and our policy to create jobs ten times more in the distent future becomes zero. Afterall against 5.5 million people in Government public sector takes care of 2.2 million and other industries and banks care of one million. If the objective is to maximise employment then this old structure needs to be changed and you may ultimately reach the growth rate of 6,7 or 8 per cent. If you could remove the Land Ceiling Act then the construction economy in this country could have grown dramatically. If you can do away with rent control and land ceiling then you may see that construction will increase. The real role of the Government we should need to think of a free development economy as a whole. If we make Government itself a sick unit how is it going to build the economy."

Controlling Inflation

1.74. During evidence, the Finance Secretary stated:

> "When we accepted certain limits of fiscal deficit reduction we also try to put down certain limits to the inflation. For instance in the current year we had thought that inflation will not be more than 9 per cent."

1.75. The Committee during evidence pointed out that on account of inflation the savings were getting eroded and enquired as to what would be its impact on the direction and thrust of the fiscal policy and the impact on generating investments. The Secretary Finance explained:

> "Total savings for investment purposes are around 23 to 24%. Out of this we have been about 12 to 13% through fiscal deficit. As you are on the path of reducing fiscal deficit by definition more and more money is being released."
>
> He further explained:
>
> "The saving rate of 23 to 24% was after allowing for inflation and that the strategy of the Government was to maintain the planned growth at a healthy level and to come down inflation."

Credit Control

1.76 The Committee during evidence pointed out that over the years revenue expenditure had been rising faster than revenue receipts, as suggested by the following table:

(In crores of Rs.)

Year	Receipts	Increase over preceding year (percentage)	Expenditure	Increase over the preceding year(percentage)	Revenue deficit
1	2	3	4	5	6
1980-81	19394	—	21096	—	1702
1981-82	23703	22.2	23996	13.7	290
1982-83	27558	16.2	28812	20.0	1254
1983-84	31333	13.6	33730	17.0	2398
1984-85	36261	15.9	39758	17.8	3498
1985-86	43468	19.8	49032	23.3	5565
1986-87	50332	15.7	57911	18.1	7579
1987-88 (Revised)	58070	15.3	66566	14.9	8496
1988-89 (Budget)	65167	12.2	75009	12.7	9842

Source: Union Government Finance Accounts for the year 1980-81 to 1986-87 aand Annual Financial Statement for the year 1988-89.

1.77 The Finance Secretary in his reply stated:

"Controlling credit to the public and the liberal spending by the Government are basically related to inflation. The expenditure by the Government ultimately is an income for various other people. If I am spending on consumption expenditure, it is inflation. Likewise if the credit expansion also takes place beyond limit, it is inflationary because there is no corresponding production. You have to reduce the borrowing of the Government to control inflation. It is not very material which particular item of borrowing is reducing. The total borrowing is to be reduced. Secondly, we try to control monetary expansion to control inflation. It will have an impact. When you try to control the monetary expansion, my ability to borrow money from the RBI gets limited."

Expenditure on Account of Rupee-Rouble Trade

1.78 During evidence the Finance Secretary stated that "I would like to place before you that most of the expenditures are under control. But there are certain items of expenditure where the writ of the Finance Ministry will not run. For instance, one item is trade with what used to be the USSR, now the Russian Republics. Normally whatever we purchase from that part of the world, we pay for it in rupees. We also do the repayment of the past loans. These things add up and they use them for purchasing from India. These to parts should balance. Last year, there was imbalance of Rs.1600 crores which had to be provided by the Government of India out of its Budget as technical credit. Why? It was because we were not able to stop exports to Russia as that country was going hungry. If the same thing had happened with countries like Germany, it would have been outside our account. Normally, we see to it that there is a balance and it does not affect our Budget. But trade with Russian system alone ultimately reflects as a deficit in our Budget. Last year, the Government of India had to provide a credit of Rs. 1000 crores and the same phenomenon is noticed in the current year also. Our imports from Russia have slowed down for reasons which are known to every body hereas their purchase in India is not under control. This is one of the items where we need to bring some control. When we calculate the fiscal deficit, we may put a definite figure down but ultimately it may end up as to a large minus figure."

Rouble-Rupee Trade

1.79 With regard to rouble-rupee trade, the Finance Secretary informed the Committee the present position as under:

"Rouble-rupee trade is totally in an anomalous position. We find now that one dollar gets even 200 roubles. One dollar in the black market may go upto Rs. 30 and never beyond. So, it should be 6½ roubles to a rupee and not 30 rupees to a rouble. We Have posed this for a discussion. Unfortunately, because of the developments in what was known as the USSR, there has not been any possibility of having a meaningful dialogue. In the present situation, with whom are we to have a debate? You can always have a cross parity with reference to dollar. That is not important. The important thing is about the accumulated debt, delt incurred when the rouble was Rs.10 or Rs.11. In rupee terms, the accumulated debt is about Rs.35,000 crores. The question is whether this will be for men at Rs. 35,000 crores and the new Republics will be allowed to buy goods in India worth Rs. 35,000 crores or, will it be converted at the rate of Rs. 38 per rouble or at a much more favourable rate. This is not economics. This is politics. A political decision has to be taken at the highest level. At the bureaucratic level, we will arrive at an answer and it is not difficult. The final decision has to be a political one. A final political picture is emerging in Moscow. We are awaiting a signal for a high level meeting. The most important thing is the problem of the accumulated debts. I can assure you that both these things are engaging the attention of the Government at the highest level and we will be persuading the authorities in Moscow to come to a reasonable settlement."

III. DEBT POSITION OF THE GOVERNMENT OF INDIA

1.80 The outstanding internal and external debt of the Government of India at the end of 1991-92 is estimated to amount to Rs. 354901.12 crores, as against Rs. 311059.21 crorres at the end of 1990-91(RE). The details are as follows:

	As on 31 March, 1991	As on 31 March,1992
Internal debt and other liabilities	279228.27	319778.70
External debt	31830.94	35122.42
Total	311059.21	354901.12

A. INTERNAL DEBT

Definition

1.81 Internal Debt comprises loans raised in the open market, special securities issued to Reserve Bank, compensation and other bonds, etc. It also includes borrowings through treasury bills issued to Reserve Bank, State Governments, commercial banks and other parties, as well as non-negotiable, non-interest bearing rupee securities issued to international financial institutions viz., the International Monetary Fund, International Bank for Reconstruction and Development, International Development Association, International Fund for Agricultural Development, African Development Fund Bank and Asian Development Bank.

In addition, Government is liable to repay the outstanding against the various Small savings schemes, Provident Funds, Securities issued to Industrial Development Bank of India, Unit Trust of India and nationalised banks, deposits under the Special Deposit Schemes and depreciation and other interest bearing reserve funds of departments like Railways and Telecommunications and certain other deposits like deposits of Income-tax, super Tax, etc., deposits of local funds and civil deposits.

Legal Framework for Borrowing

1.82 Under the existing legislative framework, the Central and State Governments have been empowered to borrow under Articles 292 and 293 of the Constitution of India. While Article 292 empowers the Central Government to borrow (and to give guarantee) on the security of the Consolidated Fund of India within such limits, if any, fixed by Parliament, Article 293 confers similar rights to State Governments on the security of the Consolidated Fund of the States. State Governments are, however, prohibited from raising loans in foreign countries as foreign loans is a subject over which the Central Government has exclusive jurisdiction.

1.83 Under the Reserve Bank of India Act, 1934 Reserve Bank acts as a banker to Central Government statutorily and to State Governments through Agreements with the Reserve Bank. Reserve Bank is also

Trusted with the responsibility of management of the public debt of Central and State Governments.

1.84 The Comparative picture of the Central Government internal liabilities during the last ten years is brought out in the table given below:

(Rs. crores)

Table: Total Internal Liabilities of Central Government

Year end (March)	Internal Debt.	Small Savings	Provident Funds	Other Accounts	Reserve Funds & Deposits	Total Internal Liabilities*
1	2	3	4	5	6	7
1981	30,864	7,976	2,645	3,332	3,634	48,451
	(63.7)	(16.5)	(5.4)	(6.9)	(7.5)	(110)
1986	71,039	21,449	4,629	10,781	11,433	1,19,331
	(59.5)	(18.0)	(3.9)	(9.0)	(9.6)	(100)
1989	1,14,499	33,833	7,950	26,752	20,92	9,2,04,026
	(56.1)	(16.6)	(3.9)	(13.1)	(10.3)	(100)
1990	1,33,193	41,791	9,676	35,597	19,593	2,39,850
	(55.5)	(17.4)	(4.0)	(14.9)	(8.2)	(100)
1991(RE)	1,51,352	49,071	11,575	45,633	21,897	2,79,528
	(54.2)	(17.6)	(4.1)	(16.3)	(7.8)	(100)
1992(BE)	1,69,584	56,281	13,635	54,411	24,162	3,18,073
	(53.3)	(17.7)	(4.3)	(17.1)	(7.6)	(100)

*Includes R. 300 crores atributable to the share of Pakistan on account of prepartition debt.

NOTE: Figures in brackets indicate percentage to the respective Totals.

1.85 In this context, Finance Secretary during evidence said:

"This year, it would be around Rs.43,000 crore to Rs.44,000 crores. The transfers are Finance Commission grants, and plan and non-Plan grants. The States themselves do not have unlimited borrowing power. Under the existing arrangement, the Government of India can have access to the an unlimited extent to the Reserve Bank of India. The States' total borrowing from the Reserve Bank is limited to only the ways and means advance which is pre-determined by the Reserve Bank of India."

Factors Responsible for growing debt burden

1.86 The Ministry in a written note stated:

"The increase in debt burden, both internal and external, in a reflection of the larger fiscal and external imbalances. High level of fiscal deficits tend to spill over and contribute to high current account deficits in the balance of payments. The rise in debt burden is the result of widening of the savings-investment gap which is largely attributable to deterioration in budgetary savings.

The current account deficit exerts pressure on the country's foreign exchange reserves and leads to an accumulation of external debt. In recent years, the share of external commercial borrowings in the total external debt has risen. These factors along with increasing amortisation requirements of past accumulated debt have resulted in increasing the debt burden on external account.

There are a number of factors which have led to increase in internal debt burden. Expenditure has outpaced receipts mainly due to larger budget support to Central Plan; assistance to States for their Plans and expenditure on maintenance of completed Plan schemes; internal and external security; subsidies, debt servicing charges and larger order of resources transferred to State under successive Finance Commissions' awards.

Various decisions of Government taken in a number of spheres influence the revenue receipts and expenditure of Government. For instance, taking over of sick industrial units and poor performance of various other public enterprises have led to larger expenditure with very little or no return to Government revenue. The policy to promote exports involves larger expenditure on export subsidies. The policy to restrict imports reduces receipts by way of customs duties.

A number of factors are kept in view while taking policy decisions. While the impact of Budget is one of them it cannot be the only one.

1.87 The Committee referred to more than 400% increase in the total internal liabilities of the Central Government from Rs. 48,451 crores in 1981 to Rs. 2,75,025 crores in 1991 (BE) and asked the Ministry of Finance to comment upon this increase. Explaining the position, the Ministry stated:

The total internal liabilities of the Central Government at the end of 1991-92 (BE) are estimated at Rs. 317774 crores, which represents increase of 472% over the level (Rs. 55557 crores) at the end of 1981-82.

(2) The total internal liabilities estimated at the end of March, 1991, includes outstanding liabilities on account of small savings schemes amounting to Rs. 56281 crores of this loans to State Governments up to the end of March, 1992 against net small savings collection are estimaged at Rs. 38955 crores. The increase in the overall internal debt liabilities is largely due to larger borrowings necessitated by recurring Revenue deficits, which increased from the level of Rs. 296 crores in 1981-82 to Rs. 13854 crores in 1991-92.

(3) The widening gap between Revenue receipts and Revenue expenditure is due to a steep growth in the Revenue expenditure mainly in the following areas:

(i) Interest payments (Rs. 3195 crores to Rs. 27450 crores, i.e.

759%)—the increase is a natural consequence of the large borrowings required to finance Plan expenditure.

(ii) Defence (Rs. 3849 crores to Rs. 11139 crores, i.e. 189%)—the increased expenditure has been necessitated for our Defence preparedness.

(iii) Subsidies (Rs. 1941 crores to Rs. 10395 crores; i.e., 436%)—the increase is mainly on account of food, fertilizers and export promotion subsidies.

(iv) Police (Rs. 353 crores to Rs. 1758 crores, i.e. 398%)—the increase is for meeting requirements of internal security.

(v) Grants to States (Rs. 2654 crores to Rs. 14887 crores, i.e., 461%)—the increase is mainly due to the payments under the Finance Commission's recommendations besides assistance provided for natural calamities and Plan expenditure.

(4) In addition to the above, expenditure on pay and pensionary charges has also grown significantly mainly due to implementation of recommendations of the Fourth Pay Commission."

1.88 the following table indicates the position of outgo on account of interest payment and debt repayments, including interest payment as a proportion to the total reveue of the Central Government during the last ten years:

Year	(Rs. Crores) Interest payment	Interest Payment as a proportion to the total revenue (%age)	Repayment of Internal and External debt & other libilities
1	2	3	4
1981-82	3195	21.25	60862
1982-83	3938	22.56	75783
1983-84	4795	24.33	113266
1984-85	5974	25.46	139565
1985-86	7512	26.80	148352
1986-87	9246	27.95	167943
1987-88	11252	30.38	150887
1988-89	14279	32.76	91776
1989-90	17757	33.95	136707
1990-91 (RE)	21850	38.08	119491
1991-92 (BE)	27450	40.65	116745

Reasons for rise in interest burden

1.89 The Committee enquired what were factors responsible for rise in the interest burden and to what extent it was due to growth in the quantum of public debt and how far it was attributable to rise in the rates of interest.

The Ministry of Finance in a written note explained:

"The main reason for the rise in interest burden on the budget is the increase in debt liability. To some extent it is also due to revision on the rates of interest. In the recent past the rates of interest on market borrowings by Central Government were revised in 1986-87, and again in 1991-92. Upward revision has also been made in the rates of interest in respect of certain small saving investments. The present rate of interest (at 12% per annum) for State provident funds, public provident funds and special deposits of LIC, GIC, etc. were fixed in 1986-87. The present rate of interest for non-Government provident funds, superannuation and gratuity funds (at 12% per annum) was also fixed in 1986-87. Part of the internal debt liability represent borrowing from Reserve Bank of India through low cost treasury bills, which is constant at 4.60% per annum for many years now.

(2) It is not feasible to quantify precisely the effect of the interest rate variations on the interest burden.

(3) The real rate of interest may be defined as the nominal (Money) rate of interest less the rate of change in the general price level. For example, if the rate of interest is 12 per cent and annual rate of inflation as measured by Wholesale Price Index is 9 per cent, the real rate of interest turns out to be only 3 per cent."

Justification for prevailing rates of interest

1.90 In regard to prevailing rates of interest, the Ministry of Finance in a written note stated:

"The rates of interest on Government securities, treasury bills, special deposits, small savings instruments, etc. which account for the bulk of funds borrowed by Government are all administered. Details are given in Appendix.

(2) The cost of money to the Government cannot be unrelated to the borrowing rates obtaining in the Financial market. Investors have to be assured a minimum positive real rate of return in order to ensure that financial sector savings instruments are not squeezed out of their portfolios. The Committee to review the working of the monetary system (Chairman: Prof. S. Chakravorty) had recommended that rationalisation of the interest rate structure should be attempted with reference to long term prime rates (DTPR) of 2 to 3 per cent more than the expected inflation rate on 20 years Government securities. This would ensure a small but positive real rate of return to the investors. A similar short term prime rate (STPR) can also be applied to a short term transaction which would at least cover the expected inflation rate.

(3) Thus, LTPR was estimated at 11 to 12 per cent after allowing for a positive return of 2 to 3 per cent over the long term inflation rate (9

per cent). The short term prime rate was estimated at 9 per cent to cover the expected inflation rate.

(4) Applying the yardstick of LTPR, the existing rates of Government's dated securities are reasonable. The rates of interest on National Savings Scheme, Public Provident Fund (11 to 12 per cent) are also in line with LTPR while Kisan Vikas Patra and Indira Vikas Patras offer higher implicit interest rates of 13.43 per cent and 14.87 per cent respectively. But they are without fiscal privileges."

Appendix

Interest rates on major sources of Government borrowings

	Rate of interest (per annum)
(i) Market Loans:	
(a) Government Securities of 5 years maturity	10.75 per cent
(b) Government Securities of 10 years maturity	11.00 per cent
(c) Government Securities of 15 years maturity	11.50 per cent
(d) Government Securities of 20 years maturity.	12.00 per cent
(ii) 182 Day Treasury Bills	Around 10 per cent
(iii) External Debt	Varying rates
(iv) Small Savings Schemes	
(a) Post Office Savings Accounts	5.5 per cent
(b) POTD (1 Year)	10 per cent
(c) POTD (2 Years)	11 per cent
(d) POTD (3 Years	13 per cent
(e) POTD (5 Years)	13.5 per cent
(f) Post Office Recurring Deposit A/c	13.5 per cent
(g) Post Office Monthly Income A/c	12 per cent
(h) National Savings Scheme 1987	11 per cent
(i) NSC VIII Issue	12 per cent
(j) Indira Vikas Patra	14.87 per cent
(k) Kisan Vikas Patra	13.43 per cent
(l) Public Provident Fund	12 per cent
(m) Deposit Scheme for Retiring Government Employees	9 per cent
(v) State Provident Funds	12 per cent
(vi) Special Deposit Schemes	
Other than UTI	12 per cent
Unit Trust of India	13 per cent

1.91 With regard to a suggestion for lowering interest rates so as to reduce interest burden, the Finance Secretary expressed the following view:

"As far as borrowing is concerned, in fact there is a persistant pressure for upward increase, not for downward revision. They say that the rate at which we are borrowing from the Reserve Bank is very low. My deficit rate is very low. Open market borrowing is 12%. It is the rate at which the banks are subscribing to Government banks. The banks say why should you pay 12%. Why don't you pay 15%? The fiscal deficit is Rs. 37,700 crores. The pressure is for increasing rates. Government borrowings are traditionally at lowest rate. As far as the Government is concerned, if the interest rates are properly adjusted, the net impact will be a fairly larger increase in the interest outgo and not a reduction. This is the factual point. But this does not mean that there is no room for reduction in the interest rate. As far as Samll Savings are concerned, it should come down. That is also the objective."

Small Savings

1.92 There was a newspaper report that two Chief Ministers had written a letter to the Government of India stating that small savings which have been used to support the State Plan had dropped by 36% and the States would, therefore, be facing a lot of financial constraints. Explaining the position in this regard *during* evidence, the Finance Secretary said:

"As far as the Small Savings are concerned, these are totally protected because of the tax concessions and exemptions that we give. It is a very peculiar arrangement whereby we have a tax rate going up to 56 per cent. Mostly people are tempted to avoid payment of tax. In order to encourage savings, we give various kinds of exemptions. Certain things were removed last year as far as Small Savings were concerned. That is why it is stated that West Bengal is affected as far as follections are concerned. They say the collections *have* gone down. They have gone down much more in the case of West Bengal then in the rest of the country. We tried to examine that. We wanted to know why this aberration has taken place.

Secondly, the reason for the shortfall in the Small Savings is due to the entry of UTI. A lot of money was put by UTI in the Indira Vikas Patras, Kisan Vikas Patra. We used to give 75 per cent of this to State Governments. Today, UTI is in a difficult position. They cannot put in any money. It has resulted in a shortfall. When we talk of Small Savings we talk in terms of genuine Small Savings. UTI investment is not termed as Small Savings."

1.93 The Finance Secretary further Stated:

"Basically, it will facilitate more money into the Small Savings. It will result in the States getting 75 per cent as loan. It is going to impose a much larger burden on the part of Government of India. Let us also take the case of National Savings Scheme and National Savings Certificates VII & VIII series lot alone the other Small Savings. Government has to repay the investors in six years. There is also the obligation to pay full interest with whatever incentives are there and it may come to 17-18 percent. If we link this to fixed interest rate of 13 per cent charged on loans given to the State Governments with 25 years period giving five years moratorium, the picture will be different. The more Small Savings collection under this kind of arrangement the better is the inflow of money for the States, much more is the burden for the Government of India.

1.94 He added:

"Repayment of inflows on interest and loan is not keeping pace with our own borrowing. It is very revealing. We discussed this subject with the Finance Secretaries of all the States last year. We proposed to start a National Bachat Bank. A part of the inflow on savings will be passed on to the State Governments. But most of the States did not welcome it. We persuaded them to accept it as an experiment. We are further examining it. If I take a ten year period, the transfers recommended by the Finance Commission increase from Rs. 4,100 crores to Rs. 19-20,000 crores, which is nearly a five fold increase. This is all the tax money that is under transfer. There is no loan component in this. The plan transfers have also increased in the ten years period from Rs. 4,000 to Rs. 19,000 crores, 70 per cent of the money in respect of the non-special category is as a loan. The total transfers have increased five times that is from Rs. 10,000 to Rs. 50,000 crores. On the other hand, the repayment that I get as recovery of loan has increased from Rs. 1,900 to Rs. 40,000 crores, a little bit more than twice. But if you take the total transfers yet to recoveries and interest put together, this has increased from Rs. 7,000 to Rs. 35,000 crores. On the otner hand, loan increases are very large. I submit to the Committee that this is my answer to the question as to why is that a loan outstanding has gone up so sharply, interest expenditure has increased sharply but the recoveries are not showing the same increase."

1.95 Enquired whether Government could conceive of a system under which the States have their own Saving Certificates, the Finance Secretary stated:

"They do not want it because the small saving collections are routed through the Government of India. They get it at a fixed interest of 13 per cent. The same thing if they collect, the repayment will have to be in six years and the interest charges and the collections will work out to 17 per cent. There are of course certain pluses and minuses. But this is one of the major hurdles and this is under discussion."

Inter-Relationship between Deficit and Public Debt

1.96 There is a close inter-relationship between deficit budgeting and public debt. To the extent revenue receipts, both tax and non-tax, are not sufficient to meet expenditure of Government, there is need to borrow, giving rise to public debt in a larger sense. In this sense, public debt includes not only market loans and treasury bills but also non-marketable debt *viz.* deposits and quasi-borrowings like small savings, provident funds, etc. The commonly used international measures of budget deficit is the difference between Government expenditure and net lending on the one hand and current revenues and grants on the other. The concept of budget deficit, as used in this country, is rather restricted, in that it refers only to the net increase in treasury bills issued by the Government to finance its expenditure. Though treasury bill can be subscribed to by any one, by and large they are held by the Reserve Bank. Treasury bill borrowing, therefore, generally means borrowing from the Reserve Bank of India. (Besides, a part of the market loans is also held by the Reserve Bank). Net reserve Bank credit to Government is an important source of reserve money. Thus, if Government expenditure cannot be met from revenue it leads to borrowing and a part of the borrowing has to come necessarily from the Reserve Bank of India.

Budget deficit is thus directly related to the internal debt burden of the Government. Budget deficit rose from Rs. 2576 crores in 1980-81 to Rs. 10,772 crores in 1990-91 (RE).

1.97 The Finance Secretary, during evidence, stated that "Central Government has been borrowing more and more......because of revenue deficit."

B. EXTERNAL DEBT

Outstanding Liability

1.98 The estimated total external debt outstanding as on March end 1991 is Rs. 99485 crores. This includes debt outstanding on Government Account, Non-Government Account, IMF borrowings and External Commercial Borrowings.

The comparative positive during the past 10 years is as follows:—

(Rs. Crores)

At the end of	(at the prevailing exchange rates)
1980-81	18400
1981-82	21374

(Rs. Crores)

At the end of (at the prevailing exchange rates)	
1982-83	25892
1983-84	30459
1984-85	35725
1985-86	39691
1986-87	48348
1987-88	54650
1988-89	69383
1989-90	80135
1990-91	99485

Major Sources of External Borrowings

1.99 The country has been borrowing from the following four categories:—

(i) Loans from foreign Governments and international institutions referred to as loans on Government Account. The bulk of the borrowings by India have been from multilateral and bilateral sources on Government Account. Major bilateral donors are Belgium, Canada, Denmark, France, F.R.G., Italy, Japan, Netherlands, U.K., USA, U.S.S.R., Saudi Fund, Kuwait Fund and Iran. Major multilateral Institutions are I.B.R.D., I.D.A., I.F.A.D, ADB, IMF and OPEC Fund.

(ii) Loans from foreign Governments and International institutions to term lending institutions in India with Government of India guarantee for onward lending to private sector in India referred to as loan on Non-Government Account.

(iii) Drawal from IMF under its standard facilities.

(iv) Commercial borrowings and suppliers credit resorted to by the public sector units in India with or without Government guarantee and by private sector in India with no Government guarantee. Major source of commercial borrowings are syndicated loans, export credits (buyers/suppliers credit) and capital market instruments (fixed/floating bond issues etc.)

Foreign Investments

1.100 The Committee observed that in recent years Chief Ministers of different States had visited foreign countries, particularly Western countries, to promote foreign investments in their respective States. In this context they also observed that in course of time such a trend would have serious repercussions on the economy. In his comments the Secretary, Economic Affairs gave the following rationale for inviting foreign investment into Indian economy:

"That is basically correct. It is the policy of the Government to keep the total volume of external borrowing within limit. Our current account deficit, which has remained generally smaller than the trade

deficit is met either by foreign investment or by reducing reserves or borrowing. Temporarily you can use reserves. But no country uses reserves to meet the current account deficit. The foreign investment in our case is very small. So, the bulk of the source of financing for the current account deficit has been external borrowing.

So we give a priority to long term borrowing from the multi-national institutions. That is much cheaper. Then, the commercial borrowing is the biggest drain on the debt service. It has to be repaid within seven years with market interest. Every year we try to keep the commercial borrowing at a reasonable level and the debt service ratio remains within a tolerable limit."

Commercial Borrowings

1.101 The debt outstanding in respect of External Commercial Borrowings is estimated to be Rs. 26706 crores as on 31.3.1991.

1.102 The comparative position of debt outstanding in respect of External Commercial Borrowings and International financial institutions like World Bank and IMF is given below:

(Rs. in Crores)

	31.3.88	31.3.89	31.3.90	31.3.91(Est)
External Commercial Borrowings	12876	18034	22065	26706
IBRD (Government Account)	4280	7362	9752	12033
(Non-Govt. Account)	422	656	974	1486
I.D.A.	13881	18478	21055	25457
IMF (EFF)	4348	3347	2362	4389
Trust Fund	478	365	164	

Guarantees

1.103 Government guarantees are provided in the following cases:—

(i) For repayment of principal and payment of interest, cash credit facility, financing seasonable agricultural operations and for providing working capital in respect of Companies, Corporations, Cooperative Societies and Co-operative Banks to Reserve Bank of India, other banks and financial institutions.

(ii) For repayment of share capital, payment of minimum annual dividend and repayment of bonds/loans/debentures issued/raised by statutory corporations and financial institutions.

(iii) In pursuances of agreements entered into by the Government of India with international financial institutions, foreign lending agencies, foreign Governments, contractors, consultants, etc., towards repayment of principal, payment of interest/commitment charges on loans etc. given by them and payment against agreements for supplies of material and equipment on credit basis to companies, corporations, port trusts, etc.

(iv) Counter guarantees to banks in consideration of the banks having issued letters of authority to foreign suppliers for supplies/services made/rendered by them on credit basis in favour of companies/corporations.

(v) To Railways/State Electricity Boards for due and punctual payment of freight charges/dues by Companies and Corporations.

(vi) Performance guarantees given for fulfilment of contracts/projects awarded to Indian Companies in foreign countries.

(vii) Performance guarantees given for fulfilment of contracts/projects awarded to foreign companies in foreign countries.

1.104 The details of guarantees provided by the Government, both in respect of internal and external borrowings, during 1985-89 are as under:

(Rs. in crores)

At the end of the period	Maximum amount of guarantee for which Government have entered in agreement	Sums guaranteed and outstanding
1984-85	20968	17460
1985-86	23906	20420
1986-87	32358	26646
1987-88	34014	27944
1988-89	40743	33240
1989-90	60917	54537

Source: Finance Accounts of respective years

1.105 Asked about the instances when Government had to uphold the guarantee on account of default by the guaranteed party, the Ministry of Finance provided the details of following payments made:

(Rs. in crores)

(i) 1984-85	Ministry of Railways	0.17
	Ministry of Industry	19.50
(ii) 1985-86	Ministry of Transport	0.14
	Ministry of Industry	17.13
(iii) 1986-87	Ministry of Railways	1.97
	Ministry of Industry	17.04
(iv) 1987-88	Ministry of Railways	0.02
	Ministry of Industry	13.56
(v) 1988-89	Ministry of Railways	0.02
	Ministry of Industry	21.04
(vi) 1989-90	Ministry of Railways	0.02
	Ministry of Industry	6.96

1.106 The Ministry further stated that the payments made of Ministry of Railways are in pursuance of contracts entered into with certain private

Railway companies during 1916-1923 to make up the net return as per the agreement. The payments made by Ministry of Industry are under the credit guarantee scheme for small scale industries.

1.107 Enquired as to whether guarantees given by the Government of India had any bearing on deficit/debt servicing, the Ministry stated:

> "These guarantees issued by Government do not have a direct bearing on deficit/debt servicing. These constitute only a contingent liability on the Consolidated Fund of India. In cases where these contingent liabilities materialise, these are included in the estimates of Expenditure of the respective years and as such affect the deficit to that extent only in these years."

Current Account deficits in Import-Export Trade

1.108 The following table indicates the position regarding india's trade balance:

(Rs. in crores)

Particulars	1989-90	1990-91 (Prov.)	April-August (Prov.) 1990-91	1991-92
	(RBI Data)		(DGCI & Data)	
Exports	28235	33178	12374	15040
Imports	41174	48320	15515	17108
Trade Balance	-12939	-15142	-3141	-2068

1.109 The 1990-91 provisional estimates are given by the Reserve Bank of India and the latest available estimates from DGCI&S on trade balance for April-August, 1991. During the current year the available information from DGCI&S for the period April-August indicates a reduction in the level of trade deficit over the corresponding period of last year.

1.110 During 1990-91 the trade deficit increased over the previous year mainly because (i) there was a sharp increase in the petroleum oil and lubricants (POL) import bill consequent upon the rise in prices after the Gulf crisis, and (ii) exports could not maintain higher growth level as there was a global slowdown in world trade following the recessionary conditions in industrialised countries. The reduction in the level of trade deficit during the first five months of the current year over the corresponding period last year is indicative particularly of import compression and to some extent export promotion measures.

1.111 To meet the overall balance of payments situation and finance the trade deficit, the basic approach is as follows:—

(i) in the short term, continue the import compression measures, accelerate the utilisation of already committed external aid and explore additional financing facilities including the use of IMF facilities.

(ii) in the medium term, reduce the trade gap through more vigorous export promotion measures, augment net invisible receipts through increased receipts from services including tourism receipts; and increase capital flows consistent with financial prudence and their productive use. Consistent with our overall economic policies, measures to attract foreign direct investment as well as to encourage capital inflows from non-resident Indians are also proposed to be taken.

NRI Deposits

1.112 There are two types of deposits Non-Resident (External) Rupees Accounts [NR (E) RA] and Foreign Currency Non-Resident Accounts (FCNRA). Deposits in both the accounts are repatriable; in the case of the former, the exchange risk is borne by the depositor while in the case of the latter, the exchange risk is borne by the Reserve Bank. These deposits get repaid from general resources as and when repatriations are to be made. In addition, the State Bank of India issued NRI-Bonds first in 1988-89 and another in 1990-91 on a non-repatriable basis. The first issue of NRI bonds netted $ 92 million and the second about $ 258 million.

1.113 The table below indicates the extent of NRI deposit liabilities:

(Rs. Crores)

Year (March end)	NR(E)RA Accounts*	FCNR Accounts**	Total
1985	2864	955	3819
1986	3461	2189	5650
1987	4336	3511	7847
1988	5107	4947	10054
1989	5899	8255	14154
1990 (Dec)	7067	13252	20754***
1991 (March)	7349	13405	20319

* Inclusive of accrued interest

** Do not include accrued interest

*** Provisional

Priority for utilization of External Borrowings

1.114 The Committee desired to know the purpose for which foreign borrowings should be utilized, Secretary (Economic Affairs) in his reply said:

"Whatever debt we have incurred have been utilized already. However, it is the Government which decides as to how to use those loans. It is decided as per the plan priority. For example, the right now as the Plan is being formulated, the first priority for utilisation of external assistance will be infrastructure sector, viz. the core sectors like power. Apart from multi-lateral assistance, we also utilise some external commercial borrowings in the Ministry of Finance. Currently, we are preparing a set of guidelines for the next few years. This will enable us to prioritise the allocations of these commercial borrowings. Once again, this will reflect the national perspective of what is priority. In the liberalisation of industrialisation, the whole strategy is this. If you bring in your own foreign exchange, you can finance capital goods. If you want to borrow, you have to come to the Finance Ministry and the Ministry in consultation with the other, works out the priorities. Infrastructural sectors such as power, railways, etc. will have first priority in allocation of foreign resources."

Commitment Charges

1.115 IDA credits carry no interest charge but a service charge of 0.75% is levied on the disbursed position of the credit. Commitment charges on undisbursed balances are fixed every year with a maximum of 0.5%. The commitment charges for the Bank's current year beginning 1st July, 1989 has been set at Zero per cent. The commitment charge for IBRD loans on undisbursed balance is levied and the present rate is 0.25 per cent.

1.116 The Ministry in a written note informed the Committee that the commitment charges paid on the unutilised portion of external assistance are as under:—

Year	(Rs. in crores) Commitment charges
1987-88	81.91
1988-89	95.37
1989-90	81.37
1990-91	62.73

1.117 The Committee enquired how the Ministry of Finance reconciled the external market borrowings with unutilised assistance from donor countries. The Ministry explained the position as follows:

"External assistance is preferred source of borrowing compared to external commercial borrowings as the former is concessional. However, external assistance from multilateral as well as bilateral sources is normally tied to projects/programmes and often to sources of procurement also. The projects specially the big ones have long gestation periods and thus have a phased requirement of funds. This results into a gap between total commitments and utilization thereof in short periods. Also the problems of local cost funding, finalization of contracts, and other physical as well as procedural constraints tend to slow down the utilisation of committed assistance. Thus under utilization of commitments are partly inherent.

External commercial borrowings on the other hand are not project tied or source of procurement tied and therefore can be drawn without any time lag. These are in fact undertaken to meet the current account deficit when it may not be possible to meet the same through any other low cost source of financing.

Thus for the purposes of reconciling the external market borrowings with unutilised assistance, the fact that the former are supplementary to assistance, needs to be kept in view."

1.118 The Ministry of Finance furnished the following details of committed but unutilised external assistance indicating, *inter alia*,

(a) the annual spread of such assistance;
(b) projects for which it sanctioned/committed; and
(c) measures for non-utilisation, if any.

Details of committed but unutilised external loans

(Figures Rs. in Cr.)

Year	Total Commitments at the beginning of the year	Disbursement during the year col. 2	Percentage of col. 3 over end of the year	Unutilised total commitment at the end of the year
1985-86	13136.42	2426.10	18.47	20251.37
1986-87	20251.37	3022.17	14.92	20411.26
1987-88	20411.26	4306.30	21.54	23472.87
1988-89	23472.87	4385.42	18.68	36594.33
1989-90	36594.33	4757.02	13.00	43028.61
1990-91	43028.61	5638.58	13.10	50551.19

Details of committed but unutilised external grants

Year	Total Commitments at the beginning of the year	Disbursement during the year	Percentage of col. 3 over col. 2	Unutilised total commitment at the end of the
1985-86	722.50	407.69	56.43	725.91
1986-87	725.91	391.74	53.97	983.26
1987-88	983.26	406.56	41.35	1676.02
1988-89	1676.02	495.85	29.58	1905.67
1989-90	1905.67	664.70	34.88	2632.96
1990-91	2632.96	530.32	20.14	3237.87

Most of the External assistance is tied to specific projects and the disbursements are therefore linked to the project implementation schedule.

The pace of actual implementation varies from project to project. However the loan amount not utilised during a particular financial year does not normally lapse and is carried forward for utilization in the subsequent years. Government have taken a number of steps to accelerate the implementation of externally aided projects and the utilisation of external assistance. These include simplification of procedures for release of foreign exchange and tender evaluation. Monitoring of externally aided projects has also been intensified.

System for Budgeting External Debt

1.119 In a written note the Ministry stated: The External Debt budgeting is done in two parts viz. (a) Formulating Receipt Estimates and (b) Formulating Debt Service Payments Estimates.

The estimates of external aid receipts are framed taking into account data furnished by the project implementing authorities and the various credit divisions concerned. With the projects receiving external assistance debt service payments estimates are framed in accordance with the amortisation schedules of each loan and other payments falling under these loans and keeping in view the anticipated disbursements.

In response to a query the Ministry stated that there has been no difficulty in framing the receipt and debt service payment estimates. The existing system of framing the estimates is by and large adequate.

1.120 The following table illustrates the estimates and actuals for the period of 1988-89 to 1990-91.

(a) Receipts:

(Rs. in crores)

				%age of variation w.r.t.	
Year	BE	RE	ACTUALS	BE	RE
1988-89	4526.00	4079.47	4385.43	3.00	(−)7
1989-90	4808.10	4867.39	4766.77	0.8	2.0
1990-91	5641.73	6241.49	5638.58	0	9.6

(b) Debt Service Payments:

				%age of variation w.r.t.	
Year	BE	RE	ACTUALS	BE	RE
1988-89					
Principal	1383.46	1573.65	1553.57	(−)12	1
Interest	1257.85	1261.28	1244.10	1	1
1989-90					
Principal	1820.32	1878.94	1880.90	(−)3	0
Interest	1448.95	1608.71	1618.09	(−)11	0

Figures Rs. in Cr.)

1990-91					
Principal	2122.43	2257.28	2233.59	(−) 5	1
Interest	1651.51	1836.29	1863.36	(−)12	(−)1

1.121 Clarifying the variations between the estimates and actuals during the years the Ministry stated that these were attributable to exchange fluctuations during the period as well as fresh receipts under new loans not contemplated at the time of framing the estimates and less receipts than anticipated due to factors which affect project implementation.

Effect of Debt Servicing on Balance of Payments

1.122 In the written note to the Committee the Ministry stated that the debt servicing of external debt constitutes repayment of principal and payment of interest on external loans and credits contracted. Whereas repayment of principal affects the capital account (Gross Disbursements — Repayment = Net Disbursement), interest payments enter the current account of BOP. The impact of higher debt servicing would be to increase the country's current account deficit and on the capital side lower net disbursements from external loans and credits. Failure to match the higher current account deficit by higher capital inflows or reserve drawn down would necessitate contractionary adjustment in the economy. Thus, a high debt servicing burden restricts the scope for manoeuvre in the economy by preempting its resources.

1.123 Commenting about the adverse balance of payment situation being faced by the country in recent years the Ministry stated that the balance of payments situation has remained under pressure particularly during the second half of 1980s. Several adverse factors have contributed to such a situation. These include increase in trade deficit, steady erosion of the surpluses in the invisibles account, unfavaourable climate for concessional assistance and debt servicing on past borrowings. As an increasing part of trade deficit had to be financed by external commercial borrowings the medium term external liabilities both on account of repayment as well as interest payments increased sharply. Thus repayment of principal increased from Rs. 1503 crores in 1985-86 to Rs. 5553 crores in 1990-91. During the same period interest payment increased from Rs. 1618 crores to Rs. 4046 crores. Total debt service as per cent of exports and gross invisible earnings increased from 16.30% in 1985-86 to 20.9% in 1990-91. Even though the overall external debt as well as debt servicing ratio has risen in recent years, the present level is within manageable limits. The Government is conscious about keeping our debt servicing obligations as well as the levels of fresh borrowings within prudent limits.

Debt Service Ratio

1.124 Debt service ratio is normally computed on the basis of debt service payments as a percentage of current receipts, i.e. exports of goods and gross invisible earnings. On this basis the debt service ratio, i.e.

Repayment of Principal and payment of interest as a percentage of exports of goods and gross invisible receipts during the last 10 years is given below:

Year	Debt Service Ratio
1	2
1980-81	9.3
1981-82	9.5
1982-83	9.9
1983-84	11.6
1984-85	12.3
1985-86	16.3
1986-87	21.8
1987-88	23.3
1988-89	22.5
1989-90	21.4
1990-91	20.9

1.125 In the Preliminary Material submitted to the Committee the Ministry had submitted that "The Government is conscious about keeping our debt servicing obligations as well as levels of fresh borrowings within prudent limits". Asked how "prudent limits" were established and what was the actual debt servicing ratio at present, the Ministry explained as follows:

"Prudent limits of debt servicing as well as levels of fresh borrowings depend on factors such as the overall magnitude of the debt and debt servicing, the size of external sector in economy, capacity to repay the debt obligations and capacity to earn foreign exchange and credit rating of the country in the international capital markets. In addition, maintenance of minimum level of expenditure and plan investments also decide the level of expenditure and the level of borrowings.

Debt service payment (i.e. repayments of Principal and payment of interest) as percentage of exports of goods and gross invisible receipts is estimated to be 21 per cent during 1990-91. According to the World Debt Table 1990-91 (supplement), India's debt service ratio for 1990 is estimated to be 22.9 per cent. Against this ratio, the (average) debt service ratio for Severely Indebted Low-Income Countries is 28.2 per cent, for Moderately Indebted Low-Income Countries is 28.3 per cent and for All Debt Burdened Countries is 27.1 per cent."

Debt Trap Situation

1.126 The Committee pointed out that the debt servicing ratio in respect of external debt had registered a sharp rise in recent years, rising from barely 9 per cent in 1980-81 to the present which some assert was close 30%. All this had given rise to concern about the viability of the present method of financing government expenditures and stability of the economy.

1.127 In this context the Committee enquired if the country was getting into a debt trap. The Ministry, however, stated that the level of country's external indebtedness and the likely burden of debt servicing are constantly kept in view to ensure that they remain within purdent limits. It has been the policy of the Government to accelerate exports and to ensure efficient import substitution so as to reduce dependence on external debt.

1.128 It may be mentioned that against India's debt service ratio for 1990 at 22.9 per cent as per the World Debt Table 1990-91 (Supplement) estimates, the same ratio (average) for Severely Indebted Low-Income Countries is 28.2 per cent, for Moderately Indebted Low-Income Countries is 28.3 per cent and for All Debt Burdened Countries is 27.1 per cent.

1.129 Dwelling upon the question of debt trap, the Secretary (Economic Affairs) elaborated during evidence:

> "The only way of determining whether one is in a debt trap is to look at what is internationally regarded as an acceptable level of borrowings which the international financial world is willing to support. I think, from that point of view; there is no doubt that we have been resorting to too much borrowing in the past few years. But, I do not think, that the debt situation India is one which indicates that we are in the debt trap. Unlike the debt of those countries which are described as being in the debt trap, if you look at our debt position, the position is not so unfavourable. In fact after 1987-88 actually the debt service ratio has been coming down slightly I would still say that the ratio is high dismal. In the last few years we have been pushed into more commercial borrowings. But the total debt structure is no so unfavourable. It certainly does not mean that we can carry on doing any amount of borrowing. But I do not think that it would be correct to say that we are in the debt trap."

1.130 In response to another query the Secretary (Economic Affairs) said:

> "In last year we had a small problem on liquidity. But it is very largely due to collapse of international confidence. This took place possibly because of the internal developments, the short-term impact of the gulf crisis etc. Which suddenly made people to think that India would not be able to manage its affairs. But in the actual fundamentals in terms of debt service ratio-GDP ratio there is no big

deterioration nor are we in the same position that is typical of other developing countries who have a debt problem. For example, this ratio for other debt-ridden countries (Latter American and African countries) would be well above 30 per cent. In many cases it would be 54 per cent. By and large, if the macro economic stability, which the Finance Secretary mentioned, is restored and with the international confidence being restored the debt service ratio of India would be 21 per cent and it would not be regarded as indicating a debt trap."

1.131 The Committee drew the attention of Secretary, Economic Affairs, to debt service ratio of the order of 33 per cent as reported in the newspaper which was very alarming and asked its reason. Clarifying the position, the Secretary (Economic Affairs) stated:

"It is true that very often higher numbers are quoted and actually, the higher number that has been quoted was probably a calculation of debt service as a per cent of export earnings. Now the normal and conventional way of calculating it is as per cent of goods and services. So the figure that was quoted in the papers which is around 21 per cent, there the debt service was divided by the total current receipts. These are in every sense, real earnings of the economy. And internationally, now-a-days, the comparative figures of other countries have also been calculated on the basis of export of goods and services. The higher figure really reflects that. Sometimes, people just divide it by exports and that is not right. Otherwise, there is no real difference. I would not like to say is that India's debt service is not a cause of concern. What I am trying to say is that it is not correct to say that we are in a debt trap."

1.132 Enquired as to what were the conditions which constituted debt trap, the Secretary (Economic Affairs) in this evidence stated:

"I would say that there is no magic number which you can call the debt trap. But I would certainly say that our objective should be to keep it below 25 per cent. I would think that it the debt service ratio was above 30 per cent, then we are in a serious position. There are various ways of measuring it. But according to this measure, it is total debt service divided by total current account receipts."

1.133 In this connection, the Secretary (Economic Affairs) referring to the importance of rule of 'export performance' in the debt service ratio, stated:

In 1980 or so, India's exports and China's exports, in dollar terms, were same. But today China exports three times more than our exports. The debt service ratio depends not on whether you borrow or not but more on whether you are exporting enough for paying the borrowings.

The less debt service ratio of some of the Asian countries is not because they have not borrowed but because their export performance is very good."

1.134 In regard to debt device ratio which may be considered measurable, the Secretary, Economic Affairs, during evidence, informed the Committee that a ratio upto 25% was tolerable. The Committee desired to know the basis for considering 25% as a tolerable limit for debt service ratio. The Secretary (EA) explained:

> "20 per cent used to be the magic number. I am not withdrawing from the magic range because I have myself said that 20 per cent is comfortable, and upto 25 per cent you are not in serious difficulty and above 30 per cent you are in a very bad shape. The main reason is that the world has become over-borrowed. What has happened is that world has become much more integrated. People are used to the idea that certain parts of the world will be deficit and other parts of the world will be surplus. The people are interested not so much how much you have borrowed but are you able to service your debts. So the definition has changed basically reflecting changes that have taken place in the international financial world and also in the world economy, but the basic concept is the same."

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1.135 In regard to borrowings in recent years Secretary (EA) added:

> "Now we have used up all the slack. Today the situation is one where if the economy is well managed-and it looks as if everything is under control-and we achieve what the Finance Secretary described as an important reduction in the fiscal deficit, I don't think the world will view India as not creditworthy. The moment it looks things are out of control, people will say, well borrowing is not going to be desirable

or possible. This has happened last year. The commercial banks were no longer willing to lend. But unlike in other countries where the debt burden is no large that it really cannot be accommodated and the countries are continually forced to default on their debt; we are not in that position.

I think that for India to make a correction of two per centage points of GDP in the fiscal deficit is not an impossible thing. Countries are there which ran into the debt trap. They have been forced to make corrections of 6% to 7% of the GDP in one year. The fiscal deficit in Mexico which is the country which ran into a debt trap had reached almost 12% to 13% of GDP."

1.136 Referring to steps that are considered necessary to improve the situation, the Secretary (EA) stated:

"We should do many such things where we can finance our imports from our own exports. Today I would say that the current account deficit in India has now reached about 2.5% of GDP. I think it should be our objective to bring it down to around 1% of GDP within a couple of years. But the turn-over change that would be needed is only 1.5% of the GDP which is not a difficult one. It means gaining around 8000 to 9000 crores of rupees in foreign exchange. But it is not an impossible task because given our productive capacity I don't see any reason why on the export front we cannot do much better than what we have been doing. This is the main thing."

Short-term Credit Liability

1.137 Newspapers reported recently some reduction in the short-term credit liability of India. In this context, the Committee enquired whether in view of improving reserve position of foreign exchange some of the short-term credits could be wiped out and pressure on fiscal plans could be eased. Explaining the position, the Finance Secretary said:

"Our foreign exchange reserves are to the extent of about Rs. 9400 crores and this figure looks very respectable, But even today, I maintain that it is not a healthy one. This reserve is because of the loans that we have got from the IMF, World Bank and other external assistance. This balance will go down because of import liberalisation. We are trying to liquidate part of the short-term credits but it is too early to say to what extent we can do it. If the situation deteriorates again, then the confidence in our country will be shaken and we cannot afford it. Today, it is not as if everybody is convinced that everything is OK and that they can invest in India safely. Everybody is watching the situation."

1.138 Asked to clarify further he added:

"they will be watching the situation as to whether there will be policy changes, whether the bank credit will be available easily, whether the interest rates will come down, whether the foreign exchange position will continue to be balanced or not and so on and so forth. It will be premature at this stage to feel very confident."

1.139 As regards pledging of gold and public outcry it aroused the Secretary (EA) gave his assessment as follows:

"I think it is true that if one has gold and one is drifting to a position where one has no alternative, it is better to utilise the gold to avoid a default. Any economist or any Government would do that only as a last resort. Therefore, one should not take the use of gold lightly because the rest of the world will know that as we are using gold, we have really been pushed towards the wall. It is better to use it than to have a default. It means that you are giving a signal that you are pinned down to the last penny.

Rescheduling of Loans

1.140 Enquired whether there could be rescheduling of loan to decrease debt component, the Finance Secretary stated:

"Internationally, we would not like to seek any major rescheduling; internationally, we would continue to maintain the record for prompt payments. The situation is not that bad. It is not something that we have attempted at this stage. Many of the countries have done it when things have really gone out of their hands. There is no other way. You have to raise money for payment."

1.141 Reacting to the criticism that the country was taking loans to repay past loans, the Finance Secretary said:

"Every time we are taking loans we are paying loan. It is true for every country at any point of time. It can be argued because it is a dynamic situation. Borrowing by itself is not bad so long as borrowed money has been spent for productive return."

Statutory Limit on Borrowing

1.142 Enquired what were the reasons which prevented Government from approaching Parliament for a statutory limit on the magnitude of borrowings as envisaged under Article 292 of the Constitution. The Ministry of Finance in a written note stated:

"the statutory limit on borrowings has not been favoured by Government in the past for the following reasons:-

A ceiling under Article 292 can cover only loans flowing into the Consolidated Fund and not quasi borrowings like small savings, provident fund etc. which flow into the Public Account.

In respect of Consolidated Fund borrowings, a precise estimation on borrowings from the Reserve Bank of India through treasury bills is not possible. This varies markedly from week to week and month to month due to the fact that expenditure and receipt flows are not matched evenly through the year. As a result in certain years the mid year deficit has been more than twice as high as the year end figure.

A limit on external borrowing may tend to hamper a negotiation and utilisation.

Even in developed countries, a statutory ceiling is perceived as a rigid instrument leading to irrational cuts in expenditure and undermining the Government's ability to use fiscal instruments to manage the economy. In India, a ceiling in Government borrowing would affect developmental outlays first; the burden of adjustment will fall on plan and investment expenditure. A ceiling would also undermine Government's ability to manage emergencies like a drought or an external threat.

1.143 In a separate note furnished to the Committee on 'Invoking Article 292 of the Constitution to contain Centre's Deficits: The Pitfalls', the Director, National Institute of Public Finance and Policy, New Delhi, has *inter alia* brought out the following points:

> "Persistent deficits in the Government's budget and the resulting growth of public debt have led to suggestions for measures like imposition of a constitutional limit on the Centre's borrowings and invoking Article 292. The suggestion desires inspiration from the Balanced Budget and Emergency Deficit Control Act — better known as the Gramm-Rudman-Hollings Act-which was adopted by the US Congress in 1985. That Act required a steady decline in the Federal government's budget deficits so that the deficits were reduced to zero in 1991. Failure to adhere to the limits laid down would force spending cuts and/revenue increases and failing that, automatic, across-the-board cuts in expenditures. Some other countries too have attempted to force the government to observe fiscal prudence by laying down a "balanced-budget rule" (e.g., Indonesia) but few have gone so far as the USA to have a legislative ceiling on the budget deficit. Although according to advocate of balanced budget, the Gramm-rudman Law has had some restraining influence on the growth of Federal government's spending, US experience amply shows that implementation of a legislative ceiling on government's budget deficits is far from simple and is not a real remedy for the phenomenon of deficits. Many influential economists have also been of the view that any rigid rule limiting the government's ability to use the fiscal instruments for managing the economy is harmful and undesirable.
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> Although the need to contain budget deficits is well recognised, strong reservations have been expressed by many renowned econom-

ists against any constitutional limit on the deficits or mindless cuts in government spending. A constitutional cap on deficits not only undermines the potency of the fiscal policy for macromanagement of the economy but also weakens the ability of the government to face emergencies like external threat.

Apart from its shortcomings from the macromanagement angle, proponents of constitutional limit on deficit tend to overlook the fact that all expenditures of the government have to be approved by Parliament and the government has to go to Parliament for any appropriation beyond the approved amount. Parliament, if it so desires can apply the cuts when any such proposal comes up. The fact that the some legislators who would be expected to vote for a limit on government's deficits plead for schemes involving large outlays shows that these inconsistencies seldom bother them. As John Rhodes, Co-chairman of a Committee for a Responsible Federal Budget in USA put it, the budget deficit problem we face today results from conflicting priorities and is compounded by an imperfect budget process.

If the country and the Parliament really want to contain the deficits they should decide what are the priorities. It should also be recognised that the legislators cannot have spending programmes which benefit their constituencies go on and at the same time prescribe limits on deficits.

This is not to deny that Gramm-Rudman has had some beneficial impact. It has clearly slowed down the growth of government spending. It has generated some awareness of the need to observe revenue neutrality in major tax reform. But it also encountered acute problems. In the Indian constitutional set-up the problems can be even more intractable and bring the functioning of the government to a halt, nor to mention the severe setbacks it may cause for development programmes. The budget crisis that overtook the USA in the last few days bringing the government to a halt bears this out in a dramatic manner.

The right remedy for containing the deficits thus is not a rigid constitutional rule but an awareness of the problem and a consensus about which items of expenditure can be cut. An acrose-the-board cut in spending apart from being unworkable can spell the end of all development activities of the public sector for it is these outlays which will suffer the cuts in the first instance and expenditures which benefit powerful community groups community groups ,will almost certainly remain outside the purview of the cuts. Experiences of several European countries show that such mindless cuts (which, take no account of the nature of the programmes affected) do not ultimately serve to contain the deficits (as they slow down growth and thereby revenue accretion) and prove conterproductive."

1.144 In this context, the Finance Secretary during evidence, explained the position as under:

"We have been examining this for the last two years. There are two problems which are very real. The Constitution talks in terms of a statutory limit on the Consolidated Fund Borrowing. When the Constitution makers made this provision, this Consolidated Fund, accounted for almost the entirety of my Budget. Today, in fact, even the financial deficit comes outside the Consolidated Fund. Besides, the Employees' State Insurance Fund does not belong to Government, the Provident Fund accumulation does not enter the Consolidated Fund. These add on up to Rs. 12000 crores. Out of the Rs. 37000 crores worth borrowing in the Government of India these are basically outside, that is, nearly one-third is outside the Consolidated Fund. If I am thinking of limiting it, it has to be in entirety as the provisions of the Constitution wanted it.

The second point is the total lack of control. In the last 40 years we have got used to a different system. Fiscal deficit as it is seen today, amounting to Rs. 37000 crores, is separate. It affects day to day management, For instance my income-tax and the corporation tax, advance tax collections will be paid to me on the 15th of December, On that day, in one day, I may get Rs. 500 crores, Even on the 14th I would have operated up to Rs. 400 crores. Between today and 25th of December, I expect an inflow of Rs. 5000 crores. Then my deficit will be reduced. But today my deficit is unduly high. In the totality the deficit may be 37,700 crores in the Budget. As the documents presented by the Government show, the total debt is about Rs. 2,87,000 crores or Rs. 3,00,000 crores. I cannot put a limit on day to day borrowing from the Reserve Bank in this borrowing. One thing I would say that I put a cap on the fiscal deficit at Rs. 37,700 crores. Which we have assured Parliament through the Finance Minister, through the Prime Minister that we will not exceed the fiscal deficit, and we will have internal discipline as well as external discipline. If I put this kind of discipline for a couple of years, I will be in a better position to say that the Budget deficit is Rs. 7,200 crores."

1.145 In this connection, the Secretary (EA) added:

"All the countries which have achieved successful conservative management, it has not come because of statutory limits."

GDP Approach to ceiling on Borrowings

1.146 As regards the need to limit foreign borrowings to a nominal percentage of GDP, the Secretary (EA) expressed his views as follows:

"We believe that borrowing should be limited. In fact, I mentioned a figure that the current account deficit was a little over 2.5 per cent now. I felt that it should be brought down in a few years to around 1 per cent."

1.147 Asked as to why Government should not bring out a White Paper on the country's total debt liability, the manner in which foreign loans had been utilised so far and how the Government planned to repay them, the Secretary (EA) replied:

"As far as the total liability is concerned, the factual position has been stated in Parliament on very many occasions. So, I shall respectfully submit that probably there is no need for additional documentation.

On the question of White Paper on how loans have been utilised, if you are thinking back over the last ten years, it virtually becomes an analysis of the budget every year. Most of our external borrowings go through the budget into the Government or into the Public Sector. I do not think, it would be possible to analyse point-by-point what the impact of each borrowing for each project is on the total economy. It would amount to a review of our overall economic management in the last ten years."

IMF Conditionalities

1.148 The Committee desired to know from Chief Economic Consultant the Ministry his opinion about the conditionalities of I.M.F. The representative stated:

"I was not involved in negotiating the IMF conditionalities. I have only read them since I joined. I have also not seen officials of the bank. I think, our negotiators, the Ministry of Finance and the Government faced very difficult conditions in June when they finally negotiated this loan because our balance of payments situation was very difficult. Let us say that even if we negotiate then today again, there may be some small changes. In my view we could have developed a slightly different package. The point is that when they give us a loan, they look for an assurance that we will be able to pay back and that means that we would be able to improve our balance of payments enough and we would be able to improve our budgetary balance enough to be able to repay the loan. There are two possible approaches. One is that we might assure them that we will reach certain quantitative targets; we can reduce the fiscal deficit to 6.5 per cent etc. this is one quantitative target. The other possible approach is that we might say that we are going to change our system of controls in such a way that we will be in a better position to repay the loan. Coming to the point, I would say that we were in a great hurry; they were in a great hurry. Possibly, we have negotiated targets which are extremely harsh. I understand that for this year we will meet the targets and I expect and hope that we will continue to meet the targets. But in a continuing relationship with the IMF, we should look for solutions where we accept the conditionalities based on what we consider we can do, what we consider is in our self-interest and this means that we should give more thought or more study to what systemic changes we need to make in Governmental procedures, in economic controls we should emphasise these things more than the quantitative targets."

1.149 In reply to a query the Chief Economic Consultant further stated:

"The first thing that we should try to ensure is that we do not have to borrow. Borrowing always carries certain conditionalities. So, our first attempt should be to ensure that we do not borrow. If we do borrow, then we must accept the conditionalities which are based on our own perception of self-interest. Therefore, we must ask ourselves all the time what is it that we are going to do. We should ask ourselves whether we should borrow with the conditionalities attached to the loan? We should as far as possible not to accept the conditionality which forces us into impossible circumstances. This is where one needs freedom, one needs time."

1.150 Explaining the position in this connection, the Finance Secretary said:

"When you are talking in terms of conditionalities, you are not only referring to the IMF but also taking into account the World Bank. When you take a total package, one side relates to the fiscal deficit correction and the other side is about the structural reforms where you are talking in terms of trade policy, the monetary policy, the industrial policy etc. Both these things are aimed at correcting the economy. For any opportune money-lender, he would like to see that the money comes back. What Dr. Ashok Desai pointed out relates to the total package. When you discuss the loan, you discuss it in its totality. When you talk in terms of fiscal corrections and structural corrections, it is possible that at a particular point of time, it will be more on the fiscal correction side and less on the structural correction side and *vice versa*. This is an assessment. Whether the Government has to agree to a total package would naturally depend upon our own financial situation or stability to do it or it depends on our political courage. Ultimately, it flows down to the political-decision-making authority. it is a package where our perceptions could change periodically. Dr. Ashok Desai was referring to both aspects. Most certainly, if our financial situation improves, then we can say that we do not want the IMF loan at all. He was putting it in a broader perspective of having a total package where you can negotiate something more on the fiscal side and loss on the other side."

1.151 Clarifying the position further, the Secretary (Economic Affairs) stated:

> "I think, what happens with IMF or a World Bank institution is that when a country gets into the balance of payments problems, then these institutions say that they are prepared to assist under the charter. They say that they are authorised to provide the assistance provided we have a structural adjustment programme of our own. In fact, we have our own adjustment strategy which the Government outlined in the first month after coming to power, When you have an adjustment strategy you ensure with the bank that this will correct the structural imbalance. The need to correct the fiscal deficit was identified by the Government as absolutely central for any strategic on restoring macro economic balance. This is not something which the IMF authorities have told us. This is our own analysis. Last year the fiscal deficit was 8.5 per cent of the GDP. It was 8.9 per cent of the GDP when the Budget was framed and then we decided to bring it down to 6.5 per cent level at the RE stage. IMF took that as Government's strategy and structured the conditionalities. For example, our estimate is 6.5 per cent. But the IMF says that it cannot simply accept that. It will fix certain target for the month of October and certain target for the month of December which will be consistent with our achieving 6.5 per cent target. This becomes a part of conditionality in terms of fight quantitative monitoring. The main condition relates to number of fiscal deficits. As the Finance Secretary said the important part of the conditionality was the structural reforms in trade policy and industrial policy. these are not of a similar kind. We do not have month by month performance criteria but we have the general perception also. These conditionalities are nothing but merely putting down these views in concrete terms about the Government's strategy."

Curbs on Imports

1.152 The Committee pointed out that repayment of external loans was mainly made from the country's export, and most of the exports were dependent on imports. Enquired whether import curbs enforced by R.B.I. would not affect the exports, the Secretary (EA) conceding the position stated as follows:

> "The import restrictions which had to be enforced in the last six months, did have a negative effect on industrial production and probably on exports as well. For this reason, the Finance Minister has clearly said on many occasions that import restrictions by the RBI are to be enforced purely as temporary emergency measures. As soon as the reserves position improves, they will be removed."

1.153 The Finance Secretary added:

"The import restrictions did affect imports. But, we had no option at that stage, if we had not done this, we would have defaulted, which is a very nice word for bankcruptcy. Now that the balances are good most of the restrictions have been removed by the Reserve Bank."

Interest Rates for exporters

1.154 In regard to questions of interest rates for exporters, the Secretary (EA) explained the position as follows:

"there is a lot of criticism on the decision to raise the interest rates for exporters. One of the points is that general tightening of the money markets was essential if we were to handle the foreign exchange situation and also bring inflation under control. There is no way of controlling inflation when it breaks out, which does not involve some tightening of the monetary situation. Domestically, tightening of money has been a very important factor in bringing money back into the country. The people who earlier had a tendency to hold back their export receipts they have been remitting these receipts. The improvements that have taken place in the reserves in June-July are that from only Rs. 2300 crores, they have gone to Rs. 8,000 crores. To a large extent it is because the earlier export receipts were not being remitted fast enough. Now, the export receipts are remitted fast. One of the reasons is that the domestic money situation is tight and people need money. ....It is true that the interest rate has tightened up the situation for exporters. Under the circumstances it is not a viable situation."

1.155 In reply to a query, the representative stated that once the situation eases up, we shall certainly be able to relax the monetary policy.

Foreign Exchange Reserves

1.156 The Committee desired to know how much foreign exchange reseves had been built during the past months, how much of it was on account of IMF and other lending agencies and how much of it was due to NRI Scheme. The Secretary (Economic Affairs) informed the position as follows:

"If we compare the position at the end of June with the position at the end of December, according to my figures, I think here we will count foreign exchange reserves in terms of millions of dollars——the position is as follows:—

On June 28th, the foreign exchange reserves were 1.125 billion dollars.

On December 31, the foreign exchange reserves were 3.597 billion dollars.

It is an increase of about 2.472 billion dollars.

From multilateral agencies during this period, from the IMF on the 22nd July, 12th September and on the 16th November, we obtained drawings adding up to .976 billion dollars from the World Bank through these additional special disbursements that we have entered into this year in maintaining their normal lending which goes on year after year of .44 billion dollars and 0.070 billion dollars from the ADB. That would roughly be 1.5 billion dollars from the IMF, World Bank and the ADB. For the remittance, there are two different schemes. One is the immunity scheme which is sometimes called the amnesty scheme. The position today is that we have 514 million dollars i.e. 0.514 billion dollars till December end into Development Bonds which are not reflected in the foreign exchange reserves because they are bonds collected by the State Bank, they are outside this set up We have collected to date (till December end) 382 million dollars or .382 billion dollars."

Amortisation

1.157 In regard to amortisation of debts the Ministry stated in a written note as under:

"Internal Debt: The repayment of principal on account of internal debt is met from fresh borrowings while payment of interest on the debt is met from Revenue receipts.

Expernal Debt: The payment of principal and payment of interest on external debt is primarily made out of country's exports as well as invisible earnings. The Government have taken serveral steps to increase both exports as well as invisible earnings and an attempt is made to ensure that dependence on external financing is progressively reduoed. The key elements of Government's policy for increasing foreign exchange earnings to ease the pressure on amortization of external debt include rapid export growth, augmentation of tourism receipts, promotion of efficient import substitution, increasing disbursements from committed external assistance, adoption of measures which offer incentives for larger remittances from Indian nationals abroad and encouraging economy in the use of scarce foreign exchange."

1.158 In this context the Committee enquired whether the Government were paying old debt through fresh borrowings and if so, how such a vicious circle can be broken.

The Secretary Economic Affairs in his reply said:

"I do not think it is correct to say that you are actually borrowing to make repayment. Somebody could say, you are borrowing in order to repay. But what is really happening is, at any given time, the balance of payment is managed in such a way that there is gross borrowing taking place which is now borrowing and from the available resources, repayment of debt is simultaneously made. The net borrowing is the difference between the gross new borrowing and the repayment of old borrowing that happens."

1.159. On being pointed out that the representative was emphasising a point in a given time whereas the Committee wanted to know the position over a period of time, the Secretary (EA) stated:

"In any stable, equilibrium situation, what would happen is that the ratio of debt to GDP or ratio of exports expressed to GDP is stabilised. Once it is stabilised, then every year your borrowing capacity always increased and as your GDP increases, exports also increase. Every year, your outstanding debt is going to increase. If the outstanding debt is going to increase, it means that the gross borrowings have to be more than the debt repayment."

In reply to another query, the representative submitted:

"We are borrowing in order to finance developmental activity. As long as we remain a country that is trying to push for development, our total income grows."

1.160 Enquired whether in actual terms country's borrowings during a particular year were nearby just about what was paid for by the outgo, the Secretary (EA) said:

"if you will go back, you will find that in all these years, our gross borrowings were more than our outgo on the principal repaid. The entire resource transfer has generally been positive."

The Finance Secretary further added:

"Yesterday we spent lot of time worrying about the fact that the debt service is getting worse. That is a very clear indication that the gross borrowing has been much higher. In fact, we would not have faced that problem. Our problem has arisen because the two are not matching. Borrowing is much in excess of repayment or servicing ability."

IV. ECONOMIC REFORMS

1.161 The Committee enquired wheher the Indian economy was considered so strong as to be able to open up to global competition and withstand it. Explaining the objectives of the reforms in economy, the Finance Secretary stated as follows:

"It is precisely because we are not that strong that we need to open up to competition. Over the last 40 years, we have started a large number of activities with the support of Government. Yesterday it was pointed out how in the North-East a number of pipes and tube units were closed down because the orders of the Government are not forthcoming. You are aware that the fer tiliser industry was started at that time. We fixed some norms.

We started 'Whatever you give in return, we will give you 12% return."

The result is today we have reached a situation when in the Parliament the fertiliser subsidy was discussed, most of the Members were very critical.They said that it is not a subsidy to the farmer but it is a subsidy to the industry that is inefficient. We protect a large number of domestic industries by enormous Customs tariff and through licensing mechanism. The classic case is that of our motor-car industry. Our cars are totally not fuel-efficient. The licensing mechanism was used to see that more industries did not come up. The import tariff mechanism wanted to see that no fuel-efficient car came up. We have had to put up with this kind of fuel-inefficient cars for four decades. I would respectfully submit to this Committee that when we look at all these things, a certain amount of fresh air and competition is welcome. I think we should do that. We should do it in the interest of our own industrial activities. It will make our industries much more productivity-conscious; it will make them much more efficient. This is not to say that at the time of transition we should not be aware of the local problems. This is why our Prime Minister has repeatedly been saying that we have to give a human face to the problem. The workers should not be affected. That should be taken care of. If we do it, it will result in most inefficient industrial units closing down their operations. We have to see that the interests of the workers are not affected positively.

The first part of the question which the hon. Member raised was whether we are that strong as too open up our industries for competition. My answer would be we are not that strong. That is the reason why we should open up our industries for competition. Certain amount of fresh air is necessary in the interest of our own industry. Its activities should become much more efficient. I would leave it to my colleague, that is, the Secretary, Department of Public Enterprises, to explain more what is it that the Government are thinking in order to protect the interest of the labour, how the industry should be managed.

1.162 Admitting that Indian economy was not very strong, the Secretary (Economic Affairs) stated as follows:

"I think, this is a very genuine concern which has come across in the public debate also. I agree that our economy is not very strong. But I do not think we should conclude that it is the weakest economy in the world. And yet the degree of protection we are giving is the maximum in the world. The first assumption is that we are underestimating the strength of the Indian economy and not the Indian industry.

Secondly, there is no doubt from the experience we have that in the areas whére we have given our producers a fair deal of a competitive environment, they have shown the ability to compete effectively. Our exports are not zero. We are exporting $ 18 billion worth of exports every year. Most of these exports are coming from middle and medium-sized firms but not from big firms. It is one of the interesting things of the economy that smaller and middle sections of our economy are internationally more competitive then the larger ones. And that is because we have created over a long period an industrial infrastructure where the larger units have been protected while the smaller ones have necessarily to be fairly competitive.

Looking at the fact that we are not talking of throwing infants into competition, these are actually mature than men and women. They have enjoyed the benefits of protection for the last 40 years. Their brethern in the smaller and the middle units are already facing a lot of competition."

1.163 The Committee pointed out that the representative was contradicting the Finance Secretary, who told that:

"really we are not so strong to enter into global competition."

1.164 Clarifying the position, the Finance Secretary stated as follows.:

"I may clarify that we are not strong to enter the global competition. But in the domestic sector, if I am nurturing a set of industries on crutches, it leads to inefficiency. It is good to throw it to certain competition."

1.165 The Committee observed: "the question now is about the economy of the country in general that it is not so strong to enter into global competition. When you have admitted, yes, it is not so strong, then my second question is have we taken appropriate steps to protect our economy?"

In this connection, the Secretary (EA) stated: "we have taken all appropriate steps. I would respectfully submit that what we have been doing in the past was over-protecting our industries and what we are now doing is introducing a gradual process of transition from what is today regarded as the most protected regime in the world to something more comparable to other industrially developed countries. There is no reason to believe that the rest of the world will think that we in India cannot do it and that will not be a compliment for ourselves. If you look at the experience of our neighbouring countries, you can find that the degree of protection given to industries is much lower. There is no doubt that the Indian industry will never be able to compete if it remains as protective as it had been in the past."

1.166 As regards the protective measures for certain industries, the Secretary (EA) informed:

> "It is not the policy of the Government to go laissezfaire. There are critical areas like consumer goods which we are not thinking of opening up. But the present policy is, when it comes to capital goods, raw materials, components of industries, which are needed for production, we should have a more open economy. It should not be completely open but should be an open economy, If we look at the statistics, we can find that India's ratio of imports to the GDP is the best way of measuring how open we are. Our ratio of imports to our total GDP is one of the lowest ratios in the world."

1.167 On being asked to justify the economy entering the global comnpetition, the Secretary (EA) further stated:

> "I have absolutely however that for a transition of four to five years period will make our economy much stronger and secondly, all the evidences which we have had for the last 30 years show that wherever we have exposed ourselves, we have done better and we have gained this experience from what is happening around the world. A comment was made yesterday that an economy like that of China, which was totally closed upto 1978, started opening up after 1978."

1.168 The representative added:

> "It should be our objective to integrate the Indian economy into the global economy, if we want to be a major player in the world and if we want to stand up with other nations. Our objective is to open up progressively as the world is becoming a global market increasingly".

1.169 Clarifying the position in response to a query, the Secretary stated:

> "I am not suggesting that we should not enter into the global market but we should enter with adequate precaution and support which the industry requires."

1.170 The Committee asked what are the adequate precautionary measures needed? The representative replied:

> "Only certain areas can be opened up. For example, we cannot open up consumer goods but when we come to machinery, technology, raw materials and inputs, if we want the economy to be productive, then these things should be made available to the Indian producers at more or less the same price as they are available all over the world. Unless we do this, the costs of production of India will be much above what they are elsewhere in the world. It means, we will not be able to sell, we will not be competitive and we will not be able to finance the imports we need. Then the only way is to rely on external aid. But I assure you, in the next ten years, external aid is going to

come down. The world is not interested in rendering external assistance to those countries who are not interested in improving their lot. And I do not see why we cannot have a export boom with corrective measures. Countries like Malaysia, Thailand and Indonesia which were for behind us twenty years ago, are today twenty years ahead of us. I am sure in ten years, we can catch them up."

1.171 Explaining the perspective of recent changes, the Finance Secretary stated:

"The perspective is there that in the two or three years there should be some changes, when we are talking of structural reforms and fiscal reforms. I know that the net result or all those is to control the inflation. The interest rates are going up. You may look at it as a market phenomenon, but the curbing of imports and others are having some effect. The prices are in some respects, coming down. Earlier this year the rise was 15 per cent but recently it has been corrected. Now that is the problem.

V. CONCLUSION/RECOMMENDATIONS

Definitional Clarity

1.172 To achieve objective of rapid economic and social development of the country planning strategy over the successive Five Year Plans has been based on the concept of mixed economy in which the Government had to play a significant role in mobilising resources to sustain the planned levels of investment and economic growth. The Committee note that the policy of the Government has been to contain 'budgetary deficit' and 'debt burden' within manageable proportions. This, obviously implied certain measure of deficit financing. However, the Committee are dismayed to find that during the decade of eighties this cautious approach was abandoned as Government allowed the public debt to 'register a sharp growth' from just 33 per cent of GDP in 1950-51 to 65 per cent towards the end of the eighties to meet the growing revenue expenditure without achieving higher levels of investment while revenue receipts did not rise at the same pace.

1.173 The Committee are constrained to note that this unfavourable development has, to a substantial extent, been soft-focussed due to the ambiguous definition of deficit adopted by the Ministry of Finance in presenting the financial picture of the Government before the Parliament and the public at large. The Committee, however, note with satisfaction the correctives applied in the past year and the fact that 'deficit financing' is now being projected in realistic proportions thus reflecting the correct levels of public debt, both internal and external, in conformity with the international practice. The Committee, however, would like to place on record their disapproval of approach adopted in the past.

Recommendation

They also recommend that while presenting the budget deficit in its all connotations i.e. fiscal deficit, primary deficit and monetised deficit,should be depicted in the budget documents in order to ensure definitional clarity as created by avoiding use of imprecise terms such as 'budgetary deficit' and 'overall deficit'.

Prudential Borrowing

1.174 While public borrowing is a recognised source of public finance, there is no gainsaying the fact that borrowings ought to be limited within prudent limits. The provisions of Article 292 of the Constitution of India under which the Union Government has been empowered to borrow (and to give guarantee) on the security of the Consolidated Fund of India, stiputate borrowings only within limits, if any, fixed by Parliament, by law. Article 293 confers similar powers on State Governments to borrow within the country on the security of the Consolidated Fund of the States. State Governments are, however, prohibited from raising foreign loans abroad.

It therefore follows that while the debt position of State Governments can be regulated by the Union Government through overdraft limits with RBI, the Union Government's powers to borrow are virtually unfettered in the absence of statutory ceiling fixed by the Parliament. The Committee, however, note that precise determination of 'prudent limits' of borrowing is largely a matter of subjective judgement. There is total agreement between the experts and the laymen on the fact that borrowing by itself is a normal financial activity so long it is not used for meeting revenue expenditure and so long it generates sufficient returns to ensure smooth amortization of such debts and meets the cost of debt servicing. The Committee are unhappy to note that in recent years the Government of India have overlooked the simple wisdom of cutting its coat according to its cloth. This fact is amply borne out from para 8.8 of the Annual Report of RBI, 1990-91 which states:

> **"The growing liabilities accumulated in recent years at a rapidly rising cost which are associated with a widening revenue account gap and large absorption of resources by non-Plan expenditures sum up the fiscal malaise facing the Indian economy."**

Financial Discipline

1.175 The Committee wish to remind the Government of India about the gravity of its responsibility in maintaining general financial discipline in the country as a whole. In this context they are disturbed to note the profligacy that has characterised the financial affairs of State Governments/Union Territories and the Public Sector Undertakings both at the Centre and in the States. They, however, hope that the acute realization of the importance of maintaining financial discipline will fast percolate to all levels in all segments of the public sector in the economy.

Rising Government Expenditure

1.176 Any discussion regarding application of fiscal correctives must be preceded by an incisive analysis of revenue receipts and expenditure of the Government.

The Committee find that over the decade, total Government expenditure has increased at a compound growth rate of 17.6 per cent, from Rs.24,383 crores in 1981-82 to Rs.1,06,717 crores in 1990-91 and is further estimated to reach Rs. 1,13,422 crores by 1991-92. Throughout the eighties, the share of non-plan expenditure has continued to outstrip plan expenditure. *Inter alia,* three major items interest payments, defence and subsidies constitute 68 per cent of non-plan expenditure. Defence expenditure which topped the list a couple of years ago has now been relegated to a secondary position due to alarming rise in the interest burden. This is largely a consequence of huge borrowings resorted to finance the burgeoning non-plan expenditure including interest on past loans. In fact the interest payments budged during the current year from one-third of the non-plan expenditure and a quarter of the total expenditure. In effect a vicious circle has been created with borrowings and interest payments mutually reinforcing each other.

1.177 Apart from explicit subsidies on food, fertilizers and interest rates there are 'quasi-subsidies' consisting of postal deficit and net expenditure on certain other departmental commercial undertakings.

1.178 The Committee are gratified to note that with the Budget (1991-92) an earnest beginning has been made in restoring, in some measure, a balance between the revenue expenditure and receipts.

The Ministry of Finance in their written note as well as in extensive discussion held during evidence with their representatives in December, 1991 and January, 1992, have informed the Committee of a number of steps aimed at (a) maximising of revenue receipts and (b) reducing expenditure.

The fiscal deficit of the Union Government which measures the difference between revenue receipts and expenditure has been more than 8 per cent of the GDP since 1985-86 as compared to 6 per cent at the beginning of the eighties and 4 per cent in the mid-seventies.

The Union Budget for 1991-92 seeks to reduce the fiscal deficit of the Centre by two percentage points of the gross domestic product from 8.5 per cent of the GDP in 1990-91 to 6.5 per cent of GDP in 1991-92. This implies a fiscal correction of more than Rs. 12,000 crores in 1991-92. The Committee also note that the further effort of the Government will be to bring down fiscal deficit gradually to 4 per cent of GDP in 1994-95.

Recommendation

1.179 In this context the Committee would like to caution Government against any hasty or indiscriminate measure to cut expenditure or raise resources in any manner which may further strengthen inflationary pressures on the economy, leading to a fresh burden on the common man.

While the Committee appreciate the compulsions within which the Government have committed themselves to a certain quantitative figure in regard to 'fiscal deficit' they would like the Government to ensure that economic restructuring and measures for expenditure contraction as well as revenue augmentation balance each other as far as possible. The Committee wish to express their deep anxiety at the possibility of both these steps together breaking the back of the proverbial 'camel' resulting in public disquiet giving way to despair which will have far reaching and adverse consequences for the country.

Recommendations

1.180 The Committee recommend as follows:

(i) The programme for reducing fiscal deficit initiated this year may be continued to achieve the desired level.

(ii) The Government should lay emphasis on the completion of existing projects before starting new projects.

(iii) Defence expenditure should be closely monitored, projects of questionable economic or social value eliminated and timely execution of other projects ensured.

(iv) Instead of an across-the-board cut in expenditure the Government first identify the areas of unproductive expenditure while taking steps to reduce Government spending.

(v) Estimates of different projects should be prepared in such a way that cost overrun does not exceed more than ten per cent of the estimated cost of the project in a specified period.

(vi) Areas for public investment should be redefined. The public sector should largely confine itself to the core and infrastructure sector and consumer sector should be left to private entrepreneurs.

(vii) A major reduction in Government expenditure can be achieved by drastically reducing interest rates on Government borrowings. This, in turn, will also help enhance industrial production.

The Committee well realize the near impossibility of reducing high interest rates currently prevailing. However, they desire the Government to devise a strategy to bring down interest rates to a realistic level after inflationary pressures on the economy ease.

(viii) The Committee are aware of the difficulties in enforcing financial discipline with uniform rigours in the entire public sector of the economy,

keeping in view the political and social plurality as also the economic disparity in the country. They would, however, like Government of India to determine a set of selected parameters of financial discipline, and endeavour for its wide acceptance through consultation and consensus. This would also call for constant monitoring of these parameters as also swift and determined action to check any deviation or slackening by any State Government or any segment of Government of India itself. The Committee will like to be informed of the progress achieved by the Ministry of Finance in this endeavour.

(ix) The Government should evolve an efficient and effective evaluation and monitoring system to study the impacts of the various measures taken by them to contain budget deficits.

Defence Expenditure

1.181 The Committee being fully conscious of the threat to national security expect the Government to proceed with caution in restricting defence expenditure. However, they are at the same time of the view that there are several areas in the Defence Services Estimates where either substantial savings are possible or substantial incomes can be generated. These are *inter alia* **i) rationalization of the manpower structure through reduced span of colour service; ii) rationalization of the command structure in the Armed Forces; iii) better utilization of manpower resources particularly in workshops, repair, depots, dockyards; iv) partial privatization of production of items in ordinance factories and defence related public sector units; v) better utilization of manufacturing capacity and repair/overhaul capacity through exports effort and by including the small scale sector; and vi) better utilization of defence lands.**

1.182 In this context the Committee desire the Government to take early action on the recommendations of Arun Singh Committee Report on Defence Expenditure.

Subsidies

Fertilizer Subsidies

1.183 The Committee find that over the years various types of subsidies have proliferated and constitute one of the major item of non-Plan expenditure. As experience of administering subsidies has shown these generate price distortions, corruption and inefficiency in the management of economic activities while the benefits derived therefrom are not commensurate with the costs. Moreover all types of subsidies engender vested interests which endeavour to perpetuate the subsidies when these are no longer justified and even injurious to the economic health of the country. The Committee feel reassured by the growing realization within and outside the Government that subsidies, at the most, are only a mixed blessing and cannot be allowed on a perpetual basis.

While a substantive step towards rationalization of subsidies has already been taken with the abolition of export subsidy and with the 30 per cent hike in the prices of fertilizers during 1991-92, a great deal more is yet to be achieved in this regard.

Recommendations

1.184 The Committee desire that keeping in view the interests of farmers and for maintaining the uptrend in agricultural production reduction of fertilizer subsidy ought not only be, as much as possible, gradual but should also be accompanied by simultaneous revision of support prices in order to ensure a fair and remunerative return for the agricultural sector.

1.185 The Committee also desire that small and marginal farmers must be given due protection by continuing the subsidy for them. Government must ensure that subsidised fertilizers reach them in time and the benefit of these subsidies reach only those segments of farmers for whom it is intended.

1.186 The Committee find that foodgrains producers are not the only consumers of fertilizers. Cash crop producers such as growers of tea, coffee, tobacco, fruits, sugarcane and other cash crops also use chemical fertilizers. In their opinon there is no justification for sale of fertilizers at subsidised rates to producers of cash crops. Immediate steps should therefore be taken to study this aspect and find ways and means to ensure that subsidy on cash crops is eliminated.

Food Subsidy

1.187 The Committe find that food subsidy which has actually increased from Rs. 2450 crores to Rs.2600 crores in the current year is another major item of non-Plan expenditure. While food subsidies are manifestly burdonsome, there are obviously no options before the Government but to continue them. However, there is a widely shared feeling that the benefits of food subsidies are being largely cornered by the relatively well-to-do sections of society, both in the urban and rural areas. Any attempt to limit the benefits, though desirable, the Committee anticipate, would run into all sorts of problems at the implementation stage. However, the Committee cannot but emphasize the necessity of providing foodgrains at subsidised rates in a poor and developing country like India with a view to fulfilling minimun nutritional needs of the vulnerable sections of society especially those below the poverty line.

Recommendations

1.188 The Committee would however like to caution against an indefinite perpetuation of food subsidies for well-to-do sections of the society. The Committee recommend that subsidised foodgrains should be restricted to the really needy and poorer strata of the society. Special attention should be paid to people living in remote, tribal and hilly areas and also to those below the poverty line. They desire the Government to undertake periodic review of the subsidy element to adjust it with rising incomes in the targetted groups. For relatively well-to-do section of the society, the

Government should ensure availability of foodgrains through the Public Distribution System at reasonable prices.

Other Subsidies

1.189 The Committee are unable to appreciate the necessity of continuing various other subsidies including quasi-subsidies which are being borne by the Government in respect of Railways, Postal Services, operating losses of departmental undertakings and interest on loans to public sector undertakings.

Recommendation

1.190 The Committee desire that subsidies as such should be gradually done away with through improvement in efficiency, discontinuance of uneconomic operations,reduction of costs and by charging realistic price for the services rendered except in respect of those meant for poorer sections.

Ceiling on Borrowings

1.191 It has been pointed out to the Committee that a ceiling on Government borrowings would have three positive effects. Firstly, it would force the Government to scrutinise its borrowing plan much more carefully that at present. Secondly it would set off alarm bells as the Government approached a ceiling figure. Thirdly, it would allow other borrowers to know how much was available for them in the market. They, however, note that the Government is not in favour of a statutory limit on borrowing. It has been agreed that a ceiling under Article 292 of the Constitution can cover only loans flowing into the Consolidated Fund of India and not quasiborrowings like small savings, Provident Fund etc. which flow into the Public Account. Moreover, it also hamper aid negotiations and its utilisation. It has also been agreed that even in developed countries, a statutory ceiling is perceived as a rigid instrument leading to irrational cuts in expenditure and undermines Government's ability to use fiscal instruments to manage the economy.

Any such ceiling, it has been contended, would affect developmental outlays and also undermine Government's ability to manage emergencies like a drought or an external threat. The Committee note this issue has been debated in the past extensively in Parliament and its Committee's as well as in public.

Recommendation

1.192 The Committee are of the view that balance of advantage lies in favour of a ceiling on borrowings. In their opinion, the difficulties perceived in having a ceiling on borrowings can be overcome by adopting a flexible approach in determining the figure at which ceiling should be imposed. Any such figure can be reviewed every year and adjusted in accordance with the requirements of the situation but only after a discussion and positive vote in the Parliament. The Committee feel that this itself will act as a check against indiscriminate borrowings and its pernicious consequences.

Depiction of Debt Service payments

1.193 At present the Statement of Liabilities of the Central Governments in the Receipt Budget shows the details of the outstanding Public Debt and other liabilities at the end of the financial year.

Non-Plan expenditure under the Expenditure Budget boldly show the interest payments during the year. However, there is no mention of repayments of internal and external debts and other liabilities during the year.

Recommendation

1.94 Since repayment of Principal constitute a major item of expenditure in the Budget and in order to have proper assessment of the magnitude of debt service payment (i.e. repayment of principal and payment of interest during the year, the Committee recommend that the item 'interest payments' in the Expenditure Budget should be replaced by 'Debt Service Payments'indicating separately the 'Repayment of Principal' and 'Interest Payments' in that year, both as a proportion to the total revenue.

Sick Public Sector Units

1.195 The Committee are informed that of the 244 Public Sector Units, 58 are chronically sick and that it would require Rs. 15,000 crores to rehabilitate these units employing about 4 lakh workers. According to the Government, the same amount of fresh investment can create 15 lakh jobs. In the opinion of the Committee Government will find it next to impossible to mobilise huge funds for reviving the 58 sick public sector units while maintaining these at their present state of unviability would make poor economic sense. However, the possibility of investing Rs. 15000 crores in new enterprises is vague as no concrete plan exists for that purpose.

Recommendation

1.196 The Committee are not convinced about realism of the equation put forth by the representatives of the Government. However, they are not averse to closure of units which are unable to become viable. While cautioning against any generalization in the matter they desire that each unit may be dealt with on its own merits keeping in view its specific social purpose. They also desire that while closing an unviable unit sufficient social security should be provided to the employees and workers affected in the process.

Workers Cooperatives

1.197 The Committee recommend that where workers cooperatives are willing to take over the management of sick public sector units, the same should be encouraged.

Revenue Augmentation

1.198 The increase in budget deficit is mainly a reflection of the increasing gap between revenue receipts and revenue expenditure. Even though the States' share in tax receipts has begun to decline since 1987-88 the fact that it went up from 18.6 per cent in 1978-79 to 28.4 in 1979-80 has had a significant impact on the revenue balance. However, the Committee are constrained to note that the tax effort of the Government has not matched the drop in tax revenue and simultaneous increase in non-productive expenditure. The situation has been compounded by slow growth in non-tax revenue. The Committee find that tax effort on the part of the Government suffers from handicaps like a narrow tax base and the complexity of tax law and procedure. They also note that the Government intend to reform the tax laws on the basis of Raja Chellaiah Committee Report.

The Committee find it highly disconcerting that country of India's magnitude should have as few as 7 million direct tax payees.

Recommendation

1.199 The Committee, therefore, desire that vigourous efforts may be made to widen the tax base by bringing within the tax net all those categories of people who have hitherto escaped the tax-net.

Unaccounted Money

1.200 The Committee are disturbed to find that Government's efforts, time and again, to bring unaccounted incomes and wealth within the tax net have failed to achieve desired objectives as these have been characterized by an adhocist approach.

Recommendation

1.201 The Committee urge a comprehensive approach to the problem of unaccounted income and wealth.

Recent amnesty and immunity schemes was the fourth opportunity provided to tax-dodgers in the past to legalise their wealth through disclosure schemes which have not yielded the desired results. Therefore, there should be no hesitation on the part of the Government to take stern measures against hoarders, black-marketeers, smugglers and other habitual tax evaders to unearth the ill-gotten unaccounted wealth. This, in turn, would also help curb inflation.

Arrears

Recommendation

1.202 The Committee desire that effective steps should be taken to mop up maximum possible amount of tax revenue lying in arrears.

Foreign Debt

1.203 India's total external debt increased from Rs. 18,400 crores in 1980-81 to Rs. 99,485 crores in 1990-91. Consequently the debt servicing obligations on account of repayment of principal and interest also have gone up manifold. Whereas repayment of principal is made from out of the capital account (Gross Disbursements-Repayment = Net Disbursement), interest on account of external debt enter the current account of Balance of Payments.

The World Debt Table published by the World Bank appearing in the Hindu dated 11th February, 1992 is reproduced below:

Debt Tables

Year	Repayment of principal and interest	Fresh borrowings	Repayments expressed as % of fresh borrowings
	(billions of dollars)		
1	2	3	4
1983	4.4	7.6	58.9
1984	5.6	5.9	95.7
1985	6.3	11.5	55.2
1986	8.3	13.2	63.1
1987	8.9	13.3	66.9
1988	9.7	8.9	109.1
1989	10.1	12.0	84.8

Source : World debt Table, 1990-91

Note : Figures in column 3 have been recomputed by equating net flows of debt with increase in total debt.

1.204 The Committee observe that the annual debt service obligations in respect of India have increased from $4.4 billions in 1983 to $10.1 billions in 1989. Repayments expressed as percentage of fresh borrowings increased from 59 per cent in 1983 to 109 per cent in 1988 and then slumped to 85% in 1989 which only shows the extent to which fresh borrowings have been materialised by the mounting debt service obligations.

The Committee further note that trade deficit averaged 3.4 per cent of GDP during the Sixth Plan Period (1980—85) and 3.2 per cent of GDP

during the Seventh Plan Period (1985-90). The current account deficits were 1.3 per cent and 2.2 per cent of GDP during Sixth Plan and Seventh Plan, respectively.

The combined effect of various factors has been that, over the years, country's debt crisis has begun to look like a debt trap. Under these cirsumstances, it appears doubtful whether any substantial amounts of external borrowing have been channelized into capital developmental projects.

Fulfilling Debt Servicing Obligation

1.205 Recently the country faced an unprecedented situation in the balance of payments when access to short-term credit in commercial markets was becoming restricted as the international rating agencies lowered the credit ratings of India. The Committee note that Government had to take an exceptional step of pledging the gold (which has subsequently been redeemed) to raise loans for meeting external payment obligations. It is a matter of considerable satisfaction that country's past record of always meeting its debt servicing obligations has been maintained even under the most difficult circumstances and thus the international confidence in India restored. The Committee wish to commend the Government for this achievement.

1.206 In response to the rapidly declining foreign exchange reserves and the balance of payments position worsening further, the country apart from taking extra-ordinary steps like leasing gold (subsequently redeemed) to foreign Banks to raise desired resources, had to approach multilateral agencies and donor countries for financial support in maintaining country's balance of payment for meeting external debt obligations.

Recommendations

1.207 In view of the present balance of payment situation, notwithstanding recent improvements in the reserve surplus on current accounts, the Committee are somewhat sceptical about the efficient use of foreign debt by the Government. They are, therefore, of the view that the Government should have a fresh look on the country's total external liability before for fresh borrowings.

The Committee would also like to be assured that in the name of upgradation of technology, strengthening and enhancing production base, infrastructure sector and modernisation of the economy precious foreign exchange will not be squandered to promote consumperism or elitism.

Commercial Borrowings

1.208 The Government apart from seeking external assistance from IMF, multilateral agencies and donor countries, over the years, has been resorting on an increasingly large scale, to commercial borrowings and IBRD funds at market rates to finance the current account deficits and other developmental programmes. Out of total external debt of Rs. 99,485 crores external commercial borrowings account for Rs. 26,706 crores and IBRD funds account for Rs. 13,519 crores aggregating to Rs. 40,225 crores.

Recommendations

1.209 The Committee urges a conservative approach towards commercial borrowings and would like Government to encourage direct foreign investment to not only restrict commercial borrowings but also redeem some of these debts to the extent possible.

Recommendations

1.210 Repayment of external loans is mainly made from the country's exports which to a large extent are dependent on imports. Since the foreign exchange reserves have touched Rs. 9,800 crores in January, 1992 the Committee recommend that import restrictions imposed by RBI during the last six months should be lifted immediately for all those items which form an input for exports.

1.211 The Committee appreciate that there are no short cuts to a situation where expenditure on account of interest payments are pegged at a reasonable level. However, they do desire the Government to repay short term debts, particularly commercial borrowings from the international money market, at the earliest opportunity in order to reduce the interest burden. The Committee should like to be informed, within a reasonable period not exceeding six months, about the detailed plan of the Government to achieve this objective.

Economic Reforms

1.212 The Committee not that various other countries in Asia which shared the same problems in their economic growth have, over the past few years, switched over to export-led growth and undertaken impressive strides in the economic field. It is their firm belief that a country like India which is the eleventh largest industrialised nation and possesses the third largest pool of technical manpower in the world, cannot afford to remain indifferent to a changing world. In their view the country will have to show due resilience and readjust its policies to achieve economic viability.

1.213 The Committee not with satisfaction that the Government has decided to convert the present difficult economic crisis into an opportunity to carry out long-term reforms which over a period are expected to improve the productivity of investment and make the economy dynamic and self-reliant. The Committee feel that Government's liberalisation policies have created a right climate for direct foreign investment.

1.214 As regards the implementation of ecopnomic reforms the Committee would like to strike a note of caution that while the Government must strive hard to improve the image of India as a market-driven country and that the new policy is irreversible the Commitee at the same time and that the new policy is irreversible the Committee at the same time would like the government to underline the necessity of assuring the public of its determination to keep in check the twin danger of inflation and unemployment which are already confronting the country. The Committee wish to express their grave concern at the unabating inflation which has hit the common man very badly.

1.215 While dwelling upon the aspect of economic reforms under the New Economic Policy the Committee cannot emphasise what is all too obvious. While thjere is no painless way of mastering a crisis created by too heavy a debt burden yet the Committee feel that common man should not be called upon to pay too heavy price for past sins of omissions and commissions which can ungrudgingly be attributed to government/management failures.

At the same time the Committee feel that workers too must slowly but surely reconcile themselves to the fact that the public sector has ultimately to earn at least its own keep and has to run itself professionally for a profit. In that they must see the imperatives of the ongoing economic policy reforms in economy with a view to achieving objectives of improving productivity, efficiency, employment opportunities, strengthening technology base and boosting export performance for making Indian economy dynamic, outward looking and a pwerful engine for growth and for raising the quality of life of the ordinary man in the country.

Recommendations

1.216 The Committee recommend as follows:

(i) The Government should ensure that the capital and technology inflows sought to be facilitiated by the new industrial policy should not result in the loss of domestic markets rather than in gaining export markets. India's priorities must be made clear. Concessions to goreign direct investment must be determined primarily by India's own needs and priorities.

(ii) The Committee also desire that creation of employment opportunities should receive the highest priority particularly in view of the structural adjustment which might cause disruption in the employment situation in the short-term.

(iii) With a view to stepping up employment generation, the Government should accord primacy to agriculture, development of small scale industry and encourage investment to boost construction activities.

(iv) The Government should strive hard to disseminate information on about the new policies and their impact in order to promote national consensus on the subject.

(v) The Committee would like to caution the Government to take a serious note that inflation and unemployment which accompany deregulation of economy is likely to cause social tension. This can be avoided by creating awareness among the people.

(vi) The Government should take all steps necessary to firmly and effectively deal with the problems of industrial production and price rise in respect of items of mass consumption.

NEW DELHI;
February 27, 1992
Phalguna 8, 1913 (Saka)

MANORANJAN BHAKTA
Chairman,
Estimates Committee.

APPENDIX

Statement of Recommendations

Sl. No.	Para No.	Recommendation
1	2	3
1.	1.173	The Committee recommend that while presenting the budget deficit in its all connotations i.e. fiscal deficit, primary deficit and monetised deficit, should be depicted in the budget documents in order to ensure definitional clarity as created by avoiding use of imprecise terms such as 'budgetary deficit' and 'overall deficit'.
2.	1.179	The Committee would like to caution Government any hasty or indiscriminate measure to cut expenditure or raise resources in any manner which may further strengthen inflationary pressures on the economy, leading to a fresh burden on the common man. While the Committee appreciate the compulsions within which the Government have committed themselves to a certain quantitative figures in regard to 'fiscal deficit' they would like the Government to ensure that economic restructuring and measures for expenditure contraction as well as revenue augmentation balance each other as far as possible. The committee wish to express their deep anxiety at the possibility of both these steps together breaking the back of the proverbial 'camel' resulting in public disquiet giving way to despair which will have far reaching and adverse consequences for the country.
3.	1.180	The Committee recommend as follows: (i) The programme for reducing fiscal deficit initiated this year may be continued to achieve the desired level. (ii) The Government should lay emphasis on the completion of existing projects before starting new projects. (iii) Defence expenditure should be closely monitored, projects of questionable economic or social value eliminated and timely execution of other projects ensured. (iv) Instead of an across-the-board cut in expenditure the Government first identify the areas of unpro-

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		ductive expenditure while taking steps to reduce Government spending.
		(v) Estimates of different projects should be prepared in such a way that cost overrun does not exceed more than ten per cent of the estimated cost of the project in a specified period.
		(vi) Areas for public investment should be redefined. The public sector should largely confine itself to the core and infrastructure sector and consumer should be left to private entrepreneurs.
		(vii) A major reduction in Government expenditure can be achieved by drastically reducing interest rates on Government borrowings. This, in turn, will also help enhance industrial production.
		The Committee well realize the near impossibility of reducing high interest rates currently prevailing. However, they desire the Government to devise a strategy to bring down interest rates to a realistic level after inflationary pressures on the economy ease.
		(viii) The Committee are aware of the difficulties in enforcing financial discipline with uniform rigours in the entire public sectors of the economy, keeping in view the political and social plurality as also the economic disparity in the country. They would however, like Government of India to determine a set of selected parameters of financial discipline, and endeavour for its wide acceptance through consultation and consensus. This would also call for constant monitoring of these parameters as also swift and determined action to check any deviation or slackening by any State Government or any segment of Government of India itself. The Committee will like to be informed of the progress achieved by the Ministry of Finance in this endeavour.
		(ix) The Government should evolve an efficient and effective evaluation and monitoring system to study the impacts of the various measures taken by them to contain budget deficits.

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4.	1.181	The Committee being fully conscious of the threat to national security except the Government to proceed with caution in restricting defence expenditure. However, they are at the same time of the view that there are several areas in the Defence Services Estimates where either substantial savings are possible or substantial incomes can be generated. These are *inter alia* (i) rationalization of the manpower structure through reduced span of colour service; (ii) rationalization of the command structure in the Armed Forces; (iii) better utilization of manpower resources particularly in workshops, repair, depots, dockyards; (iv) partial privatization of production of items in ordnance factories and defence related public sector units; (v) better utilization of manufacturing capacity and repair / overhaul capacity through exports effort and by including the small scale sector; and (vi) better utilization of defence lands.
5.	1.182	In this context the Committee desire the Government to take early action on the recommendations of Arun Singh Committee Report on Defence Expenditure.
6.	1.184	The Committee desire that keeping in view the interests of farmers and for maintaining the uptrend in agricultural production reduction of fertilizer subsidy ought not only be, as much as possible, gradual but should also be accompanied by simultaneous revision of support prices in order to ensure a fair and remunerative return for the agricultural sector.
7.	1.185	The Committee also desire that small and marginal farmers must be given due protection by continuing the subsidy for them. Government must ensure that subsidised fertilizers reach them in time and the benefit of these subsidies reach only those segments of farmers for whom it is intended.
8.	1.186	The Committee find that foodgrains producers are not the only consumers of fertilizers. Cash corp producers such as growers of tea, coffee, tobacco, fruits, sugarcane and other cash crops also use chemical fertilizers. In their opinion there is no justification for sale of fertilizers at subsidised rates to producers of cash crops. Immediate steps should therefore be taken to study this aspect and find ways and means to ensure that subsidy on cash crops is eliminated.

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9.	1.188	The Committee would like to caution against an indefinite perpetuation of food subsidies for well-to-do sections of the society. The Committee reommend that subsidised foodgrains should be restricted to the really needy and poorer strata of the society. Special attention should be paid to people living in remote, tribal and hilly areas and also to those below the poverty line. They desire the Government to undertake periodic review of the subsidy element to adjust it with rising incomes in the targetted groups. For relatively well-to-do section of the society, the Government should ensure availability of foodgrains through the Public Distribution System at reasonable prices.
10.	1.190	The Committee desire that various other subsidies including quasi-subsidies which are being borne by the Government in respect of Railways, Postal Services, operating losses of departmental undertakings and interest on loans to public sector undertakings should be gradually done away with through improvement in efficiency, discontinuance of uneconomic operations, reduction of costs and by charging realistic price for the services rendered except in respect of those meant for poorer sections.
11.	1.192	The Committee are of the view that balance of advantage lies in favour of a ceiling on borrowings. In their opinion, the difficulties perceived in having a ceiling on borrowings can be overcome by adopting a flexible approach in determining the figure at which ceiling should be imposed. Any such figure can be reviewed every year and adjusted in accordance with the requirements of the situation but only after a discussion and positive vote in the Parliament. The Committee feel that this itself will act as a check against indiscriminate borrowings and its pernicious consequences.
12.	1.194	Since repayment of Principal constitute a major item of expenditure in the Budget and in order to have proper assessment of the magnitude of debt service payment (i.e. repayment of principal and payment of interest) during the

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		year, the Committee recommend that the item 'interest payments' in the Expenditure Budget should be replaced by 'Debt Service Payment' indicating separately the 'Repayment of Principal' and 'Interest Payments' in that year, both as a proportion to the total revenue.
13.	1.196	The Committee are not convinced about realism of the equation put forth by the representatives of the Government. However, they are not averse to closure of units which are unable to become viable. While cautioning against any generalization in the matter they desire that each unit may be dealt with on its own merits keeping in view its specific social purpose. They also desire that while closing an unviable unit sufficient social security should be provided to the employees and workers affected in the process.
14.	1.197	The Committee recommend that where workers cooperatives are willing to take over the management of sick public sector units, the same should be encouraged.
15.	1.199	The Committee desire that vigorous efforts may be made to widen the tax base by bringing within the tax net all those categories of people who have hitherto exaped the tax-net.
16	1.201	The Committee urge a comprehensive approach to the problem of unaccounted income and wealth. Recent amensty and immunity schemes was the fourth opportunity provided to tax-dodgers in the past to legalise their wealth through disclosure schemes which have not yielded the desired results. Therefore, there should be no hesitation on the part of the Government to take stern measures against hoarders, black-marketeers, smugglers and other habitual tax evaders to unearth the ill-gotten unaccounted wealth. This, in turn, would also help curb inflation.
17.	1.202	The Committee desire that effective steps should be taken to mop up maximum possible amount of tax revenue lying in arrears.

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18.	1.207	In view of the present balance of payment situation, notwithstanding recent improvements in the reserve surplus on current account, the Committee are somewhat sceptical about the efficient use of foreign debt by the Government. They are, therefore, of the view that the Government should have a fresh look on the country's total external liability before going for fresh borrowings. The Committee would also like to be assured that in the name of upgradation of technology, strengthening and enhancing production base, infrastructure sector and modernisation of the economy precious foreign exchange will not be squandered to promote consumerism or elitism.
19.	1.209	The Committee urge a conservative approach towards commercial borrowings and would like Government to encourage direct foreign investment to not only restrict commercial borrowings but also redeem some of these debts to the extent possible.
20.	1.210	Repayment of external loans is mainly made from the country's exports which to a large extent are dependent on imports. Since the foreign exchange reserves have touched Rs. 9,800 crores in January, 1992 the Committee recommend that import restrictions imposed by RBI during the last six months should be lifted immediately for all those items which form an input for exports.
21.	1.211	The Committee appreciate that there are no short cuts to a situation where expenditure on account of interest payments are pegged at a reasonable level. However, they do desire the Government to repay short term debts, particularly commercial borrowings from the international money market, at the earliest opportunity in order to reduce the interest burden. The Committee would like to be informed, within a reasonable period not exceeding six months, about the detailed plan of the Government to achieve this objective.
22.	1.214	As regards the implementation of economic reforms the Committee would like to strike a note of caution that while the Government must strive hard to improve the image of India as a market-driven country and that the new policy is irreversible the Committee at the same time would like to Government to underline the necessity of assuring the public of its determination to keep in check

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		the twin dangers of inflation and unemployment which are already confronting the country. The Committee wish to express their grave concern at the unabating inflation which has hit the common man very badly.
23.	1.215	While dwelling upon the aspect of economic reforms under the New Economic Policy the Committee cannot emphasise what is all too obvious. While there is no painless way of mastering a crisis created by too heavy a debt burden yet the Committee feel that common man should not be called upon to pay too heavy price for past sins of omissions and commissions which can ungrudgingly be attributed to government / management failures. At the same time the Committee feel that workers too must slowly but surely reconcile themselves to the fact that the public sector has ultimately to earn at least its own keep and has to run itself professionally for a profit. In that they must see the imperatives of the ongoing economic policy reforms in economy with a view to achieving objectives of improving productivity, efficiency, employment opportunities, strengthening technology base and boosting export performance for making Indian economy dynamic, outward looking and a powerful engine for growth and for raising the quality of life of the ordinary man in the country.
24.	1.216	The committee recommend as follows: **(i) The Government should ensure that the capital and technology inflows sought to be facilitated by the new industrial policy should not result in the loss of domestic market rather than in gaining export markets. India's priorities must be made clear. Concessions to foreign direct investment must be determined primarily by India's own needs and priorities.** **(ii) The Committee also desire that creation of employment opportunities should receive the highest priority particularly in view of the structural adjustment which might cause disruption in the employment situation in the short-term.** **(iii) With a view to stepping up employment generation the Government should accord primacy to agriculture, development of small scale industry**

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		and encourage investment to boost construction activities.
		(iv) The Government should strive hard to disseminate information on about the new policies and their impact in order to promote national consensus on the subject.
		(v) The Committee would like to caution the Government to take a serious note that inflation and unemployment which accompany deregulation of economy is likely to cause social tension. This can be avoided by creating awareness among the people.
		(vi) The Government should take all steps necessary to firmly and effectively deal with the problems of industrial production and price rise in respect of items of mass consumption.

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CORRIGENDA

12th Report of Estimates Committee (1991-92) on the Ministry of Finance (Deptt. of Economic Affairs) - Fiscal Policy - Management of Deficit-External and Internal Debts.

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Page	Para	Line	For	Read
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72	1.167	3	Add no dobt after absolutely	
79	1.191	19	Committee's	Committees
83	1.207	5	Add going	after before
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85	1.214	4-5	Delete the words 'and that ---------same time'	
85	1.216	5	goreign	foreign