CMDR Monograph Series No. - 3

FISCAL MANAGEMENT IN THE INDIAN ECONOMY

Issues and Policy Options

Papers & Proceedings of a Seminar organised by CMDR in August 1991

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PREFACE

The Centre for Multi-disciplinary Development Research (CMDR) is a social science research institute in a moffusil area of Karnataka and is sponsored by the Indian Council of Social Science Research, New Delhi. The Centre aims at undertaking analytical studies of conceptual and policy significance on the socio-economic and cultural issues using multi-disciplinary perspectives and state level and micro level information.

As a part of its publication programme, the Centre has initiated a CMDR Monograph Series, consisting of both invited contributions and the research studies completed at the Centre.

We are happy to present the 3rd Monograph in this Monograph Series under the title *"Fiscal Management in the Indian Economy : Issues and Policy Options."* This Monograph consists of the papers and proceedings of the Seminar, 'Fiscal Management in the Indian Economy', organised by CMDR in August 1991. this Seminar was sponsored by the Inidan Economic Association Trust for Research and Development.

The Monograph consists of 11 papers contributed by the scholars from this part of the state. We express our grateful thanks to the scholars who could contribute papers and participate in the Seminar.

We are particularly thankful to the Indian Economic Association Trust for Research & Development for the generous financial assistance to conduct the Seminar at Dharwad. The Centre looks forward to the similar support by the Indian Economic Association Trust for the CMDR Research & Development activities.

P.R.Panchamuki
Director,
Centre for Multi-Disciplinary
Development Research

3-3-1992

ONE DAY SEMINAR ON

FISCAL MANAGEMENT IN THE INDIAN ECONOMY
ISSUES AND POLICY OPTIONS

A Thematic Summary of the proceedings

A seminar on Fiscal Management in the Indian Economy was organised under the sponsorship of the I.E.A. Trust for Research and Development, by the Centre for Multi-Disciplinary Develop-ment Research (C.M.D.R.), on 12th August 1991, at the premises of C.M.D.R. About 30 participants from the Departments of Economics of Karnataka University, the Degree Colleges and Junior Colleges in Dharwad, Hubli, Sirsi, Kalghatagi and other places, participated in this seminar. Some participants could not attend the seminar, in view of the farmers strike and Rasts Roko Agitation suddenly organised by some organi-sation to draw the public opinion against certain proposals in the Union Budget of 1991-92. Some of these participants had even sent their papers for presentation in the seminar.

The following papers were presented for discussion in the seminar :

1. **A Note on Fiscal Crisis in India**
   Prof. R.V. Dadubhavi, P.G. Depart-ment of Economics, Belgaum.
2. **Union Budget 1991-92 : Are we gaining more than loosing ?**
   Prof. T.S. Patil, Department of Economics, Karnataka University, Dharwad.
3. **The Indian Economy : Some Managerial Perspective and Problems**
   Dr. A.H. Chachadi, Reader, Kousali Institute for the Management Studies KUD, Dharwad
4. **Fiscal Management : Some thoughts on Issues and Policies with special reference to Union Government Expenditure**
   Dr. K.R. Madi.
5. **Fiscal Management in the Indian Economy : Issues and Policy Options**
   Dr. N.G. Chachadi, Karnataka Arts College, Dharwad.
6. **A note on Fiscal management in the Indian Economy**
   Dr. S.R. Narappanavar, Reader, Department of Economics, Karnataka University Dharwad.
7. **Fiscal Management in the Indian Economy**
   Prof. S.M. Shivapur, R.P.D. College, Belgaum.

8. Fiscal Management in the Indian Economy : Issue and Policy options

Prof. S.S. Salimath, Kittel College, Dharwad.

9. 1991-92 Central Budget

Principal Mathad C.V., Sri. Mruthyu-njaya Arts College, Dhrawad.

10. Issue in the Management of direct Taxes with special reference to Income Tax

Prof. Moulvi, nehru Arts and Commerce College, Hubli.

11. Budgetary Deficits and the Economic Management : Some Issues

Dr. P.R. Panchamukhi, Director, Centre for Multi-Disciplinary Development Research Dharwad.

At the outset, Prof. P.R. Panchamukhi, Director, CMDR, welcomed the participants and briefly explained the objective of the seminar.

Prof. C.B. Tigadi, Retired Director, Kousali Institute for the Management Studies, was then requested to be in the Chair.

Prof. P.R. Panchamukhi, Director, CMDR, assisted the Chairman to conduct the proceedings. Dr. N.G. Chachadi, Prof. Moulvi, Sri. V.B. Annigeri, acted as the Reporters.

In the morning session, the discussion raised certain General Issues, relating to the Budget. The following issues were raised :

GENERAL ISSUES

1. Is the present economic crisis in the country, a result of the habit of living beyond the means both by the Government as well as the entities in the private sector or is it the manifestation of the basic weakness of the economic system?
2. Were most of the economic policies of the past guided by non-economic considerations rather than economic considerations?
3. Is there something wrong with the expectations of the people from the government when people from the Government when people demand subsidy and doles rather than efficient public services?
4. In order to inculcate the habit of economy and efficiency should the principles of Government assistance by based upon the matching/ earmarking conditions rather than the principle of compete flexibility as is available in the block and general public grants currently in private?

It was generally felt that most of the ills of the Indian economy are structural in nature and these problems are further aggravated by the incorrect policies adopted by the Government and also wrong expectations of the people regarding the role of the Government. In this connection, it was pointed out that the vast black economy, the dual system of pricing and other policies that are in force, the absence of austerity culture in the private and the public sectors are basically symptoms of the deep rooted structural maladies of the Indian Economy. It was also felt that the Budgetary policies of the Governmental only one of the instruments of controlling the malady. Even for the success of the Budgetary Measures a high degree of effectiveness of the supporting measures such as monetary policy, Fiscal controls, policies relating to the individual economic sectors, etc., are necessary. The doubt was also expressed by some, regarding the feasibility and possibility of the reversal of the process of change in the Indian Economy initiated during the past 40 years. Some participants forcefully argued that even though the departure from the course of change during the past four decades is painful, innovative and crucial measures have to be adopted earlier than later, whenever their need is urgently felt in the system. it is in the this sense that the participants generally welcomed the Union Budget 1991-92 as a Budget of Casculated departure from the policy hitherto adopted.

RESOURCE MOBILIZATION FROM THE AGRICULTURAL SECTOR

The discussion then was focussed on Mobilization of the resources for development from the agricultural sector. In this connection, some participants felt that Union Budget 1991-92 like its predecessors has not made a serious attempt at mobilizing resources from the agricultural sector, even though, this sector has received a significant share in the plan allocations of the resources during the successive Five Year Plans. It was also pointed out that, some of the measures in the Budget and the subsequent announcements after the presentation of the Budget in the Parliament are conflicting as is clear in the case of the abolition of the fertilizer subsidy along with the policy of rise in the support price for the products.

The participants argued that agricultural income taxation should be made more effective and the loopholes for tax evasion available for the tax evasion through investment of black money in the agricultural sector should be effectively plugged. Some also suggested that the betterment levy in a graduated form may be considered to replace the agricultural income tax which currently has not been a highly revenue productive source in view of the practical difficulties and public resentment. When we are concerned with the national economic crisis, the Constitutional and Political questions should not pose serious impediments and efforts should be made by the State and Union Governments to collectively tackle these issues. the benefit principle and ability to pay principle suggest that agricultural sector should contribute significantly more to the developmental process and should not act as a haven for the tax-evaders.

The 1991-92 proposal of abolition of fertilizer subsidy may be appreciated in this background. About whether this would raise the prices of agricultural goods, there was no consensus among the participants. there are no conclusive studies for all the regions of the country in connection with the price elasticity of demand for fertilizers, long term productivity effects of fertilizer use and even on the share or the cost of fertilizer in the total cost of cultivation. In view of this, the proposal for the withdrawal of the fertilizer subsidy can be taken as a method of mobilizing resources from the agricultural sector that if all the central transfer of resources to the state are made conditional to the State mobilizing funds from the agricultural sector, in particular, then the problem of laxity in implementation of the taxation resources in relation to the agricultural sector can be effectively overcome.

DOMESTIC AND INTERNATIONAL IMBALANCES AND FISCAL MANAGEMENT

The deficits year after year in both the capital and revenue budgets of Government of India show the deep problems that the Indian budgetary system has been facing. 1979-80 happens to be a crucial year since when the deficits in both the accounts started appearing. Since that year, the deficits also have been swelling for size on both the accounts. Even in the state budgets the deficits became a normal occurrence and they also increased in size. Interestingly, it is from this year that the problem of deficits on foreign transactions account started causing increasing concern. The deficit on B.P. account started rising at an increasing rate during this period.

One of the papers tried to explore whether there is any statistical and logical linkage between the budgetary deficits of the Union Government and those of the State Government. It was found that the Union Government budgetary deficits have a lagged response to the deficits of the State Government deficits. This implied that the budgetary discipline at the State government level is crucial and it is not enough if the Union Government reduces its deficits, as the Union Budget 1991-92 has done. the latter may however prove to have an exemplary effect on the budgetary discipline in the country.

The domestic budgetary deficits and the deficits on the foreign transactions account are obviously linked a logical sense with the letter weilding an effective influence on the former and vice versa. The stagancy of exports, increasing imports due to domestic economic politics necessitating them, steep decline in foreign exchange remittances from abroad due to the Gulf war, etc., have contributed to the B.P. difficulties. Though the Union Budget of 1991-92 alone cannot make a complete reversal of the trend of deterioration in the health of the economy, it can certainly provide the direction for the reforms to be introduced in this year’s Union Budget to subsidies, interest payments and strict which on the BP position have to be appreciated.

Growth with austerity seems to be the guiding principle of the budgetary proposals. Through, the present budget itself does not present many austerity measures there are indications in the direction in it, in respect of say defence expenditure, non-plan expenditure, etc. There was a feeling among the participants of this seminar that, in view of the BP crisis, the imports of petrol, diesel and petroleum products should be significantly brought down and that petrol rationing should be introduced within the country.

There are suitable indications of certain conceptual premises of the budget. For example, for sustainable growth strict austerity in public and private sectors is said to be very much necessary. Tax rate and tax revenues are presumed to be negatively related, and that is why the budget promises scaling down of corporate income taxes in the years to come. The proposals regarding depreciation rate suggest that the focus is on reduced capital intensity. So that, employment is promoted. Even though, the 1991-92 Budget gives an impression of being a hurriedly done exercise, some of the proposals do provide an indication for long term reforms in the Management of the Indian Economy.

Some of the premises of the budget may not have a firm empirical base, in which case the concerned proposals can be considered to be platitudinal in nature. For example, the question of inverse relationship between tax rate and tax revenue collection should be empirically tested at the micro regional level and / or the individual level. One of the papers presented in the seminar examined the relationship between the tax rate and collection at a sub-regional level of Hubli range and suggested that the two seems to be inversely related. As against this, a study based upon the individual responses in different parts of the country conducted by Dr. P.R. Panchamukhi showed that no firm conclusions can be drawn in this connection. From this point of view, the participants felt that the budgetary proposals should be based upon firmer empirical base. There was also a suggestion that CCA and DA should be excluded from taxable income in the interest of fairness to the tax payers in the face inflationary conditions. About whether the budget should rely upon the direct taxes more than the indirect taxes for resource mobilization, the participants were of diverse view. There was a general feeling that the current year's budget should have more effectively reduced the dependence on indirect taxes. The Customs Duties are responsible for mobilising a lion's share in total indirect tax resources.

About the expenditure control, the general feeling was that no concrete measures are suggested in the budget. Despite practical difficulties, an attempt needs to be made to apply zero-base budgeting to the expenditures of different departments. The participants felt that the national exigencies should receive the primary and the departmental loyalties should be considered less important in this exercise of zero base budgeting. it was also emphasized that a more rigorous economic analysis of defence expenditures may show many areas of resource savings and hence except some strategic information, the financial data about the defence services should be made available to researchers and analysis.

CONCLUDING OBSERVATIONS

On the whole, the Seminary was of the view that for solving the current economic crisis, a multi-dimensional approach is necessary. The success of the measures of Fiscal Management crucially depends upon how well other economic policies are implemented. The Union Budget of a single year may not set the tome for future Fiscal Management in the Indian Economy, but it cannot completely reverse the trend already set in over the past several decades. In this sense, the Union Budget 1991-92 can be considered to be only a small measure tackling the correct problems of the Indian Economy. However, in view of the bold initiatives taken, this budget can distinguish itself as an important, honest attempt to focus our attention on the basic aspects of the current economic crisis.

P.R.Panchamukhi
Director

FISCAL MANAGEMENT IN THE INDIAN ECONOMY

Issues and Policy Options

PROF. S.S. SALIMATH

INTRODUCTION :

The Indian Economy has been under the impact of development planning since 1950. By means of economic planning India seeks rapid and rounded progress. In this context of growth oriented approach, the fiscal management needs a careful, cautious and timely direction.

Today, the Indian Economy is subject to many serve stresses and strains. There are many constraints on our growth-path. The current economic situation is at stake; it is neither sound nor stable. It has caused a great deal of concern.

MAIN FEATURES :

The main feature of the current economic situation hinge from the oddest of the oddities that prevail on all parts of the national economy, pointing at its sorrowful state of affairs.

1. Foreign exchange crisis; the exchange reserves dipped to Rs.2,651 crores as on 5th July 1991.
2. The Balance of Payments deficit around Rs.14,000 crores.
3. The mounting inflationary pressure.
4. The imbalance between our exports and imports causing a trade deficit of Rs. 12,000 crores; exports being Rs. 32,527 crores and imports Rs. 43,170 crores, by the end of the Seventh Five Year plan.
5. Growing deficit financing.
6. Blunt and stagnant public sector.
7. Back-breaking burden of the foreign debt, now standing Rs.1,32,000 crores.
8. Increasing non-plan expenditure Rs. 76,677 crores.
9. Enormous internal debt - for exceeding the external debt.
10. The budget deficit being between 2.5% to 3.1% of the G.D.P.

The features indicate the plain facts of our economy which is sluggish and stagnant not at all vibrant to either adjust to or absorb the newly emerging shocks consequent upon the transitional phase/turn of our economy.

MAJOR ISSUES :

The major issues before the country are –

1. Guaranteeing a minimum standard of living to every Indian.
2. Ensuring sustainable growth.
3. Retaining economic sovereignty and political sovereignty.
4. Integrating the Indian Economy with the golbal economy.

It is at this critical juncture, 1991-92 budget is presented. Hence, the budget is deemed to be an eloquent document reflecting the problems of the nation and the people and measures taken to solve them. A good fiscal exercise aiming at keeping the national economic atmosphere fit and pleasing is wanted.

BUDGETARY GOALS :

The aim of the budget is to accelerate economic growth based on two corner stones - *I) larger production, ii) greater* *social justice.* The immediate tasks for the economy are -

1. Arresting inflationary pressures, through a judicious combination of demand management; increased production of basic wage - goods, strengthening the fiscal weapons.
2. In order to improve the growth prospects, the vigorous efforts for increasing the rate of savings and investment.
3. The most important task is to achieve the greater viability on the external front which can only be achieved through higher exports and restraint on imports.
4. Rapid increase in employment opportunities, both in the urban and rural areas to make an adequate dent on the problem of unemployment; and determined efforts to reduce disparities in income and consumption.
5. To secure social justice, programmes designed to provide minimum basic amenities like housing, health, education, rural drinking water etc., to all citizens particularly to the weakers sections of the society must be expanded to scope and coverage.

These are the five avowed goals and pious aspirations which are true to the election manifesto of the Congress Party. These budgetary goals will continue to remain and dominate. As such, the Finance Minister has kept them in his mind while framing the budget for 1991-92.

BUDGET PROPOSALA : SOME HIGHLIGHTS

- Total revenue - Rs. 1,03,698 crores.
- New Tax proposals - Rs. 2,005 crores.
- Rise in the prices of petroleum products, Fertiliser prices and food zrocurement prices.
- Withdrawal of subsidies on Fertiliser and Sugar.
- 20% shares of selected Government Sector Industries to be sold to private people.
- Total Expenditure : Rs. 1,13,422 crores.
  Non-Plan Expenditure : Rs. 79,697 crores
  Planned Expenditure : Rs. 33,725 crores.
- Increase in the prices of motor spirits, LPG, internal aviation spirit.
- 10% reduction in the price of Kerosene.
- Budget deficit Rs. 9,724 crores
- A corporation for backward classes' welfare.
- Appointing a Commissioner for NRI's.
- Total Tax Revenue - Rs. 66,218 crores.
- Increasing development expenditure from Rs. 3,105 crores to Rs. 3,508 crores.
- Rural drinking water Rs. 754 crores.
- Defence expenditure Rs. 16,350 crores.

- Education Expenditure Rs. 977 crores.

COMMENTS :

a) Prima facie, the fiscal management through the budget may appear soft as the budget deficit is restricted at Rs. 7,719 crores, less than that of the previous year. But, the budget has increased the administered prices which will push up the price of essential commodities, edible oils, sugar etc.

b) budget has increased the fertiliser's prices by withdrawing subsidy on it. the food-grain procurement prices have also risen. therefore, it is anti-farmer and anti-people budget. The fiscal management has ignored the mass of the society i.e. electorate.

c) New Trade Policy, liberalised industrial policy and privatisation will definitely lead to deindianisation of Indian Industries, pushing the country into the interest and inter-vention of multi-national companies.

d) Heavy doses of taxation on consumer durables will not curb the demand for them but lead to more corruption.

e) Budget/Fiscal net is not cast on agricultural income. It will lead to black money. Therefore it is Kulaks' budget.

f) Budget is based on bigger foreign loans, devaluation of the rupee, heavy taxation, etc., the cumulative effect of all these will crush common man and the middle class in the day to come.

g) The efforts of resource mobilisation on which the fiscal management is geared up, will lead to inflation only adding fuel into the fire.

h) The budget - instead of removing the errors of the past and the imbalance in the economy will cause more pains. As a result the poor will be poorer. India has already 40 million poorest people; she remains one of the poorest countries of the world, just about 5th or 6th from the bottom.

i) Budget has restored to gigantic foreign debt of Rs. 5000 to 7000 crores from IMF and the World Bank. It will cost adverse effects on the stability of the economy. The loan will only act as a damper to growth.

j) Our Finance Minister may boast of a new wave and a new and bold turn to the ailing economy by exposing it more to foreign capital and foreign competition. It will result in foreign intervention. By designing an open economy our Finance Minister is as good as riding a tiger in the tragic times. In order to cut the old rut, a wise fiscal management is the need of the hour. It should make a thorough assessment of the realistic picture of the economy, instead he entertained to the outflow of gold.

His package of fiscal measures - 1) Gold sale, 2) Recourse to devaluation of the rupee, heavy doses of taxation, surrendering to the conditionalisties of the loan givers, free play of multi-national companies etc., is just a reflection of an attitude of fiscal irresponsibility. It is rather a meaningless budget making life neither real nor royal but only cruel. As it will not work out in the interest of the nation and the people, the budget is anti-people and anti-national in its complexion and character. his fiscal exercises are neither imaginative nor initiative, but only inimical to our interests. Hence it is a hundred percent anti-people budget.

OTHER OPTIONS :

1) *Strong Political will* : Our finance Minister could have sought to soft options to bring the economy on the right track. In order to keep the fiscal deficit to 6.5% of GDP resorting to new taxation to Rs. 2,005 crores is not expected. The economy can recover only if the Government follows up the devaluation with rapid spread of liberalisation and inflation control. It all needs a strong political will and clean hands and clear minds of our politicians. Can they assure them? These have been highly missing from the army of our politicians.

2) *Break Lethargy* : The productivity depends on skill and efficiency why not make 124 Central Undertakings productive and profitable. Break the lethargy prevailing there; Make away the easy going attitude and 'Kammi kam, and adhik daam' tendency. That is work less and earn more tendency be done away with.

3) *Austerity measures* : Apply austerity measures to Government department and undertakings. Our Government for example is the biggest customer/consumer of 50% of the petrol which is precious, costly, and also it is imported. Our annual petroleum imports stand to Rs.25,000 crores a year. This austerity measures will help to save the foreign exchanges of Rs.13,000 to 14,000 crores.

4) *Encourage Competition and Quality* : Competition means comparison. It alone can instill a spirit and the zeal to come up in life. But India boasts of being democratic socialist country but as a democratic country, nothing is compulsory in India today. For example, discipline, honesty, dedication, punctuality, hardwark, merit are not all wanted, as a socialist nation none is competitive. Alas, merit is murdered in India. The spirit of competition is sapped by our successive Governments while wooing the electorate. Our economy is just like a snail - dull and slow, neither forward nor backward, but, only awkward.

5) *Tax agricultural incomes* collect the revenues / resources instead of resorting to foreign loans.

6) *Self discipline* : Operate the gear of self discipline to every citizen of the country. Do away all the discrimination Treat them alike - may he be a peon or the president of the country. Cut short the ministers' tour to abroad thereby limiting Government expenditure and augmenting internal savings and production. It is the self-

discipline which alone can safeguard the image of India and Indian goods in the world market.

7) *Reduce defence expenditure* as there is scope for doing so in the emerging friendly international political atmosphere and vanishing cold-war tendency.

8) *Introduce expenditure tax* and cut down the demand for conspicuous goods.

CONCLUSION :

By and large 1991-92 fiscal management appears to be a grave disaster; if our experience is a guide, it will prove futile, painful and detrimental to our self-reliance. It is more negative in nature than the previous fiscal management.

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FISCAL MANAGEMENT IN THE INDIAN ECONOMY

SRI S.M. SHIVAPUR

The Indian Economy has run into a crisis of unprecedented magnitude, so much so, that the nation is almost on the brink of bankruptcy; thanks to the faulty structural planning, and pursuit of a pseudo Socialist Policies for the last 40 years. The economy has reached a disastrous stage, which unless rectified by hard and unpleasant corrective measure may reach.

Large scale deficit financing over successive years, enormous growth in non-plan expenditure, ever-increasing internal and external debt, continuous generation of black money, defective industrial policy, reeling under the staglehold of excessive statutory regulations, wastage of money over populist programmes and subsidies are some of the causes responsible for the serious fiscal imbalance.

Restoration of fiscal balance requires a multipronged approach and courageous decisions on the part of the government.

NON-PLAN EXPENDITURE

1) The factor that requires urgent attention is curbing the non-pan expenditure which has jumped to whopping 77,697 crores of rupees this year. The non-pan expenditure has risen particularly in three sectors - Interest payments, Defence expenditure and subsidies.

Hence, it is absolutely necessary that the internal borrowing should be restricted for the purposes of productive capital expenditure. The Government should be prohibited from utilising the borrowed funds to meet its consumption expenditure. It is like a house hold borrowing just to eat.

The fiscal deficit which is estimated to be Rs. 37,727 crores is more dangerous to the economy. The bigger this gap, the more the Government will have to borrow or print money. The subsidies which account for over Rs.6,000 crores have to be drastically cut or reduced.

The most effective way to control budgetary deficit is to hold the price-line by encouraging industrial and agricultural production. The prices of industrial inputs should be kept under control. The new industrial policy along with these measures can help in reducing the budgetary deficit considerably.

Public investment should be trimmed. The Government should seriously consider the privatisation of Nationalised Banks, Railways and Post & Telegraph Services, to increase their efficiency and reduce the burden on the exchequre.

Disinvestment in public sector is the need of the hour. The public sector Industry which accounts for Rs. 1,00,000 crores investment has failed to live-upto the expectation. The sick industries should be closed or privatised by enrolling the workers as share -holders. The country can ill-afford to invest huge sum of money in the public sector hereafter.

Bonus should be linked to the profits so that it serves as an incentive to the workers and not as a reward to their inefficiency. It is illogical to pay bonus to those services which are incurring huge losses, simply under the pressure of workers' unions.

The populist programmes like loan waivers, loan-meals, have to be stopped. Such programmes have exerted enormous pressure on banks; some of which are running into losses.

The Reserve Bank of India should be allowed to play it role. The Governmental interference in influencing the decisions of the Reserve Bank have proved to be counter-productive. The Government utilises 60% of the commercial bank deposits. It should be reduced to 25% and the banks should be encouraged to finance private sector on a large scale. The annual expenditure over the payments of central Government Ministries and their staff alone accounts for Rs. 12,000 crores which needs to be drastically reduced. An eminent economist N.A.Palkiwala, once said that ‘India is the only country in the world where the Government is rich and the people are poor’. The expenditure incurred by various Ministries should be closely monitored. Lavish expenditures on office-decorations, traveling, purchases of cars etc. should be done away with.

In the field of Defence it is extremely necessary to Indianise the defence production. Self reliance is the only solution here. It can not only save foreign exchange but also give phillip to the defence research programmes.

Sale of Arms and Ammunitions should be seriously considered. Sale of Military hardware is a lucrative business in International markers. It can help in reducing trade deficit. We should learn lessons from State like China and Sweden in this respect.

BLACK MONEY

2) The generation of black-money and its accumulation has posed a serious threat to Indian economy. It is estimated that the black money is to the tune of Rs, 80,000 crores, which is serving as a parallel economy. The fiscal measures taken by the Government to correct the economy are largely upset and diluted by the presence of black-money.

Generation of Black-Money is closely associated with unwielding controls and restrictions, artificial shortages and high rates of taxation. High rates of taxes not only prompt the people to evade taxes but encourage them to indulge in corrupt practices. The exchequer is the loser in this game.

Controlling black money requires political will. the politicians and the administrators should refrain themselves from interference in the execution of laws. The laws are for them as much as for the others. The Government should plug the leakages from public expenditure and Government projects. Political interference and patronage must be stopped.

The measures announced by the Finance Minister to unearth black-money are inadequate and less attractive. Instead of haunting behind the black-money the Government should find out ways and means to divert it towards productive purposes. The policy followed by the present Pakistan Government can be an eye-opener in this respect. The Government of Pakistan has extended blanket pardon to the black-money investments in industries.

The Government should seriously consider partial demonetisation of currencies of lower denominations like 100 and 50 rupees notes. This may cause a temporary economic instability but may serve a better purpose. Some times harsh decisions like Surgery are necessary to cure the diseases.

TAPPING AGRICULTURAL INCOME

3) The successive Governments have for reasons known to themselves ignored to tapping of agricultural income. The green revolution which has resulted in the record production of food-grains to the tune of 180 million tons has created a class of agricultural feudal lords. It is time to give serious consideration of imposing tax on Agricultural Income and widening its area, covering plantations, commercial crops and the rich farmers. Agriculture which has received Governmental patronage since the last 40 years should be made to contribute to the national exchequer.

BALANCE OF PAYMENT

The trade deficit aggravated by the Gulf War has forced the Government to devalue the currency by 20% in order to boost exports.

The success of devaluation depends on factors like maintaining internal prices by controlling inflation. The new industrial policy should be followed by additional encouragement to the export-oriented industries. the private sector should be allowed to participate in the equities of mutual funds floated by the Banks. The industry should be allowed to catch-up with European industry through strategic participation by foreign companies and tapping of NRIs resources. Foreign exchange gifts from NRIs should be made tax free. The system of dual citizenship to the NRIs on the payment of foreign currencies can attract a significant amount of foreign exchange. As some one has said, 'NRIs love Inida, but they also love their money'. Hence, more attractive schemes should be floated to attract the vast resource - potential of the NRIs.

Export of food-grains to the tune of 10 million tons and sugar to the tune of 5 lakh tons can help in the reduction of trade deficit. the country should learn lessons from Korea, Malaysia, which have allowed 100% holding for the Japanese companies and have been able to increase foreign investment.

Foreign companies should be invited to explore oil in India. Indigenous production alone can reduce our dependence on Gulf countries, for which we are spending more than Rs.12,000 crores in foreign exchange. The dependence on foreign aid has pushed the nation into a debt trap. It is extremely difficult to overcome this problem. Hence, as the Prime Minister says, "Trade and not aid" should be our motto, or else a day will come when we will have to borrow only to pay the interest on the accumulated debt.

Restoration of fiscal balance is a hilarious task. It requires gusty decisions, political will and people's whole hearted participation in the management of fiscal administration.

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1991-92 CENTRAL BUDGET

PROF. C.V. MATHAD

The July 24, 1991 Central Budget has to be viewed in the light of the present deteriorating economic conditions. Those conditions are : Structural imbalances in the economy, severe, adverse balance of payment situation heavy foreign debt and inability to get loans in the world-money markets, inevitability of I.M.F. loan only under conditions which would jeopardise our economic independence, severe inflationary pressure etc. Decisive bold steps to put the economy on the rails is economically imperative though politically imprudent and unpopular.

Under many constraints our Finance Minister has ventured in to the rough seas. Whether he will steer clear depends upon the unstinted co-operation of all the sections of the Society including our great beauracracy.

The following observations can be made :

1. Revenue from the Corporate Sector is expected to rise by only Rs.350 Crores as a result of raising of Corporate tax just by 5%. Personal income tax rates remain unchanged. This is an attempt to encourage industrial production along with other

measures.

2. Tax burden on the rich is ridiculously light. Taxation on conspicuous consumption amounts to Rs. 325 Crores only. No serious effort is seen in unearthing black money which is estimated to 30% of the G.D.P. or about Rs. 1,50,000 Crores Tax-evaders get another chance.

3. Liberation of controls on the private sectors are welcomed, but it is to be seen how they will be implemented.

4. Removal of export subsidies may not help to boost up exports. The favorable effects of devaluation may be neutralised.

Now let us see the serious effects of the budget on the middle class which is supposed to be the backbone of successful working of democracy and the farming community on which the prosperity of India hinges on.

1. A hike in petrol price is desirable as that is the only way to constrain demand to some extent. But that may increase the demand for diesel, the price of which may be increased in the future. It is ironical that excise duty on mopeds has been reduced simultaneously with a hike in petrol price.

2. Increase in the excise duty on sugar and a hike in the price of fair-price-shop sugar will certainly be a burden on the middle and lower income groups. This will put pressure on the price of gur. Revised rule for the stock of sugar by the wholesale and retail dealers in a sellers market will have no impact.

3. No budgetary provision has been made for additional D.A. Since the budget is sure to add to inflationary pressure, as is already evident, workers will be successful in getting additional D.A. that will increase Government expenditure. The Minority Government thinks freezing of wages and impounding of D.A. as politically unpopular and imprudent.

4. Had income been indexed the personal income tax exemption limit should have been raised considerably, which is not done.

5. Prices of food grains will surely increase as a result of a hike in fertilizer prices by 30%. Farmers are promised to be compensated by increase in procurement prices of food grains etc. Small and marginal farmers who consume about 30% of total supply of fertilizers have been promised fertilizers at pre-budget prices. This dual price-system during a period of scarcity needs to be monitored very meticulously. Rise in fertilizer prices will certainly reduce Rise in fertilizer prices will certainly reduce farm production as has been the experience

in the past. Scarcity of fertilizers, hike in their prices and uncertain price policy will hamper agricultural output. Boosting agricultural production and giving adequate safeguards for remunerative farm prices will help to increase farm exports and lessen the burden on our adverse balance of payments situation. We can get a barrel of crude for the export of a quintal of wheat.

6. Increase in interest rates, imposition of interest tax and a hike on rail passenger and freight rates will surely result in cost-push inflation.

In fine, the budget impact on inflation is sure on account of the following factors :

- Devaluation of the rupee,
- Withdrawal of subsidies,
- Increased administered prices,
- Promised increase in food procurement prices,
- Increased rail passengers and freight rates,
- Increased interest rates and imposition of interest tax,
- Higher import prices as a result of devaluation,
- Possible reduction in domestic supply of various goods due to increased exports as a result of devaluation,
- Budgetary deficit to the tune of about Rs. 7700 crores which may increase in the future as has been the experience in the past.

The budget puts the burden of adjustment on the less-fortunate sections of the society leaving the rich and more fortunate to reap the benefit of economic development.

The liberalised trade policy, restraining the licence Raj, the opening up of the Indian Economy to foreign investment, the new slogan, "*You can't import if you don't export*", containment of civil expenditure and defence expenditure. (in real terms so far as the latter is concerned) are some of the measures which aim to put the ship of Indian Economy on an even keel. Only time will prove the shape of the things to come.

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FISCAL MANAGEMENT IN THE INDIAN ECONOMY

Issues and Policy Options

PROF. N.G. CHACHADI

INTRODUCTION

The present economic crisis faced by Indian Economy in the foreign trade sector and fiscal sector is mainly due to its developing nature. When we implemented planning for development in 1950-51 the fiscal as well as foreign trade sectors were in a comfortable positions. But as the process of development began it started putting increasing pressure both on fiscal and foreign trade sector. The process of development initiated in 1950-51 called for increased imports of capital goods, raw materials, intermediate goods and some consumer goods. Whereas the exports did not increase at the same rate thus causing increased deficit in our external trade. Similarly, the process of development also called upon the Govt. to spend large amount of money on various activities. The expenditure of the Govt. was always more than the revenue causing great deficits in the budgets. The deficits in both the sectors went on growing and now it has almost reached a danger mark threatening the basic fabric of Indian democracy and the very foundation of Indian economy. The continued increased deficits in the foreign trade sector is mainly due to the changing composition of our imports and exports during last 40 years. The trend in the fiscal deficit is accounted for heavy capital investment undertaken by the Govt. and also increasing deficit in the revenue account since 1970-71.

The basic purpose of this paper is to make an attempt to under stand the link between growing deficit in BOPs i.e. foreign trade sector. An attempt is also made at the end as to ~~the policy options before the Government in the light of the recent policy initiatives.~~

THE FISCAL SECTOR

In India fiscal policy is used as a means to achieve economic develop-ment. Since the second Five Year Plan, the volume of public investment surpassed the private investment. This was mainly incurred on the development of basic and key industries which were lacking in India. Apart from the Government entered in a big way in the field of agriculture, transport and communication, education, medical and health etc. In order to encourage private investment in different activities various incentive measures were undertaken. All these lead to larger public expander many times more than its revenue, causing deficits in the budgets. It is mainly because the levels of expenditure laid down cannot be met only by taxation and borrowings. The gap is made good through external assistance. When the external assistance is not sufficient to fill the gap, deficit financing has to be adopted. Thus, in India, deficit financing is mainly resorted to mobilise resources for financing plans. The amount of deficit financing went on increasing plan after plan. This is evident from the Table 1.

It is clear from the Table 1 that, the average annual deficit which was only Rs. 66.6 crore in the I Plan rose to more than Rs.5,800 crore in the VII Plan.

Whatever may be the objective of deficit financing it will result in immediate increase in the volume of total money supply with the public and raise aggregate demand for goods and services. This is further aggravated by increased credit creation by commercial banks because commercial banks find themselves with additional funds. They are in a position to make extra loans and advances to individuals and companies. This will push up the demand for goods and services resulting in inflationary rise in price. As a result of deficit financing inflation goes too fat and it becomes 'self-defeating'. The rising prices are followed by rising costs, and the latter causes further rise in prices, and so the ‘price-spiral’ comes. India is experiencing now this situation.

The trend in the price rise is well-depicted by the rise in the wholesale Price Index since 1950. Taking 1971-72 as the base, the rise was milder one in the fifties , a moderate one in the sixties, and a rapid one in the seventies, with the uptrend continuing in the eighties.

The Wholesale Price Index was 46.5 in 1950-51, 54.2 in 1960-61, 99.0 in 1970-71, as high as 256.2 in 1980-81, and 435.3 in 1988-89. This clearly shows that the trend in the price rise is more rapid after seventies which exactly coincides with the growing budget deficits. Since then, the rise in prices and wages will force the Government to go for still more deficit financing.

It is interesting to know that till 1971-72 there was surplus on the revenue account and deficit on the capital account. Since then even the revenue account started showing deficit, thus enlarging the over-all deficit in the budget.

Table 1

Deficit Financing during different Five Year Plans

(Rs.In Crores)

Plan	Amount of deficit	Average annual deficit
I Plan	333	66.6
II Plan	848	169.6
III Plan	1,133	226.6
3 Annual Plan	682	227.3
IV Plan	2,060	412.0
V Plan	2,460	492.0
VI Plan	15,684	3,136.8
VII Plan	29,000	5,800.0

The deficit met on the revenue account will not yield any returns. Meanwhile, the external debt also increased considerably calling for heavy debt servicing. For instance, the volume of external debt was just Rs. 32,400-00 in 1980 which rose to more than Rs. 1,70,000-00 crore now. If the same trend is continued, in future, the Government will have to borrow simply to pay interest on existing loan without using it for generating income.

In order to avoid such situation Government has to either reduce expenditure or increase it revenue collection from tax and non-tax sources. On the expenditure side there is lot of scope for restricting the unproductive expenditure, the subsidies, foreign visits of the Ministers etc. Such measures will not only reduce the deficit but also conserve the foreign exchange resources. Once if the deficit is reduced, price stability can be ensured. On the revenue side tightening the tap machinery is needed to increase the revenue collection. It is mainly because the total loss to the national exchequer was to the tune of Rs.27,223-00 crores by last November. This was due to large scale tax evasion and corrupt tax officials. Thus, there is need for streamlining the tax administration in India. Even the non-tax revenue can be increased substantially. Today, Government is owning a network of 225 public sector units with Rs. 61,600-00 crore investment. Except few, all of them are incurring losses. In order to cover this loss, Government gives subsidy. Thus Government is purchasing loss by giving subsidy. Therefore, there is an urgent need for improving the working of public sector undertakings. For this necessary competitive atmosphere should be created in this area. If such steps are taken we can expect that these public sector units can start producing quality goods at reduced costs. This will not only increase our exports, but also help in reducing budget deficits.

THE FOREIGN TRADE SECTOR

India's BOPs position is undergoing severe stresses and strains in recent years leading to dwindling foreign exchange reserves. Due to liberal import policy in mid eighties imports increased sharply while exports remained at same level. As a result, deficit in the BOPs hits a peak of Rs. 10,644-00 crores in 1990-91. As a result the foreign exchange reserves reached a bedrock level in May 1991 when the country had barely enough resources to meet few days imports. In 1979-80, the total foreign exchange reserves was Rs.12,600-00 crore which by 1989-90 declined to Rs. 7,200 crores and 7th May 1991, it further declined to Rs. 2,507-00 crores. Such situation, apart from liberal imports policy, was also due to gulf crisis. The Gulf crisis hit severely not only the NRI remittances from Gulf Countries but also the petrol prices. Before Gulf crisis, India was spending Rs. 6,400-00 crores on import of petrol but after the crisis it shot up to Rs. 12,000-00 crores. Thus greatly consuming our precious foreign exchange resources.

In the beginning the deficit in the BOPs was due to certain forces associated with economic development of India. Since mid-seventies the growing deficit was due to changed and rising prices of our imports and stagnant exports.

In the initial years, the process of industrialisation and partition of the country called for large scale import of capital goods and various raw materials. After mid seventies petrol, fertilizers, non-ferrous metals, newsprint etc dominated the imports. On the export front manufactured article and consumer goods have become important, in place of raw materials. The increase in the export of such items requires better quality and low prices so as to compete effectively in the world market. But Indian manufactured and consumer goods are lacking these qualities. The root cause of this is the inefficiency in our industrial sector. As a result the volume of exports did not grow in correspondence with our imports leaving a big gap in the BOPs. This can be seen from the Table 2 given below.

In order to ease the situation Government devalued the rupee in July 1991 by 18% followed by suspension of export subsidies and introducing exim script.

The main aim of these measures is to make our exports more competitive imports dearer and set right the existing BOPs crisis in the long run. The devaluation is accompanied by necessary supporting reforms in fiscal and monetary policies. The objective is to bring about a big structural change in the foreign trade sector. But most of the exports of India are traditional items which have low price elasticity and newly entered non-traditional items too, have inelastic demand due to poor quality products.

As for imports there is no hope of decline in imports bill as most of them are price-inelastic in nature. Therefore, there is little hope of bridging the trade deficit as a result of recent policy measures. In addition, there will be other bad consequences of the devaluation like fresh round of inflation because of costly imports.

Dr. P.B. Nayak in his theme paper has expressed the fear that the economy is likely to go through a recessionary phase if Government does not raise administered prices of goods like POL, products which it imports; for it would mean an additional burden of expenditure on the Government. The Government could meet this by cutting expenditure on some economic or social services, which would be recessionary; or by resorting to deficit financing, which would fuel inflation, a combination of the two. So the choice is between recession or inflation. But both are unhappy phases. Therefore, some better alternative could be discovered.

The prices of our imports are not within the control of Indian Government and they are often fluctuating in the upward direction. But Government can considerably reduce the consumption of these products, particularly the petrol, on which more than half of the total value of our imports is spent. Therefore, there is need for introducing rationing on petrol in this country. This will definitely reduce the consumption of petrol, and we can save lot

TABLE 2

Balance of Payments
(Average annual deficit)

(Rs. in Crores)

Plan	Amount
I Plan	32.5
II Plan	344.7
III Plan	615.0
III Annual Plan	1,037.4
IV Plan	792.0
V Plan	834.9
VI Plan	3,062.0
VII Plan	4,129.0

Source **: Economic Surveys of G.O.I**

of foreign exchange and thus try to reduce deficit, in the BOPs. On the Fiscal side, in order to reduce budget deficit, austerity measures, reducing expenditure on populist programs (like loan waiver, subsidies etc.), tightening the tax administration, improving the competitive strength of the public sector undertaking etc., are quite necessary. They will not only reduce the fiscal deficits, but, also establish price stability. This in turn will improve the competitive strength of Indian exports. Thus the fiscal policy which aims at bringing down the deficit will in turn help in reducing the trade deficit.

Thus, it can be derived from the above analysis that fiscal deficit has much to do with trade deficit. If the former is controlled through stringent measures the latter can be comfortably brought down; thus,saving the Indian economy from crisis. Not only the common man will experience a sigh of relief and breath happily as a result of price stability, even the nation can come off the present crisis. Thus, sacrifices in consumption by Indians can save the economy from present crisis which otherwise will make the Government to adopt costly and harmful steps as now.

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A NOTE ON FISCAL CRISIS IN INDIA

DR. R.V. DADIBHAVI

Fiscal Imbalance, characterised by unabated pressure on Government and growing deficits in the budget, has continued to remain the major concern of the Government during the last few years. Persistent and large deficits have serious implications not only for the finance of the Government but also for price stability and economic growth. Such deficits have to be met by borrowing by the Central Government with subsequent obligations for interest payment and debt repayments. At a macro-economic level, fiscal deficits inevitably spill into balance of payments problems and create inflationary pressures in the economy. Therefore, fiscal corrections must be initiated.

The budget deficit, as conventionally interpreted, is the difference zetween all receipts and expenditure. However, a more complete measure of macro-economic imbalance, used in most countries is the gross fiscal deficit which the difference between Government expenditure and net lending on the one hand and current revenue and grants on the other. The fiscal deficit is estimated at more than 8% of GDP in 1990-91 as compared with 6% at the beginning of the 1980 and 4% in the mid 1970's.

Prudent fiscal management demands that the revenue receipts should not only met the revenue expenditure, but also leave a surplus for financing the plan. Contrary to this, deficits on revenue account are growing year after year. The revenue account of the Centre always showed a surplus from 1951-52 to 1978-79, except for two years. It is in 1979-80 that a decisive break came, from when there has regularly been a deficit has grown to just 3% of GDP as of now (1990-91 B.E. - 2.59). A higher revenue deficit would imply that borrowed resources are deployed towards covering revenue deficit. Higher borrowings to cover deficits on revenue account build up pressures on revenue expenditure in the form of higher interest payment. In order to fill the fiscal deficit, internal public debt of the Central Government has accumulated to about 55% of GDP. The burden of servicing this debt has now become onerous. Interest payments alone about 4% of GDP and constitute more than 20% of the total expenditure of the Central Government. Growth in revenue expenditure in turn necessitates high borrowings, thus creating a sort of vicious circle. The immediate task is to check the fiscal imbalance before the situation assumes alarming proportions.

The behavior of BCR (Balance from Current Account) is some what discouraging as a component of public savings. Table 1 (all the tables are given at the end of this paper) presents a more detailed analysis of the factors underlying the trends in the centre's BCR, while current revenue (Tax and Non-tax) have stagnated around 10.5% of GDP. Since the mid 1970s, Non plan revenue expenditures have grown from about 8% of GDP in the first half of 1970s to nearly 11% in 1984-85. Non-plan revenue expenditure increased faster than total revenues during the Seventh Five Year Plan period. As a result contributions from BCR turned out to be negative. In recent years, nearly more than 70% of non-plan revenue expenditures have been on four items; defence, interest payment, food subsidies and fertilizers' subsidies.

SEVENTH PLAN AND L.T.P. PROJECTIONS : COMPARISON WITH ACTUALS

The year 1989-90 is the terminal year of the 7th Plan and it is interesting to compare the behaviour, so far, of some important fiscal parameters with their 7th plan targets. The targets were fixed in terms of 1984-85 prices. These targets were annualised in the LTFP document and were expressed as ratios of respective years GDP. The comparison with LTFP projection is presented in Table 2 (Given at the end of this paper). The broad conclusions are as follows :

1) It is observed from the Table 2, that BCR which had negative and even widened to 1.2% of GDP in 1988-89 (RE), showed a marginal surplus in 1989-90. However, these figures were tentative. The year end results may show a negative BCR against plan expectations.
2) Tax revenue performance has been more or less on target. Within tax revenue, the performance of direct taxes has been behind, the targets of Indirect taxes have performed better, exceeding Seventh Plan projections by significant margins.
3) Non-tax revenues have also performed well, exceeding the projections by significant proportions.
4) Non-plan revenue expenditures have exceeded seventh plan targets by significant margin. In particular, defence, interest payments and food & fertilizer subsidies were well above the targets.

5) In regard to finance, domestic borrowings were far above the projected levels and both market borrowings and budgetary deficit exceeded by wide margins the projected targets.

6) Excepting 1985-86, internal & external budgetary resources of PSUs fell significantly short of projections.

7) The size of Central plan and assistance for state and state plans were well above the seventh plan anticipations.

How do you mobilise resources and correct the imbalance? One of the important task is to make BCR positive and made to reach a positive level of more than 1-5% of GDP in the next plan.

Achieving this turnaround in the centre's BCR will not be easy unless the non plan expenditure is contained at least at the level of seventh plan in the eight plan. however the defence expenditures are expected to grow moderately, while the share of interest payments is expected to be little higher in the eight plan. Given these anticipated increases, the share of the total non plan revenues expenditure will be contained within 13% of GDP in 8th plan only if the total of food and fertilizer subsidies are held below percent of GDP and of all other non-plan revenue expenditures to about 3 percent.

To achieve the positive centre's BCR, tax receipts will have to shoulder the overwhelming burden of resource mobilisation in the eighth plan. more specifically efforts must be made to increase the receipts from direct taxes.

With the above background it is the time for us to assess the budget of 1991-92. The finance minister has stated that he would keep the over all budget for 1991-92 at low level of Rs. 7719 crores compared to 1990-91's figure (E) of Rs. 10772 crores and revenue deficit at the level of Rs. 13854 crore in 1991-92 against the figures (RE) of Rs. 17585 crores. He has also stated that the fiscal deficit against Rs. 43331 crore (RE) of 1990-91. Then how do you measure the changes ? There is no stand are procedure to handle this aspects. One may take the average for a few years of the past i.e. 1985-90 to 1989-90 which covers the period of seventh plan. In addition we can take the figures of the past one year (1990-91) for which RE are taken. This helps us to know the changing trends.

To proceed with analysis we have selected 13 budget indicators from both the receipt and expenditure sides of the budgets. The 13 indicators selected are :

- Revenue expenditure as % of total expenditure (RE/TE)
- Plan expenditure as % of total expenditure (PE/TE)
- Non Plan expenditure as % of total expenditure (NPE/TE)
- Revenue deficit as % of total expenditure (RD/TE)

- Overall deficit as % of total expenditure (OD/TE)
- Interest Payment as % of total expenditure (IP/TE)
- Defence expenditure as % of total expenditure (DE/TE)
- Major subsidies as % of total expenditure (MS/TE)
- Revenue receipts as % of total revenue (RR/TR)
- Capital receipts as % of total revenue (CR/TR)
- Net tax revenue as % of total revenue (NTR/TR)
- Non Tax revenue as % of total revenue (Non TR/TR)
- Interest Payment as % of total revenue (IP/TR)

The first eight variables are related to expenditure and on receipts side there are three variables. Since the change is expected on the expenditure side more of these variables are chosen. The evidences are presented in Table 3.

EXPENDITURE AND TAX POLICY

There is no evidence of a major shift so far as RE/TE, NPT/TE, IP/TE. Revenue expenditure as percent of total expenditure, which should have come down to indicate a directional change, has indeed gone up in the budget, little above in terms of seventh five year plan average and also in comparison with last year. What is of great concern in terms of the macro-economic implications of the budget is the decline in plan expenditure. Non-plan expenditure is on the increase. Interest payment, the major component of nonplan expenditure accounts for 24.2% of total expenditure in the 1991-92 budget as against 7.8 percent of total expenditure for 1985-86 to 1989-90 average. However the share of overall deficit and major subsidies have come down significantly in 1991-92 compared with 1990-92 and also lower than the 1985-86 to 1989-90 average. In spite of the stepping up of defence expenditure in the present age of total expenditure it is lower than the average for 1985-86 to 1989-90 and lower than in the previous year. And in the matter of revenue deficit, the 1991-92 (BE) figures are little lower than the 1985-86 to 1989-90 average.

Turning to the policy, while total revenue receipt constituted to present of total revenue in 1990-91, the share has been moved upto 64 per cent in 1991-92 BE. This does not show much change from 1985-90 average. However, this does reveal any change in its internal structure with ratio of direct to indirect taxes remaining the same i.e., 25% in seventh plan and 24% in 1991-92 BE. The share of capital receipts in total receipts has gone up from 37% from 1985-86 to 1989-90 average to 40-9 percent in 1990-91 but this share of non-tax revenue has come down in 1991-92 (BE) from 1985-86 to 1989-90 average. It is in fact essentially interest receipt from loans to state and net income from dividends and profits that account for a bulk of these receipts. there is marginal improvement in the share of net tax revenues of the central government in 1991-92 as compared to the average for 1985-86 to 1989-90.

Thus, on the whole, it must be acknowledged that there are no dramatic changes in the structure of revenue and expenditure, the changes that have taken place have been in the correct direction. On balance, the gap between revenue and expenditure have been narrowed and the share of deficit in total expenditure has come down. The revenue deficit has been brought down to 12.2% this year from 16.5 percent in 1990-91. Therefore, the finance minister must be complimented for initiating the process of fiscal adjustment.

However, one can think of the following for future process of fiscal adjustments.

1) Improving the revenue from direct taxes.
2) Cut in expenditure on account of food subsidies through rationalisation of Pds.
3) Revenue deficit can be reduced through cut in Government expenditure on ministries and other establishments.

ISSUES IN THE MANAGEMENT OF DIRECT TAXES

particularly Income Tax with special reference to Hubli Range

PROF. M. M. MOULVI

1. The office of the Deputy Commissioner, Income Tax, Hubli Range, Hubli; has under its jurisdiction three districts, namely, Dharwad, Chitradurga and Bellary.

2. With its offices set up in Hubli, Gadag, Davangere, Chitradurga, Hospet and Bellary; has rendering yeoman service in the collection of revenue.

3. The number of assesses is sprawling over 40,778. The split of data reflects that :

Individual Status	26,777
Registered Firms	10,627
Hindu Undivided Families	2,980
Companies both Public/ Private limited.	171
Charitable Trust, etc.,	141
Co-operative Societies	82
Total	**40,778**

4. Having set the target of Rs. 21 crores for the year 1990-91, the authorities could collect revenue to the tune of Rs. 21 crores 87 lakhs and 35 thousand. Indeed the performance is quite satisfactory.

Target 1990-91	Rs. 21 Crores
Achievement	Rs. 21 crores 87 lakhs 35 thousands

5. Our hats are off to learn that similar performance was flashed during the previous year 1989-90. The target set being Rs. 19 crores, the collection total Rs. 19 crores 8 lakhs and 5 thousands.

6. The target set for the year 1991-92 is Rs. 27 crores.

7. The records reveal that of the total revenue collection nearly 80% to 85% revenue has flown voluntarily by way of advance tax, self-assessment tax and the tax deducted at source. The remaining collection was an outcome of the efforts mobilised by the officials.

8. Of the three districts covered by the Hubli Range Office, for the year 1990-91, Dharwad District is leading in contributing revenue to the tune of Rs, 14 crores 19 lakhs and 52 thousands followed by Chitradurga District with its contribution to the tune of Rs. 4 crores, 20 lakhs and 42 thousands. The Bellary District standing third in the list with its contribution having around Rs. 3 crores 47 lakhs and 41 thousand.

Dharwad district	Rs.

Table 1

CENTRE'S REVENUE RECEIPTS AND NON-PLAN REVENUE EXPENDITURE : 1970-72 TO 1989-90

(as per cent of GDP)

Sl. No.	Item	Average 1971-76	Average 1976-80	Average 1980-85	Average 1985-90
1	Tax Revenue	7.2	8.2	7.9	9.1
2	Non-tax Revenue	2.2	2.4	2.6	3.2
3	Total Revenue Receipts (1+2)	9.4	10.6	10.5	12.3
4	Non-Plan Revenue Expenditure	8.1	9.3	9.8	12.9
	(a) Defence	3.2	3.1	3.2	3.9
	(b) Interest Payment	1.6	1.9	2.5	3.6
	(c) Food & Fertilizer Subsidy	0.3	0.9	1.0	1.5
	(d) All Others	3.0	3.4	3.1	3.9
5	Balance from Current Revenues (BCR) (3-4)	1.3	1.3	0.7	-0.6

* For 1988-89 (RE) and for 1989-90 (BE)

Source: Same as for Table 2

Table 2

IMPORTANT FISCAL PARAMETERS
(SEVENTH PLAN PROJECTIONS : A COMPARISON WITH ACTUALS)

(As per cent of GDP)

		1985-86		1986-87		1987-88		1988-89		1989-90	
		A/c.	LTFP	A/c.	LTFP	A/c.	LTFP	RE.	LTFP.	BE.	LTFP
1	Tax Revenue (net of States share)	8.7	7.8	8.9	8.2	9.1	8.7	9.0	9.2	9.6	9.4
	(a) Direct Taxes	1.5	1.5	1.5	1.7	1.3	1.8	1.5	2	1.5	2.1
	(b) Indirect Taxes	7.1	6.3	7.4	6.5	7.7	6.9	7.5	7.2	8.1	7.3
2	Non-Tax Revenue	3.1	3.0	3.4	2.9	3.2	2.8	3.1	2.7	3.4	2.7
3	Non-plan Revenue Expenditure	11.9	11.1	12.8	11.3	13.3	11.5	13.3	11.6	13.4	11.9
	(a) Defence	3.5	3.3	4.1	3.4	4.3	3.5	4.1	3.6	3.6	3.8
	(b) Interest Payments	3.1	3.0	3.4	3.3	3.6	3.6	3.9	3.9	4.2	4.1
	(c) Food and Fertilizer subsidies	1.5	1.2	1.4	1.1	1.4	1.1	1.5	1.0	1.5	1
	(d) All others	3.9	3.6	3.9	3.4	4.0	3.3	3.8	3.1	4.1	3
4	Balance from Current Revenues (BCR)	-0.1	-0.4	-0.5	-0.2	-0.1	*Neg.*	-1.2	0.3	*Neg.*	0.2
5	Central Plan	8.1	7.5	8.7	7.5	8.3	7.5	8.3	7.5	8.6	7.3
6	Assistance for State & UT Plans	2.9	2.7	3.0	3.7	3.2	2.6	2.8	2.6	2.7	2.5
7	Domestic Borrowing	6.9	6.4	8.2	5.6	8.4	5.0	8.0	4.4	6.5	4.2
	(a) Market Borrowing	2.0	2.1	2.0	1.6	1.9	1.5	2.0	1.5	1.8	1.5
	(b) Budgetary Deficit	2.0	1.3	3.0	1.2	1.1	1.1	2.2	1.0	1.8	0.9
	(c) Others	2.9	3.0	3.2	2.8	4.6	2.4	3.9	1.9	2.8	1.8
8	Internal & Extra Budgetary Resources of PSUs.	3.1	2.9	2.6	3.4	3.0	3.7	3.1	4.0	3.6	4.1

Source : Economic Survey, 1989-90, Government of India, Table 6.4, pp.82

Table 3

FISCAL INDICATORS - COMPARISON OF 1991-92 BE WITH PAST PERFORMANCE

	Indicators	Average for 1985-86 to 1989-90	1990-91 RE	1991-92 BE
1	Revenue Expenditure as per cent of Total Expenditure	70.9	70.2	71.8
2	Plan Expenditure as per cent o Total Expenditure	36.3	28.1	29.7
3	Non-Plan Expenditure as per cent of Total Expenditure	63.0	71.9	70.3
4	Revenue DEfcit as percent of Total Expenditure	13.5	16.5	12.2
5	Overall Deficit as percent of Total Expenditure	10.6	10.1	6.8
6	Interest Payment as percent of Total Expenditure	17.8	20.5	24.2
7	DEfence Expenditure as percent of Total Expenditure	17.1	14.8	14.4
8	Major susidies as percent of Total Expenditure	9.7	8.8 BE	3.4*
9	Revenue Receipts as percent of Total Revenue	63.0	59.8	63.8
10	Capital Receipts as percent of Total Revenue	37.0	40.2	36.1
11	Net Tax Revenue as percent of Total Revenue	48.0	46.2	49.7
12	Non-Tax Revenue as percent of Total Revenue	15.0	13.6	14.2
13	Interest Payment as percent of Total Revenue	10.5	20.5	24.2

** Subsidies only on account of export promotion and food are taken.*

Source : Caluculated from the Budget Papers of various years.

14,19,52,000Chitradurga district Rs. 4,20,42,000 Bellary district Rs. 3,47,41.000

9. With its industrial belt spread over the twin cities of Hubli and Dharwad, the commercial and trading centres in Gadag, Haveri and Ranebennur, Dharwad district was leading in Hubli range contributing 66% of the total revenue collected through direct source during the year 1989-90. Chitradurga contributed around 20% and Bellary around 14%.

Dharwad District	66%
Chitradurga District	20%
Bellary District	14%

10. The expenditure involved in revenue collection for the year 1990-91 is to the tune of Rs. 77 lakhs 46 thousand and 999.

Expenditure	Rs. 77,46,999.

CRITICAL ASSESSMENT

1. A close examination of the revenue records reflects that of the total revenue collected for the year 1990-91, Rs. 21 crores 39 lakhs and 39 thousand has come by way of Income tax and Rs. 47 lakhs and 96 thousand by way of Corporate Tax.

1990-91 Income Tax	Rs.	21,39,39,000
Corporate Tax	Rs.	47,96,000

Similar is the trend for the year 1989-90.

1989-90 Income Tax	Rs.	18,63,05,000
Corporate Tax	Rs.	45,00,000

A comparative study unfolds the fact that the revenue from the corporate tax is quite minimum. The reason are :

a. Most of the industries in Hubli and Dharwad have their registered offices outside the Hubli range. Having compiled their accounts at the head office taxes are paid at registered officer.

b. As per the findings of the K.S.F.C. authorities, Hubli, more than 85% of the Industrial units are sick units. The problem is to explore whether they are really sick or subsidy sick or pretending to be sick.

c. In place like Gadag, Haveri and Davangere, marketing is done without billing.

d. There exists manipulation of accounts and scope for tax evasion.

2. The yearly increase in the number of tax assesses, as per the official records is hardly around 1%. The increase is chiefly under the head of individual assesses. Thus it is this group which is hard pressed.

3. Undivided Hindu Families though physically divided, but for the purpose of tax payment, they have continued to remain undivided.

4. Exemption of taxes on agriculture is providing shelter to the businessmen to

evade the taxes. Businessmen dealing with dry chilies carry trucks of load from Byadgi, Haveri, Bankapur and Ranebennur to Bombay in the name of chilies growers.

5. Beyond doubt, in the wake of sky-rocketing prices it is the fixed income group which is hard pressed like a sandwich between the two slices. Though Government offer D.A. to compensate the loss in the standard of living due to escalating prices, when it comes to tax assessment, D.A. along with CCA are considered as the income.

6. Extension of schemes like Amnesty scheme, Voluntary Disclosure Scheme, Bearer Bonds, Indira Vikas Patra, are turning out as an important instrument renewing the faith and confidence of the holders of black money that at one stage or the other they will get an opportunity to turn their black money into white.

(1990-91 -Rs. 50 Lakhs on party - Hubli)

7. The tax evaders get the opportunity to convert their money into white by investing them in owning real estates. While purchasing property Governmental authorities collect Tax Clearance Certificate from the seller and not from the buyers.

SUGGESTIONS

1. With a view of minimising the tax evasion and providing an incentive to the fixed income group, there is a need for forwarding an alternative definition of Salary Income . The modified definition should exclude D.A. and C.C.A. as exclusive but not inclusive.
2. The taxable limit should be raised. in view of its non-revival, at least the rate of taxes should be reduced say from 20% to 15%.
3. With a view dealing with tax evaders Lokayukta, anti-corruption cell and Income Tax department may be clubbed to function unitedly.
4. Periodic extension of legal sanction may be eliminated.
5. The political party funds should be audited and the details should be submitted to the authorities.
6. In the matters of property deakubgs, the Tax Clearance Certificates should be sought both from the seller and the buyer.
7. The tax audit instead of getting audited by the tax payer, the Department should direct the assesses to get audited from the Departmental auditors. the auditor's fees must be paid by the Department. So, that the audit is done in the interest of the Department rather than the assesses.
8. There should not be disparity in the tax (indirect tax). Otherwise, it shifts the trade from one state to another.

Eg. Sometime people from Karnataka purchase vehicles from Goa.

FISCAL MANAGEMENT IN THE INDIAN ECONOMY

Issues and Policy Options

with Special Reference to Union Government Expenditure

DR. K.R. MADI

The recently, budget determination was on normative lines. Least attention was given on the effect of budget policy on the working of the economy. It is only J.M. Keynes in the thirties who conceived the budget as a powerful instrument for balancing the economy as a whole. This approach itself helped thereafter to bridge the gap between pure theory of public finance and the actual affairs of the State.

In this context it may be emphasized that the intelligent and civilised conduct of Government and its responsible functioning which are at the heart of democracy shall determine the social ethics and civilised living. Finance Minister (assumed to be a good economist) having this back-ground should know the economic relations involved, then alone he can contribute to a better society by his value judgments while formulating his budget.

Government budget is no more a secret document in a democracy, as we know, continuous debate on budget problems at the commonsense level allows no lack of solution. It is the social obligation of every individual citizen also to contribute to his debate.

In India in particular, it is quite often said that the budgets have been politicians's budget and not the financial document of the economist. Economists are almost made as the handmaids of politicians. This has led to the fact in recent years, that every budget is making its own history. Still they spell onething in common i.e., continuing and increasing deficit which is mainly the result of Government's extravagance and misallocation of our scarce financial resources. Though budget exercise is wholly and fundamentally meant for the promotion of public welfare and not for the private benefits of some individuals and groups, recently, there is found a bent in our country towards pleasing the superfluous vanity and dignity of some politicians and bureaucrats or for the worst display of one's patriotism and respect for individual political leaders. this does not augur well in a poor country like ours. There should not be any room for charity by a few people in power at the expense of the mass reeling under utter poverty.

Objectives of economic policy - of which fiscal policy forms part, are well known viz. growth of national income stability, full employment, equity and social justice. Certainly there is no mutual contradiction in these objectives. In fact they are complimentary to each other. Since planning, though our rate of growth is not so disappointing, unfortunately our economy is facing serious problems namely, severe and persistent inflation and large balance of payment deficits which is the concomitant of and inflationary situation. The urgent task before the Union Government now is to curb inflation which simultaneously improves the Balance of Payment problem to a large extent.

This paper is an attempt towards finding snags in our fiscal operation system of the Union Government on the expenditure side.

The most important factor responsible for the inflationary situation in our country is the persistent and widening fiscal deficit in the union budget even on revenue account due to increase in spending on general administration, defence and security services, subsidies on food fertilisers etc. Expenditure on these unproductive activities is responsible for increase in demand for consumable goods and services consequent to fiscal deficits. This has imposed a serious constraint on the budgetary process on the top of government prodigality for many years say since (25) years or so. As such economic stability is now the need of the hour by utilising public funds wisely and sparingly. To rely on inflation or fiscal deficit to stimulate growth is to invite trouble in the form of galloping inflation, Balance of Payment deficit, economic and social distress. Such a trend may even lead to dictatorship and revaluation to say the least.

Government's prodigality is conspicuous now-a-days. Appointing probe committees, judicial enquiry committee, galore of committees to suggest measures on many problems facing the country, pompous ceremonies like swearing-in ceremonies of ministers, guard of honour to visiting dignitaries, Republic Day Parade, appointment of Army of P.A.s, Secretaries to ministries etc. All these expenditures are redundant and unproductive involving enormous wastage of resources. It is high time to put an end to all these and begin to practice austerity in reducing budget deficits.

It is now widely recognised that sustained economic growth is possible only within a sound macro-economic frame work in which fiscal policy plays a key role. So to say, sound fiscal management is crucial to the achievement of macro-economic stability on which the consequences of deficit finance exert influence. Both theory and evidence tell us and even warn us that larger budget deficits pose real threats to macro-economic stability and therefore to economic growth and development.

Now, coming to the sources of financing the budget deficits, each source, as we have experienced, is associated with major macroeconomic imbalance, for example, printing of money is associated with inflation. Use of foreign exchange crisis; foreign borrowings is associated with higher real interest rates. Sound fiscal policy, therefore, should take note of the budget constraints which point to the dangers that arise from excessive budget deficits as explained above.

Economic Policy is rarely concerned with the attainment of the best of all possible world. Rather, it seeks to improve economic welfare of the people but in the face of constraints. The economist while devising a budget policy model should know his limitations with regard to how many of the constraints he shall have to face in framing the budget. To prohibit the use of constraints is to drift away from a real solution to the problem because, constraints help in shaping the problem and in determining the nature of the solution.

In the context of our country where resources are scarce, use of budget constraint is a very powerful analytical tool for policy makers and finance minister. In fact consideration of constraints is at the heart of budget making and in reducing budget deficits.

There are many constraints - physical, financial, legal, political, administrative and distributional. Each of these have their own contribution in expenditure decision-making. The most important and relevant constraints are financial and budget constrainst. These constraints specify that the amount of money available from some source is limited. In such a case deriving an expenditure criteria becomes critical because, this limited amount of money should be allocated optimally. Here lies the wisdom of the finance minister.

Besides, fiscal indiscipline is not only due to irrational use of deficit financing and non-consideration of Budgetary constraints but also due to defective expenditure contro system in our country. Firstly, the design of expenditure policy in our country, to a large extent, is independent of tax policy. Morgan, the objective of expenditure policy cannot be quantified and hence there is no definite criterion which helps to determine whether policy objectives are fulfilled. This is due to the fact that the objectives of policy are derived from the 'Directive principles of the constitution'. Secondly there is an urgent need for evolving some techniques that will help to direct policy decisions towards the achievement of given objectives. Further in preparing budget estimates, the procedure adopted by us seems to suggest that while financial planning is the work of Finance Ministry, the resource planning is the work of Planning Commission. This dichotomy between financial and real resources poses problem for the administration to get a synthesis of financial and real resources because, there should necessarily be an arrangement for coordination between these two departments, let alone fixing of the ultimate responsibility for preparing budget estimates.

Further, expenditure control system is also defective so far as the accuracy of budget estimates are concerned. There are large deviations of actuals from the estimates. This shows that there is a tendency towards over estimation in the budget estimates. One reason for this is that sometime too ambitious target is set in terms of achievement. To curb this tendency, there is a need for stricter measures to enforce economy in the sense that the responsibility for expenditure can be fixed by sanctioning a fixed sum of money necessary and making it available.

The system of parliamentary control over expenditure also suffers from weakness. There is no definite time limit within which the Public Accounts Committee (P.A.C.) and the Estimates Committee should submit their findings and also there is actually negative influence of post-expenditure control on departmental efficiency because, demands for grants are not considered along with reports of these committees. System of Parliamentary Control, therefore, has resulted in a futile exercise.

In view of these shortcomings of the system of public expenditure control, possible way improving it may be considered for policy purposes. It is not too late that we have to make serious and sincere efforts for adopting in full measure, techniques like performance Budgeting and Cost-Benefit Appraisal. The former is to be applied where targets are given and costs have to minimised. The latter is to be applied when the targets are flexible and services are priced. Statistical information and Trained personnel should be made available to implement these techniques as developed countries are doing and have succeeded in adopting these techniques. This helps in increasing the operational efficiency of the budget paving way for fiscal discipline.

As many research studies have research studies have repeatedly suggested, the following improvements may be brought in to the methods of budget procedures with no further loss of time.

i) The estimates should be presented not according to total departmental requirements but according to individual projects more rigorously than at present. This eliminates the element of arbitrariness in effecting cuts in expenditure of departments by lump sum by Finance Ministry.

ii) The financial estimates should accompany real resources requirement.

iii) the present distinction between Plan and Non-Plan expenditures should be given up as the utility of this system is doubtful. All that can be achieved by this system is that item included in the plan has a greater chance of its being sanctioned.

iv) Administrative ministries should emphasize on the accuracy in budgeting and avoid presenting deliberately the over-estimates. This should be followed treating cuts in demand by Finance Ministry as a necessity and not as a routine. Over budgeting by the Admini-strative ministries is one of the causes for fiscal distortions.

v) Ministry of Finance and Planning Commission should be merged into the Ministry having two coordinate wings to bring about synthesis in the financial planning and real resource planning more effectively and for making both the departments jointly responsible for budget planning.

vi) In examining the inflationary impact of Government expenditure policy on the national economy it is essential to present an All India Economic Functional classification of the Government budgets with general agreement on the concepts and classifications used in both the Centre and the States.

vii) As at present, parliamentary Committees review Govt. expenditure on the basis of information provided by audit reports. But an examination of reports and inter-viewing of Government officials needs a great deal of experience which can be gained by serving on the Committees themselves. Therefore, the clause in Parlia-mentary Procedures fixing the tenure of office of members of these Committees to one year should be deleted.

viii) The finding of these Committees should be made available before the demand for grants for the next financial year is considered. This will help in exerting a positive influence on policy.

If these changes in the method of budget procedure are adopted, it is possible to fill most of the gaps in the present system of fiscal management from the expenditure side. We should also give thought to the setting up of 'Expenditure Commission' to review expenditures towards well-conceived expenditure pattern as Dr. D.T. Lakdawala (Ex-Dy Chairman, Planning Commission) has rightly suggested long back. This may also help in achieving, efficiency and economy in spending and for better fiscal management.

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BUDGETARY DEFICITS AND THE ECONOMIC MANAGEMENT

Some Issues

DR. P.R. PANCHAMUKHI

1. The current economic crisis, which has been officially admitted to be unprecedented in the Post Independence Indian History, appears to have been caused by both avoidable and unavoidable factors. It is both man-made and nature-made, as populist measures of the past,

coupled with drought conditions, political instability and violence etc. caused steep increases in Government expenditures without corresponding increases in resources. Exogenous pressures from the international front have aggravated the crisis. Among the avoidable factors the budgetary imbalance occupies a significant place. Budgetary deficits are both a cause and the result of the deep rooted malady of the economy particularly in the context of a developing country with supply rigidities, less developed infrastructure and excessive demand.

2. Budgetary decisions might be considered both as one of the important causes for the economic crisis and also as the measures to counter the crisis. There too, the budgetary deficits reflect the extent of pressures on the Governmental system. the positive deviation of the actual deficits from the budgeted deficits reflect the intensity of these pressures.

3. What are the factors responsible for the budgetary deficits? Are there inter Governmental linkages of budgetary imbalance in a federal framework? If manageable factors can be identified then can the deficits be controlled by controlling these factors? The objective of the present paper is to examine some of these issues. Arithmetic accounting of deficits* may be less helpful for the policy makers as compared to their functional auditing. It is necessary to develop a conceptual framework highlighting the behavioural linkages between the indicators of budgetary imbalances and the basic explanatory factors. This would facilitate even the evaluation of the philosophy of a budget for a particular year as well.

4. The budgetary crisis can be said to have started from the year, since, when the Government of India started experiencing deficits on both revenue and capital accounts. Capital budget of the Union Government always showed deficits right from the year 1948-49, except in the year 1960-61 when there was a small surplus. The revenue budget however, invariably showed a surplus right from 1948 with few exceptions. This surplus was used to finance the capital deficits. From 1979-80, however, both accounts started showing deficits indicating basic budgetary difficulties. In recent years, they are swelling in size and increasing at growing rates.

5. Interestingly, the state budgets used to show mostly surpluses on revenue account and deficits on capital account on the same pattern as the Union budgets. But, in recent years, the consolidated position of the states also is worsening.

6. The balance of payments position, (B.P.) which is in the nature of blood pressure count of the economy used to show deficit on capital account with many years of positive current account balance. But, with effect from that crucial year 1979 without exception, all the years have shown negative current account balance. Also, the size of the negative balance has been

increasing and increasing at a rising rate.

7. The above factual trends raise the following questions :

i) Are Union Government deficits logically linked with the budgetary performances of the State Governments in the Indian Union?

ii) Are Union Government deficits linked with the B.P. Position and how intense is the linkage?

iii) What endogenous factors are responsible for the observed budgetary imbalances?

8. We focus our attention of the Union Government's budgetary imbalances, for the following reasons :

a) Union Government's outlay occupies a major share in the total Governmental outlay at all levels of Government. At the same time, it should be noted that the recent waves of decentralization have tended to question the Peacock Wiseman Hypothesis of 'Concentration process' in the Indian context since this share has been declining during 1980's from 61 to around 57 percent.

b) Union Government occupies a crucial position since most of the socio-economic policy decisions emanate from it or from the apex bodies (like the Planning Commission) which have a close linkage with it.

9. On logical grounds, it appears that state budgetary deficits and Union budgetary deficits are closely related. For example, for some expenditure decisions (like D.A., hike, etc.), the State Governments are the followers, necessitating increased state Governments are the followers, necessitating increased state expenditures. The philosophy of low tax rates initiated by the Wanchoo Committee and adopted as the strategy for 80's by the Union Governments which being close to the people are interested in being popular.

10. In actual practice, however, the revenue deficits of the Union Government do not seem to be very closely associated with the State budgetary deficits. This is brought out from our statistical study of the functional relationship of the two. the correlation coefficient between the two is a small value of -0.2602 and regression coefficient is -0.2457, which is not statistically significant.

11. Is there any demonstration effect of the Union budgetary deficits on the state deficits in actual practice? This reverse causation analysis also is not conclusive as

* *Pleasure see Budget at a Glance 1991-92 Government of India, July 1991.*

the regression coefficient is again not statistically significant.

12. With a lag of one year, the state budgetary decision seem to explain about 28 percent of the Union Government deficits. In any case, this shows that budgetary discipline of the State Government is quite important for the budgetary discipline of the Union Government. This is based upon a statistical study of the data for the latest period of twelve years.

13. Do the interest payments cause a major jolt to the budgetary discipline of the Government?

A statistical study for a period if 1975-76 to 1988-89 shows that interest payments are major explanatory factor for the Union Government deficit. The Union Government deficit as a percent of GDP was explained significantly by the net interest payment. Another exercise showed that interest payment of every Rs. 100 crores would deteriorate the net budgetary position of GOI by Rs. 149 crores. It is a behavioural and not an arithmetic type of relationship that is considered here.

14. The subsidies could explain about 30-35 per cent of the variations in Union Budgetary deficits.

15. The B.P. problems would also contribute to the Union Government deficit as is made out from a number of statistical exercises for the period 1970-71 to 1986-87 (about 40-50 per cent of the variation could be explained).

16. From the above observations, it is clear that the major factors responsible for the budgetary deficits of the Union Government are the state budgetary practices, interest payments, subsidies and B.P. Position.

17. In the light of analysis, the philosophy of the Union Budget 1991-92 presented by the Economist - Finance Minister can be appreciated. the budget seems to have been developed on the basis of the following premises.

To list by way of illustration :

i) Hard choices are needed to contain the present crisis. The proposals relating to subsidies have to be judged in this back ground.

ii) Growth with austerity should be the main plank on which the economy should develop. Infact, the distributional aspects without 'austerity' would lose their significance. The proposal with regard to non-developmental expenditures (freezing the defence expenditures, economy in non-plan expenditures, etc), have to be seen in this background.

iii) Tax rate and Tax revenue are negatively associated. The proposals and promises with regard to corporate taxation have to be seen in this background.

iv) Capital intensity has to be avoided for employment promotion. The proposals regarding depreciation rate can be considered in this connection.

18. The budget states many promises which are meant to be concretized later. In this sense, the impression created is that it was a hurriedly done exercise. It must be admitted however that most of the concrete proposals are by way of immediate correctives with an indication of the medium term and long term correctives.

19. On the whole, the Budget is a bold initiative. however, this initiative needs to be supplemented by supportive measures which are also proposed like trade policy, industrial policy etc. Since the budget is only a component of a package, its long term success depends upon the effectiveness of the other components. A beginning in the right direction is made for the structural reforms in the Indian economy. At this stage, one can only extend best wishes for the success of the measures proposed in this maiden budget of a Professor Finance Minister.

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