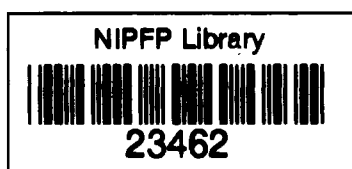A NOTE ON CENTRAL GOVERNMENT EXPENDITURE

SUDIPTO MUNDLE
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1993-94, provided administrative price increases remain moderate. Otherwise, an inflation rate of around 12 per cent or more could persist.

4.   Real GDP growth will be around 3 per cent this year and fall further in 1992-93 when the fiscal deficit ratio is reduced to 5 per cent. Growth would start recovering by 1993-94.

5.   Growth performance, however, is highly sensitive to trade performance. With the same fiscal policy stance, growth in 1993-94 could vary by as much as 3 to 4 percentage points, depending on whether the trade balance improves or continues to deteriorate.

6.   In terms of the growth - inflation trade off, the fiscal deficit targets of 6.5 per cent this year, 5 per cent in 1992-93 and again in 1993-94 appears to be sub-optimal. A milder fiscal compression programme, e.g., fiscal deficit targets of 7 per cent, 6 per cent and 6 per cent or even 7.5 per cent, 6.5 per cent and 6.5 per cent, respectively, for 1991-92, 1992-93 and 1993-94 would yield a significantly higher growth profile at very little cost by way of extra inflation. The milder programmes would also allow greater maneuverability for tax reform. Therefore, the option of adopting a milder compression programme should be actively explored.

7.   Assuming the government maintains it's fiscal stance of a 6.5 per cent fiscal deficit this year, this will entail additional expenditure reduction of the order of Rs 4,000 to Rs 8,000 crore compared to the July budget proposals for the current year. If the fiscal deficit is reduced further to 5 per cent during the next two years, the required order of compression of

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Introduction

1.   This note uses simulation techniques to project the inflation, growth and Central Government expenditure implications of fiscal policies under alternative exchange rate and foreign trade performance scenarios upto 1993-94 in part 1. It then goes on to outline specific administrative measures which would enable the government to control expenditure in line with it's intended fiscal policy stance in parts 2 and 3.

Medium Term Macro-Economic Projections

2.   The fiscal deficit, which the government has adopted as a key indicator of its fiscal policy stance, is a somewhat awkward indicator since it is not a directly `controlled' instrument variable like tax revenue, expenditure, exchange rate, debt monetisation, etc. It is a derived variable, depending on revenue, expenditure, real GDP and the inflation rate. Hence, the same fiscal deficit ratio could represent varying combinations of these variables. Nevertheless, by setting the fiscal deficit and some other policy variables at desired levels, it is possible to project the inflation rate, real growth rate and Central Government expenditure level under alternative trade performance assumptions with the help of a computable macro-economic model. The main conclusions emerging out of a large number of simulations using this technique are summarised below.

3.   Holding the fiscal deficit at 6.5 per cent this year and reducing it further to 5 per cent next year and the year after could bring the inflation rate down to almost single digit level by the end of this year and reduce it to around 7 to 8 per cent by

government expenditure, compared to trend expenditure growth, will be even more severe. Some possible measures for realising such expenditure compression are discussed below.

Containing Expenditure on Transfer Payments

8.   Interest Payment is now the largest single item of Central Government expenditure and also the fastest growing item. It accounts for almost a quarter of the total expenditure and is growing at about 20 per cent per annum. Containing this item of expenditure is crucial. Though interest payment is usually regarded as a `committed expenditure´, since it is based on past borrowings, some components of it can be immediately contained. In particular, Central Government interest payments to Reserve Bank of India amount to almost Rs 4,000 crore. Since the RBI is owned by the government, the major part of interest obligations to the RBI could be offset against a notional share in the profits from its operations, which the Central Government would legitimately claim.

9.   For example, reducing the interest rate on government debt to RBI from the existing average rate of 5.42 per cent to 1 per cent could reduce the interest burden by over Rs 3,000 crore in 1992-93. In addition, if Rs 2,500 crore which the government realises this year from the sale of public sector equity, plus similar realisations in the next couple of years, are utilised to retire existing public debt, this would further reduce the interest burden. Thus, debt retirement of around Rs 5,000 crore by next year could reduce the interest burden in 1992-93 by another Rs 500 crore, assuming on interest rate of 10 per cent on the retired debt. It may be noted in this context that

realisations from the sale of assets should only be utilised to reduce liabilities. It would be imprudent to use such realisations for financing current expenditure.

10.   Non-Statutory Transfers to States is another large item of transfer payment and it has been growing rapidly in recent years. There is already some evidence of restraint on this account in the July, 1991 budget. This effort should be further consolidated. It should be possible to stabilise non-statutory transfers to States at around 21 per cent of Central Government revenue, without any adverse effect on centrally sponsored schemes of national importance such as education, health, drinking water and the anti-poverty programmes. Pruning other centrally sponsored schemes of dubious social or economic value could lead to savings of Rs 700 to Rs 800 crore in the Budget for 1992-93.

11.   Visible Subsidies have already been engaging the attention of government as a possible area for reducing expenditure. Export subsidies have been substantially reduced with the withdrawal of the CCS. These should not be further pruned until tariffs are first rationalised in order to raise the relatively attractiveness of exports vis-a-vis import substitution. Fertiliser subsidies, which primarily accrue to large farmers, should be phased out completely in the next two to three years. This was never intended as a permanent burden on the government, when it was first introduced along with the retention price scheme in 1977. However, a viable scheme for supply of cheap fertiliser to small and marginal farmers is yet to be worked out. A small quantity of fertilisers could be distributed against ration cards, similar to the public distribution system which is presently operated for foodgrains. This would blunt much of the criticism against raising of fertiliser prices. Even if large

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farmers manage to acquire such ration cards, it would cover only a marginal proportion of their requirements. The rest would have to be purchased at open market prices, which could be set sufficiently high to cover the subsidy on rationed fertilisers without a net burden on the public exchequer.

12.   However, the savings realised from phasing out the fertiliser subsidy, or at least a part of it, may have to be used to not only maintain but even expand the public distribution system for subsidised foodgrains. This programme, along with the social and anti-poverty programmes, are essentially a part of the safety net which should be strengthened during the period of austerity under the stabilisation programme. However, there is much scope for better targeting of food subsidies. Self-selecting mechanisms, which could be operated by releasing only cheaper varieties of wheat and rice, mainly in poorer neighbourhoods, are likely to be more effective than regulatory mechanisms, based on the exclusion principle, which are only likely to add to administrative costs.

13.   Budgetary Support to Public Sector Undertakings have already been trimmed in the July, 1991 budget. This process must be pursued further. There is no reason why, even after protected monopoly of the commanding heights of the economy for forty years, public enterprises should continue to depend on the crutch of budgetary support. Such support should be phased out for all except a few core sector enterprises in coal, power, railways and other transportation, over a three year period. This alone would yield a saving of Rs 1,000 crore in the budget for 1992-93. If budgetary support to core sector enterprises is also phased out, the saving on this account 1992-93 could go up to as much as Rs 2,500.

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Containing Internal Departmental Expenditure

14. Finally, there is the internal departmental expenditure of various Central Government departments. It must be squarely recognised that the expansion of government staff lies at the heart of this issue. Therefore, no significant economies can be achieved in departmental expenditure without tackling the problem of expanding government staff. Thus in 1991, if the visible expenditure of about Rs 16,000 crore on defence is excluded, the total internal expenditure of all other departments came to about Rs 26,000 crore. Of this around Rs 11,000 crore (44 per cent) was simply the direct expenditure on compensation of some 4 million non/defence employees, up from 3 million just 10 years ago. There are, in addition, various associated expenses on office facilities, utilities, consumption of materials, etc., which are known to grow in close correlation with the direct expenditure on compensation of staff. It is not surprising, therefore, that in the past repeated `economy drives`, which have skirted the heart of the matter, have had little impact.

15. There has been, and there is, a tendency to treat expenditure on government employees as a `committed expenditure` which cannot be compressed. As a result, a disturbing tendency is now evident of such revenue expenditure crowding out capital and maintenance expenditure in government. Over the years, this has led to a deplorable deterioration in the condition of physical assets belonging to the government such as buildings, roads, transport equipment, etc. Moreover, these tendencies in the Central Government have led to similar problems at the level of the State governments and local authorities, where the financial crisis is perhaps even more severe.

16.   The tendency to look at the bill of employees compensation as committed and inevitable expenditure has to be abandoned once and for all. This can be quite easily achieved provided a reasonable method is found for pruning such expenditure without introducing harsh measures such as retrenchment or a freeze on wages and salaries, etc.

17.   One simple measure which could yield substantial savings is to put a freeze on creation of all new posts and any fresh recruitment in government for a period of 3 years. Since, there is a normal retirement rate of around 3 to 4 per cent per annum, this would automatically reduce the size of government staff by 10 to 15 per cent over a period of 3 years. In 1992-93 alone, this could lead to a reduction of well over 1 lakh Central Government employees, with a corresponding savings of around Rs 500 crore in the budget.

18.   It is important to note that this saving would be achieved without either any retrenchment or any curbs on the wages,salaries and allowances of existing employees. A distinction also has to be kept in mind here between generation of employment in the economy, to which the government attaches very high priority and employment in the government itself. It is widely recognised that there is over-manning in virtually all departments of government and almost at all levels. Moreover, government is a high cost employer, with the direct cost of each employee amounting to around Rs 28,000 per annum. The resources saved by stopping all expansion of government staff and ensuring more efficient use of existing staff, could be deployed to generate much more employment in other productive sectors of the economy.

19.   The freeze on recruitment must be accompanied by a ban on the creation of new posts and indeed the abolition of posts which have become redundant in various departments. For this purpose, all Central Government Departments can be broadly classified into three groups: First, there are departments like the DGTD, Office of the former CCIE, Office of the Steel Controller, etc. which have become virtually redundant as the government has moved towards a less regulatory environment. Eighty to ninety per cent of the posts in these departments should be immediately declared surplus and the incumbent staff transferred before `work' is created. The second category includes departments like agriculture, rural development, small irrigation, etc., which are primarily state subjects, with large compliments of officers and staff attending to these subjects in the states. The posts in these departments could be immediately reduced by at least 20 per cent overall, with a largely percentage at the Ministry level. Finally, there are departments like communications, railways, finance, some aspects of law and order, etc., where the room for declaration of surplus posts is more limited. However, no one would seriously argue that productivity cannot be raised in these departments by sharing out the same work among fewer posts. The number of posts in these departments should be cut by 10 per cent to ensure that the directive for a 10 per cent expenditure cut, currently under implementation, is not entirely passed on to cuts in capital expenditure or of funds essential for useful programmes and services.

20.   The freeze on recruitment and creation of additional posts can only be implemented successfully by a transparent and institutionalised machinery which is suitably high powered and distanced from the concerned departments. This machinery should be responsible for monitoring the implementation of the

recruitment ban, reallocation of posts from surplus departments to those with a shortage of posts and so forth. Leakages in the form of casual employment, which is later regularised, must be stopped. The ban on recruitment must be extended to field posts as well as the secretariat. The declaration of surplus posts must also be extended to the highest official levels of government if it is to be feasible at all.

21.   With the reduction of posts in various departments, there is likely to be significant surplus staff despite the normal retirement rate of 3 per cent per annum and the reallocation of some personnel from one department to another. For this purpose, it is necessary to create a surplus officers pool. Except for a few outstanding cases, most officers would be expected to transfer to this pool following the usual review at age 55. Officers in the pool should not be required to attend office. However, they would continue get their salary and other components of the wage bill until their normal retirement age, except in those cases where the concerned officer desires to take early retirement. This would be a more humane approach as compared to forced retirement with a `golden handshake' and also less of a financial burden on the government.

Defence Expenditure

22.   Defence expenditure has been excluded from the foregoing discussion on compression of departmental expenditure as this subject has already been explored in detail by the Committee on Defence Expenditure. It would be futile to say more on the subject, except to emphasise that the recommendations of the committee may be followed up with a due sense of urgency.

Concluding Remark

23.   The measures for expenditure compression outlined in this note have been suggested specifically keeping in mind their feasability in the immediate future.   Even without allowing for any `savings´ under defence expenditure, the other measures could together yield a saving of between Rs 6,000 to Rs 8,000 crore in the budget for 1992-93, depending on the rate at which budgetary support to PSUs is phased out.   However, apart from these short term gains, the major importance of the economy measures proposed here is their potential for containing Central Government expenditure growth in a medium to long term perspective.

A NOTE ON CENTRAL GOVERNMENT EXPENDITURE

INTRODUCTION

This paper starts by projecting the likely level of Central Government expenditure, money supply growth, inflation and real GDP growth for the years 1991-92, 1992-93 and 1993-94 under alternative trade balance and fiscal policy scenarios in Part 1. It turns out that the level of Central Government expenditure consistent with the fiscal deficit ratios of 6.5 per cent of GDP this year and 5 per cent during the next two years implies greater expenditure compression than has been envisaged so far, i.e., in the current budget.

Expenditure compression is obviously one of the most difficult and challenging tasks that any Minister of Finance has to undertake. There is virtually no constituency, either inside or outside the government, which is interested in such expenditure compression. However, measures on the revenue side alone, no matter how imaginative, cannot by themselves now restore fiscal balance in the Indian economy. Some bold and decisive measures will have to be introduced in the sphere of expenditure as well. Accordingly, Parts 2 and 3 of the paper discuss some measures for containing the growth of Central Government expenditure. These measures would be substantial and at the same time immediately feasable. Part 2 deals with expenditure items in the nature of transfer payments, which now account for over 60 per cent of total expenditure. Part 3 deals with the internal `consumption` expenditure of the various Central Government departments.

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1. MEDIUM TERM MACRO-ECONOMIC PROJECTIONS UNDER ALTERNATIVE SCENARIOS

The government has identified the fiscal deficit to GDP ratio as the key indicator of its fiscal policy stance. Presumably, this is because of its preoccupation with the balance of payments crisis which is driving much of current macro-economic policy. As the traditional Polak model emphasises, the identity between the domestic fiscal deficit less private savings - investment gap and the external balance implies that, given the savings - investment gap, a change in the domestic fiscal deficit will be passed on to the external deficit.

The identity by itself is not a guide for policy. For that it has to be linked to the entire structure of behavioural relations, both inside and outside the economy, which ultimately determine the three terms of the identity. For the same reason, the fiscal deficit may not be an adequate indicator of the government's fiscal policy stance. It is not a directly `controlled` policy variable like, say, revenue, expenditure, debt monetisation or the administered exchange rate. It is only a derived variable and the some fiscal deficit ratio would be consistent with various combinations of revenue, expenditure the price level and real GDP.

Nevertheless, by assigning assumed values to certain exogenous variables and some policy variables, it is possible to set the fiscal deficit at any specified level and simultaneously determine the associated level of government expenditure, money supply growth, inflation rate and real GDP growth rate with the help of a computable macro model. By varying the assigned values

of the exogenous and policy variables, it is further possible to generate a whole range of scenarios. The projections reported here have been derived following this procedure.

Assumptions Regarding Exogenous Conditions and Policy Variables

The base values of all variables for 1990-91, wherever required, have been set at their actual values on the basis of data now available. The projected values for 1991-92 are then used as the base values to project 1992-93 and so on. The simulations have all been run for normal years. Additional simulations would be necessary to capture the possible effects of internal or external shocks. However, alternative scenarios with regard to foreign trade performance have been explored. Apart from the fiscal deficit, the other important policy variables which have been set by assumption include increases in the administered prices of foodgrains and public sector industrial products, the debt monetisation ratio and the exchange rate. Revenue, expenditure, foreign exchange assets and money supply growth are all endogenously determined along with the inflation rate and real GDP growth rate.

Foreign Trade Deficit and Exchange Rate

The devaluation of the exchange rate and major changes in the trade and industrial policy regimes, are together expected to reverse the balance of trade which was deteriorating sharply until earlier this year. However, it would be unrealistic to attempt to quantify exactly how the various elasticities of the Marshall-Lerner condition will adjust or calibrate their respective speeds of adjustment. It is quite possible that once the import curbs temporarily in place are removed the trade

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balance will first deteriorate before it improves, the so called
J-curve phenomenon. Projections have therefore been made for
three alternative trade balance scenarios for the period 1991-92
to 1993-94. The most pessimistic case assumes the trade deficit
will continue to deteriorate at the same rate as observed in
1990-91, i.e., 37 per cent per annum and that the exchange rate
will further depreciate at about 5 per cent per annum. The second
case assumes that the trade balance will remain unchanged at its
1990-91 level and that the exchange rate will remain stable. The
third scenario assumes that the trade balance will improve at the
rate of 20 per cent per annum. The exchange rate is again assumed
to remain stable in this case.

Debt Monetisation

        Change in Reserve Bank support to government or
incremental debt monetisation has been set at 1.4 per cent, 1 per
cent and 1 per cent of GDP respectively for 1991-92, 1992-93 and
1993-94. Debt monetisation has been treated as the key monetary
policy variable in this exercise and money supply (M3) has been
endogenised. This unconventional treatment is a more appropriate
representation of Indian realities in our view. Money supply
growth here is largely dependent on the monetisation of public
debt, which constitutes the bulk of reserve money. There is very
little flexibility now left for manipulating instruments like the
cash reserve ratio in order to alter the money multiplier. The
implication is that the pursuit of independent money supply growth
targets, different from the endogenously determined money supply
growth rates of this exercise, will require the continuation of
rather crude credit rationing measures to suppress the operation

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of the money multiplier. The only alternative is a vastly reformed financial sector where interest rates are allowed to equilibrate the money market.

Administered Prices

Apart from conditions of aggregate demand and supply, the government administered procurement prices of foodgrains and other public sector industrial products such as petroleum, coal, steel, aluminium, etc., have an important impact on the overall inflation rate. Foodgrain prices and other administered prices have been assumed to increase at 10 per cent and 15 per cent respectively for one set of scenarios and at 15 per cent and 20 per cent respectively for an alternative set of scenarios.

Fiscal Deficit

The fiscal deficit has been set at 6.5 per cent of GDP for 1991-92 and 5 per cent in 1992-93 and 1993-94 for the main simulation. Two alternative simulations have also been run where the fiscal deficit is set at 7 per cent, 6 per cent, 6 per cent and 7.5 per cent, 6.5 per cent, 6.5 per cent for the three years respectively.

Inflation, Growth and Central Government Expenditure: 1991-92 to 1993-94

Impact of Intended Fiscal Stance

Combining alternative assumptions for the various policy variables and exogenous variables, altogether eighteen different scenario have been generated. The detailed results of all simulations are reproduced in Appendix Tables A.1 to A.3 at

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the end of the paper. Summary results of simulations with the fiscal deficit set at 6.5 per cent, 5 per cent and 5 per cent respectively for the three years 1991-92 to 1993-94 are presented in Table 1.1. The main results are as follows.

TABLE 1.1

Projected Range of Dependent Variables: Simulation Set 1

	Range Projected for			
	Inflation Rate	Real GDP Growth	Money supply Growth	Central Government Expenditure (Rs. crore)
1991-92	10% to 13%	3% to 4%	16% to 17%	105,000 to 109,000
1992-93	9% to 13%	2% to 3%	13% to 14%	109,000 to 120,000
1993-94	7% to 11%	4% to 8%	12% to 13%	122,000 to 145,000

Notes: Results summarised from Appendix Table A.I.

Fiscal Deficit Ratio 1991-92: 6.5%, 1992-93: 5%, 1993-94: 5%.

Debt Monetisation Ratio: 1991-92: 1.4%, 1992-93: 1%, 1993-94: 1%.

Money supply will grow by over 16 per cent this year if the existing money multiplier is allowed to operate. In order to control it at around 13 per cent as, intended, additional sterilisation measures of the type discussed above will be necessary. Inflation will be around 10 per cent to 13 per cent by

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the end of the current year, depending on how much administered prices are increased during the rest of the year. It will remain quite high in 1992-93 also, but fall to around 7 per cent to 11 per cent by 1993-94, always depending on how much administered prices are raised. If procurement price increases are contained at less than 10 per cent per annum and other administered price increases at less than 15 per cent per annum and there are no further oil shocks or monsoon failures, the current inflation rate could be almost halved by 1993-94. However, there is a very high probability that at least one of the next three monsoons might fail.

Real GDP growth would lie between 3 per cent to 4 per cent during the current year, depending on how the trade balance behaves. Next year, as the fiscal deficit is squeezed further, it would fall to between 2 per cent to 3 per cent, again depending on how the trade balance behaves. Growth would start recovering by 1993-94. However, in the pessimistic case, with the trade balancing still declining and the exchange rate depreciating further at 5 per cent per annum, growth would be only around 4 per cent. If the trade balance improves by then, growth could rise to 6 per cent, or even more if these are also large increases in administered prices.

For the purposes of this note the most important result relates to Central Government expenditure. Under all plausible scenarios, Central expenditure has to be contained at between Rs 105,000 crore to Rs 109,000 crore if the fiscal deficit ratio of 6.5 per cent is to be met during the current year. This implies a further compression of expenditure of the order of Rs 4,000 crore to Rs 8,000 crore, beyond what has been already envisaged in the July budget. Should there be a shortfall against

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trend in tax revenues, on account of the decline in imports and collection from customs duties, the required compression of expenditure could be even larger.

Impact of Alternative Fiscal Stance

The results summarised in Table 1.1, with the fiscal deficit set at 6.5 per cent, 5 per cent and 5 per cent respectively for 1991-92, 1992-93 and 1993-94 reflect the impact of the **intended** fiscal policy stance of the government under the

TABLE 1.2

Projected Range of Dependent Variables: Simulation Set 2

	Range Projected for			
	Inflation Rate	Real GDP Growth	Money supply Growth	Central Government Expenditure (Rs. crore)
1991-92	10% to 13%	3% to 4%	16% to 17%	108,000 to 112,000
1992-93	9% to 13%	3% to 5%	13% to 14%	117,000 to 128,000
1993-94	8% to 12%	6% to 10%	13% to 14%	134,000 to 159,000

Notes: Results summarised from Appendix Table A.2.

Fiscal Deficit Ratio 1991-92: 7%, 1992-93: 6%, 1993-94: 6%.

Debt Monetisation Ratio: 1991-92: 1.4%, 1992-93: 1%, 1993-94: 1%.

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present stabilisation programme. However, since the order of additional expenditure compression beyond the July budget estimate is so large, it is quite possible that this goal is now beyond reach. This is also suggested by the prevailing high annual inflation rate on a point to point basis. Accordingly, two further sets of simulations have been run, setting the fiscal deficit (F) for the three years at F = 7 per cent, 6 per cent, 6 per cent in set 2 and F = 7.5 per cent, 6.5 per cent, 6.5 per cent in set 3. The summary results of these simulations are presented in Tables 1.2 and 1.3.

TABLE 1.3

Projected Range of Dependent Variables: Simulation Set 3

	Range Projected for			
	Inflation Rate (Per cent)	Real GDP Growth (Per cent)	Money supply Growth (Per cent)	Central Government Expenditure (Rs. crore)
1991-92	10% to 13%	4% to 5%	16% to 17%	111,000 to 115,000
1992-93	10% to 14%	4% to 6%	13% to 14%	122,000 to 133,000
1993-94	7% to 12%	6% to 11%	13% to 14%	140,000 to 166,000

Notes: Results summarised from Appendix Table A.3.

Fiscal Deficit Ratio 1991-92: 7.5%, 1992-93: 6.5%, 1993-94: 6.5%.

Debt Monetisation Ratio: 1991-92: 1.4%, 1992-93: 1%, 1993-94: 1%.

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The profile of both money supply and inflation in simulation sets 2 and 3 are similar to the results of set 1. Money supply still grows at over 16 per cent in the current year without additional sterilisation measures, falling sharply to around 13 per cent in 1992-93 and 1993-94. Inflation in the current year is again seen to lie in the range of 10 per cent to 13 per cent, depending on how much administered prices are raised. It also remains high in 1992-93. However, by 1993-94 the inflation rate could fall to around 7 per cent or 8 per cent if procurement price increases and other administered price increases are held below 10 per cent and 15 per cent per annum respectively.

The real GDP growth rates, however, are higher compared to simulation set 1 in set 2 and still higher in set 3 from next year. In set 2 it falls in the range of 3 per cent to 5 per cent in 1992-93 and 6 per cent to 10 per cent in 1993-94, depending, as before, on trade performance. In simulation set 3 GDP growth projections for 1992-93 range from 4 per cent to 6 per cent and rise to as much as 6 per cent to 11 per cent in 1993-94, again depending on trade performance.

The level of Central Government expenditure consistent with fiscal deficit ratios of 7 per cent and 7.5 per cent for the current year range between Rs 108,000 crore to Rs 112,000 crore and Rs 111,000 crore to Rs 115,000 crore respectively. As will be evident from analysing the detailed tables in Appendix A.1 to A.3, these figures essentially imply that, for the current year, if the fiscal deficit is held at 7 per cent instead of 6.5 per cent and administered prices of foodgrains and other products are raised by 15 per cent and 20 per cent respectively, the extra compression required would be only around Rs 2,000 crore. It would be less if

the trade balance also improved. If the current year fiscal deficit is held at 7.5 per cent, then no extra compression beyond the July budget would be required if either the trade balance improves or administered prices are raised by 15 per cent and 20 per cent for foodgrains and other commodities respectively.

Main Conclusions

The main conclusions emerging from these simulation exercises may be summarised as follows:

i) Holding the fiscal deficit this year at between 6.5 per cent and 7.5 per cent and reducing it still further during the next two years could bring the inflation rate down to a single digit level this year, reduce it next year and reduce it still further to around 7 per cent to 8 per cent by 1993-94, provided administered price increases remain moderate. Otherwise an inflation rate of 11 per cent to 12 per cent or more would persist.

ii) The growth this year will fall to between 3 per cent and 4 per cent if the fiscal deficit is held at 6.5 per cent and fall further during 1992-93 as the fiscal deficit is squeezed to 5 per cent. It is likely to start recovering by 1993-94.

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iii) However, the extent to which growth declines this year and next year and how much it recovers in 1993-94 is quite sensitive to trade performance. Growth could vary by as much as 3 per cent to 4 per cent in 1993-94, depending on whether the trade balance improves or continues to deteriorate.

iv) Comparing the intended fiscal stance, i.e., a fiscal deficit of 6.5 per cent, 5 per cent, 5 per cent for this year and the next two years with alternative programmes, i.e., 7 per cent, 6 per cent, 6 per cent or 7.5 per cent, 6.5 per cent, 6.5 per cent; the intended programme appears to be sub-optimal in terms of the growth-inflation trade off. With the milder compression programmes the government could buy a much higher growth profile at very little cost by way of additional inflation. The option of aiming at a fiscal deficit of 7.5 per cent or 7 per cent this year with 1 percentage point reduction next year should be actively explored, especially since it may be quite difficult to achieve the 6.5 per cent goal.

v) Assuming that the government maintains its highly contractionary fiscal stance, the 6.5 per cent fiscal deficit will entail expenditure reduction of the order of Rs 4,000 crore to Rs 8,000 crore compared to the July budget proposals for the current year. If the fiscal deficit is further reduced to 5 per cent next year and the year after, the order of compression of government expenditure, compared to trend growth, will be even more severe.

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2. MEASURES FOR CONTAINING EXPENDITURE ON TRANSFER PAYMENTS

The macro-economic projections of aggregate growth rate, inflation rate and Central Government expenditure consistent with alternative foreign trade scenarios and the fiscal target, presented above, suggest a required order of compression of Central Government expenditure which is much larger than that envisaged in the current budget. Clearly, such compression will require some bold measures and visible departures from the past. It is neither possible nor necessary to spell out the detailed quantitative picture of these measures over a three year stabilisation period in this paper. That exercise will in any case be undertaken by the Ministry of Finance for each financial year. Here only some broad areas for action are delineated, keeping in view their practical implications.

For the present purpose, it is useful to classify the expenditure side of the budget into two parts. One part consists of transfer payments under various heads. The other consists of each department's own expenditure. The bulk of this consists of what is described as `final consumption expenditure of government´ in the terminology of national accounts statistics. These include primarily the expenditure on compensation of employees and associated expenditure on consumption of goods and services. The issues involved in curbing expenditure growth here are in a sense much more challenging, with wider long term ramifications. These issues are taken up for discussion in the third part of the paper. Here, in Part 2, we discuss compression options under various heads of transfer payments.

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Interest Payments

The largest transfer payment, indeed now the largest single item of Central Government expenditure, is the payment of interest. It now accounts for almost one quarter of total expenditure (Table 2.1). Interest payment is also the fastest growing item of expenditure, increasing at about 20 per cent per annum. Clearly, successful containment of the galloping expenditure under this head would have a significant impact on total expenditure. Unfortunately, since today's interest burden is determined by past borrowing, i.e., the stock of debt, it is usually treated as an item of committed expenditure which cannot be immediately contained. Even if the rate of growth of borrowing is somehow reduced, it can only help to curb the future growth of interest payments, not existing commitments.

However, there are two components of the debt stock and its interest burden for which the `committed expenditure` assumption is not necessarily valid. The first component is the external debt denominated in foreign exchange, which accounts for about one-tenth of public debt. The interest burden on this debt is a product of the foreign currency debt stock, the interest rate and the exchange rate. Since the exchange rate is administered in India's managed float regime it can, in theory, be adjusted (appreciated) to reduce the interest burden of foreign debt in rupee terms, not only for the public component of external debt but also for a similar magnitude of private external debt. Of course, there are other considerations, mainly relating to the external account, trade performance, etc., which drive the exchange rate policy. Hence, its impact on the interest burden of public debt must be treated as a residual outcome.

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TABLE 2.1

Analysis of Expenditure - Central Government Budget: 1989-90 to 1991-92

Expenditure Groups	1989-90 (RE) (Rs crore)	1990-91 (RE) (Rs crore)	Variation in 1990-91 over 1989-90 (Rs crore)	Per Cent variation	1991-92 (BE) (Rs crore)	Variation in 1991-92 over 1990-91 (Rs crore)	Per cent variation
PART A: TRANSFER PAYMENTS							
1. Interest payments	17710 (18.92)	21850 (20.48)	4140	23.38	27450 (24.20)	+5600	+25.63
Of which							
1.1 Reserve Bank of India	2962 (3.15)	3421 (3.21)	459	15.50	3994 (3.52)	573	16.75
1.2 External debt	1484 (1.59)	1809 (1.70)	325	21.90	2680 (2.36)	871	48.15
2. Total Transfers to States/UTs	19427 (20.76)	24567 (23.02)	5140	26.46	25242 (22.25)	+675	+2.75
Of which							
2.1 Statutory transfers to States	7553 (8.07)	11155 (10.45)	3602	47.69	10336 (9.11)	-819	-7.34
2.2 Other transfers to States/UTs	11874 (12.69)	13412 (12.57)	1538	12.95	14906 (13.14)	+1494	+11.14
3. Total Visible Subsidies	10677 (11.41)	10621 (9.95)	-56	-0.52	8895 (7.84)	-1726	-16.25
Of which							
3.1 Food	2476	2450	-26	-1.05	2600	+150	+6.12
3.2 Fertilisers	4601	4400	-201	-4.37	4000	-400	-9.09
3.3 Export promotion	2089	2700	611	29.25	1224	-1476	-54.67
3.4 Other subsidies	1511	1071	-440	-29.12	1071	-	-
4. Budgetary support to PSUs	9688 (10.35)	8685 (8.14)	-1003	-10.35	7487 (6.60)	-1198	-13.79
Of which							
4.1 Plan investment in core sector	3114	4984	1870	60.05	4449	-535	-10.73
TOTAL PART A	57502 (61.44)	65723 (61.59)	8221	14.30	69074 (60.89)	3351	+5.10
PART B: OWN DEPARTMENTAL EXPENDITURE							
5. Defence expenditure	14500 (15.49)	15750 (14.76)	1250	8.62	16350 (14.42)	+600	+3.81
6. General services	5921 (6.33)	6749 (6.32)	828	13.98	7232 (6.33)	+483	+7.16
7. Social services	4833 (5.16)	5318 (4.98)	485	10.04	6519 (5.75)	+1201	+22.58
8. Economic services	10839 (11.58)	13177 (12.35)	2338	21.57	13997 (12.39)	+820	+6.22
9. New programme	-	-	-		250 (0.22)	+250	-
TOTAL PART B	36093 (38.56)	40994 (38.41)	4901	13.58	44348 (39.11)	+3354	+8.38
GRAND TOTAL (PART A + PART B)	93595 (100.00)	106717 (100.00)	13122	14.02	113422 (100.00)	+6705	+6.28

Note: 1. Figures in parentheses are percentages to column total.
2. For a more detailed break down see Appendix Table A.5.
3. Budgetary support to PSUs includes plan and non-plan capital outlays as well as non-plan loans.

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The second and more interesting component is that part of public debt, now over a quarter of the debt stock, which is owned by the Reserve Bank of India. As shown in Table 2.1, the interest payable by the Central Government to the Reserve Bank of India now accounts for almost Rs 4,000 crore. This amounts to approximately 15 per cent of the total interest burden of around Rs 27,500 crore. Since the Reserve Bank of India is owned by the President of India, the government has a claim on profits arising from the operations of RBI, including its interest income. If this is accepted, then it is arguable that the whole or a major part of the interest liabilities of the Central Government should be notionally set off against profits which the government may claim from the operation of the RBI. This would immediately bring about a reduction of around 3 per cent in the total expenditure of the government[1].

However, any such measure should only be undertaken, keeping in view the various pressures, both from both inside and outside the government, for raising expenditure and the high inflationary potential of financing such expenditure through monetised debt. It is, therefore, desirable that any reduction of the interest liabilities to the RBI should be accompanied by a statutory limit on the level of government borrowing from the Reserve Bank of India.

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1. We are indebted to Raja J. Chelliah for this interesting suggestion. An illustrative computation is presented in Appendix Table A.4 to show that a reduction of the interest rate on government debt to RBI from the average rate of 5.42 per cent to 1 per cent could reduce interest payments by over Rs 3,000 crore this year and an even larger sum next year.

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Another measure which could be immediately effective in moderating the interest burden, even in the short run, is the use of realisations from sale of public sector equity not to finance fresh expenditure but to liquidate a part of the existing debt stock. The current budget has already incorporated a proposal to sell about Rs 2,500 crore worth of public sector equity. More recently the Finance Minister has indicated the intention of government to sell off chronically loss making public enterprises. Even where such enterprises are viable, selling a portion of their equity would lend plurality of ownership and, therefore, greater public accountability of these enterprises, without altering the basic state-owned character of such enterprises.

These measures would generate substantial resources through reduction of assets in the balance sheet of the government. Hence, it is only appropriate that they be utilised for a corresponding reduction of liabilities through liquidation of debt. This would at the same time reduce the outgo on interest payments in the income: expenditure account (budget) of the government. A reduction in debt of, say, Rs 5,000 crore brought about this way would mean a saving in interest of another Rs 500 crore, assuming an average interest rate of 10 per cent on the debt so retired[2].

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2.   The average interest rate on public debt at present is about 8.25 per cent.

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Transfers to States

The second largest transfer payment is the transfer to States and Union Territories out of the Centres own resources, i.e., excluding the disbursement of States share of Central taxes. This is now estimated at over Rs 25,000 crore or about 22 per cent of total Central Government expenditure in 1991-92 (Table 2.1). Out of this, a little of Rs 10,000 crore are statutory transfers such as transfers under Article 275(1), States share of small savings, etc. However, the balance amount of around Rs 15,000 crore consists of non-statutory transfers where there is greater room for manouverability. The budget for 1991-92 has already attempted to contain the growth of expenditure under this head. The total transfer to the States in 1990-91 showed on increase of around Rs 5,000 crore over the previous year. As against this, the Budget Estimate for 1991-92 allows for a increase of less than Rs 700 crore in nominal term (Table 2.1). This actually implies a decline in real terms. However, this is only a beginning and there is room for further compression in this area.

It is noted in this context that the bulk of these transfers consist of plan assistance to the States. Since the opportunity for further resource mobilisation by the States is relatively limited, it is quite likely that a cutback in non-statutory transfers to the States would be translated into cuts in plan expenditure at the State level. To the extent that such cuts at the State level would adversely effect the creation of productive infrastructure such as irrigation, roads, transportation, etc., or social overheads like health and education, items with large externalities which cannot be left entirely to the market mechanism, such a reduction would be undesirable.

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On the other hand, nobody would seriously argue today that expenditure on these activities is undertaken with maximum efficiency. Furthermore, apart from such infrastructure, social overheads and poverty alleviation programmes there are a host of other heads of plan expenditure of dubious economic value. As such, it would be desirable to tighten the budgetary constraint in the States through reduced Central non-statutory transfers. It is important to simultaneously institutionalise measures and incentives at the State level to ensure that the cuts are applied to wasteful rather than useful expenditures. For this purpose, some of the proposals made in the next part of the paper, in the context of the Central Government, may also be quite relevant at the level of the States. As for the order of compression, it is suggested that the ratio of total non-statutory transfers to Central Government revenue, which had reached about 23.4 per cent in 1990-91, be held at 22 per cent this year and stabilised at 21 per cent from 1992-93 onwards. As compared to observed trend growth of non-statutory transfers to States, this could lead to a saving of Rs 700 to Rs 800 crore.

This still leaves open the question of where exactly these non-statutory transfers from the Centre to the States can be compressed. It has already been noted that the bulk of these transfers consist of plan assistance. However, out of this, again, a very large portion is transferred under the so called Centrally Sponsored Schemes. The Ninth Finance Commission pointed out in its first report that these schemes had proliferated over the years to as many as 262 schemes by 1985 and accounted for around 80 per cent of total Central assistance provided for the State Plans in the Seventh Five Year Plan.

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This has happened despite the objection of the States to the proliferation of these schemes and an explicit decision of the National Development Council in 1979 to contain these schemes at around one: sixth of total Central assistance to State Plans. Subsequently the Narasimha Rao Committee recommended, keeping in view various practical and administrative considerations, that assistance under such schemes may be confined to about 40 per cent of total assistance by the Centre during the Seventh Plan period. These were intended to cover programmes of national importance such as anti-poverty programmes, education, health, availability of drinking water, etc. The Planning Commission has now announced that most of these Centrally sponsored schemes will be transferred to the States.

The emphasis of the States in this matter is on a reallocation from specific purpose transfers under such schemes, which in most cases also require a resource commitment from the State, to more general purpose transfers. However, what matters from the Centres' point of view is the inefficiency and wastefulness of transfers under these schemes. Accordingly, the schemes themselves should be drastically pruned, except in the case of certain schemes of high national priority such as the poverty alleviation programmes and social infrastructure items mentioned above. A part of the resources thus saved could then be reallocated as general purpose transfers to the States, as demanded by them. The balance would represent further compression of expenditure for the Centre under this head. Such a policy, incidentally, would entail additional economies at the Central secretariat itself on the staff engaged in elaborate and detailed designing and monitoring of such schemes. These tasks could be easily undertaken by the existing staff of the State governments.

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Subsidies

Visible subsidies are the third largest item of transfer payments. By 1990-91 these were adding up to over Rs 10,000 crore. As is well known, the bulk of this amount has gone to subsidise fertilisers, food and export promotion. The government has already made a significant attempt to contain the growth of these subsidies in the current budget. By withdrawing the Cash Compensation Scheme for exports as part of its trade policy reform, the provision for export subsidy has been reduced by over Rs 1,400 crore. The retail prices of fertilisers have also been raised after many years to contain the volume of fertilisers subsidies, while the provision for food subsidy has been raised only marginally.

Export Subsidy

In so far as the export subsidy is concerned this should be eliminated over time as the bias against exports, vis-a-vis import substitution, is eliminated over the medium term as part of trade policy reform. Note in this context that the net positive effect of devaluation, CCS withdrawal and the Exim scrip scheme on profitability of exports has been matched by a corresponding increase in incentives for import substitution, since imports have become much costlier. Therefore, tariffs will have to be first rationalised and adjusted downwards, in order to increase the relative attractiveness of exports vis-a-vis import substitution, before export subsidies can be further pruned.

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Fertilizer Subsidy

Despite the recent increase in fertiliser prices, this item remains the single largest item of subsidy. Moreover, since feedstock prices and, therefore, retentions prices are expected to rise further in the current year there is every likelihood that the fertiliser subsidy bill will go beyond Rs 4,000 crore provided in the budget estimate (Table 2.1). This is indeed unfortunate. When a small subsidy was first introduced along with the retention prices scheme in 1977, it was never envisaged that this would become a permanent burden on the government. Nor can it be legitimately argued that the entire subsidy is on account of high feed stock prices and the high cost of production. Using international prices as the reference, it is clear that the benefit of the subsidy is more or less evenly distributed between farmers and the industry. Moreover, among farmers, the bulk of it accrues to large farmers who need not be subsidised at all on equity considerations.

In so far as the impact on foodgrain production is concerned, it must be emphasised that what matters for the farmer is the profitability of fertiliser use and therefore the relative price of fertilisers vis-a-vis foodgrains, etc. This is confirmed by all available studies. Since the increase in fertiliser input cost is being more than matched by increases in food prices the adverse effect of higher fertiliser prices on foodgrains production would be negligible. Moreover, if the money saved could be reallocated for irrigation the net impact would be strongly positive in the medium term.

It is suggested therefore that this subsidy be phased out over the medium term in two or three stages. In the short run it is suggested that the amount of subsidy per tonne of fertiliser be fixed at the present level. Any further increase in costs should be partly absorbed by the fertiliser producer and the balance passed on as higher retail prices to the farmers.

There should be no additional burden on the Central budget, except for the small quantum which may be required for small farm operators. The present dual pricing scheme is administratively cumbersome. It would be better to have a rationing scheme under which a small quantity of fertiliser, adequate for, say, 2 hectares of land, may be distributed at subsidised rates against ration cards similar to the food ration cards. Even if large farmers are able to acquire such cards, this would cover only a marginal portion of their requirement. The balance amount would be bought at open market retail-prices, which should be high enough to cross subsidise the rationed quantum without a net burden on the exchequer. The protection given to small farmers in this way would also blunt much of the campaign against withdrawal of the fertiliser subsidy.

Food Subsidy

Finally, in so far as the food subsidy is concerned, it would be undesirable to attempt any pruning here while an austerity programme is under way. The fiscal compression is likely to lead to a reduction in GDP growth, and therefore employment, under any plausible scenario as has been shown in Part 1. As such, until the adjustment is completed and growth revives, it is essential that safety net measures like the anti-poverty programmes and the food subsidy be retained, even expanded.

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However, this can be achieved without a net additional burden on the exchequer by much tighter targeting. Administratively, the strategy which is likely to work here is a self-selection mechanism. By releasing mostly cheaper grain varieties and in poor localities, better off consumers who do not require subsidy would be largely filtered out of the PDS system, even without formally excluding them from the system. Regulatory ideas such as applying an income ceiling, etc., are only likely to add to administrative costs without being particularly effective.

Budgetary Support to Public Sector Undertakings

The last major item of transfer payment is budgetary support to Public Sector Undertakings, including non-plan loans to cover their losses. The government has already started pruning such support. From nearly Rs 10,000 crore in 1989-90 it has now been reduced to less than Rs 7,500 crore in the budget estimate for 1991-92. But here again, as in the case of most subsidies, the medium term objective should be more or less complete elimination of such budgetary support over a three year period. In other words larger cuts will have to be applied this year and during the next two years. Budgetary support to PSUs in the current year is estimated at about Rs 7,500 crore, of which Rs 4,500 crore is for the core sector like coal, power and transportation, including railways. This implies that if only budgetary support to non-core PSUs are phased out in three years, this alone would give a saving of Rs 1,000 crore in 1992-93. If budgetary support to core sector PSUs are also phased out, the saving on this account in the 1992-93 budget could be as much as Rs 2,500 crore next year.

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There is a strong rationale for such cuts apart from resource considerations. That public enterprises have performed a fundamental and critical role in establishing the industrial base of India is beyond dispute. Because of the very large externalities attached to such pioneering industrial activity, the large volume of resources involved, the non-existence of future markets, etc., this catalytic role could not have been performed by private capital. This was recognised by business leaders themselves in the famous Bombay Plan prepared by them on the eve of independence. However, now that a large and diversified industrial base has already been established, the policy towards public enterprises has to be determined by hard commercial and financial considerations. There is no reason why, after forty years of protected monopoly over the `commanding heights' of the economy, these enterprises should remain dependent on the crutch of budgetary support.

This is especially important in view of the very low rate of return the Central Government has got on it's massive investment of over Rs 63,000 crore in public enterprises over the years. A rate of return that is lower than the cost at which government itself has had to borrow funds and virtually negligible if the petroleum companies are excluded. Under the circumstances the government has already decided to sell Rs 2,500 crore worth of existing equity in public enterprises this year and it is likely to sell more public sector equity over the next couple of years. It has been suggested above that the proceeds from such liquidation of assets should be used to retire a part of existing public debt, thereby reducing the interest burden on the expenditure side of the revenue budget.

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However, this still leaves the question of how these enterprises are to finance their capital expenditure if the budgetary support hitherto extended to them is gradually withdrawn over the next three years. If the expansion plans of enterprises are indeed viable and their new projects bankable, then there is no reason why these enterprises should not be able to raise funds through the issue of fresh equity or bonds in the market, like any other private firm.

Of course this would imply that public enterprises would now have to compete in the market just like private enterprises and they would be judged on their performance. This is indeed as it should be. Once public enterprises are forced to compete on a level field with private enterprises, the whole question of public versus private enterprise, as traditionally posed, would become irrelevant since the key issue here is competition not ownership of capital. The experience of such enterprises in Europe, particularly France, shows that publicly owned corporations are able to compete quite successfully with even giant private multinationals, provided they have the necessary autonomy on key decisions with regard to investment, product composition, pricing, employment, etc. At the same time, with the government still controlling these companies as the major shareholder, it would have enough countervailing power to descipline the relevant markets, whenever that is necessary in the public interest.

3. MEASURES FOR CONTAINING DEPARTMENTAL CONSUMPTION EXPENDITURE

Departmental Expenditure and Employment

Coming now to the internal expenditure of various Central Government departments, it must be recognised that the expansion of government staff lies at the heart of this issue. The internal expenditure of various Central Government departments (net of all transfer payments discussed above), added up to around Rs 41,000 crore or almost 40 per cent of total Central Government expenditure in 1990-91 (Table 2.1)[3]. Excluding the visible expenditure of about Rs 16,000 crore on defence, the internal expenditure of all other departments came to about Rs 26,000 crore. Out of this, close to Rs 11,000 crore (about 44 per cent) was the direct expenditure on compensation of some 4 million non-defence employees, up from about 3 million in just ten years ago (Table 3.1).

Furthermore, it is well known that even this large direct expenditure on wages and salaries is a gross understatement of the true cost of the work force employed in government since there are large associated costs on consumption of goods and services by these government employees. Clearly no attempt to control the growth of Central Government departmental expenditure can go very far if it does not address this critical issue of the growth of Central Government employees. It is not surprising therefore that the repeated "economy drives" which skirt this problem and deal with issues like expenditure on staff cars, maintenance expenditure, telephone bills, etc., have remained

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3.   This includes net transfers to various funds.

token gestures with little impact on the growth of government expenditure. ·It is also important to remember in this context that apart from the immediate financial implications, each additional job in government implies a direct and indirect financial commitment for almost forty years.

TABLE 3.1

Employment in, and Wage Bill of Central Government (Summary)

		Employment (In lakh)	Wage Bill (Rs crore)
1970-71		22.25 (29.63)	Not available (1,186.00)
1975-76		25.54	1,578.08
1980-81		28.87	2,226.81
1985-86		32.01	4,437.70
1987-88		36.87	6,006.78
1988-89		37.85	7,831.07
1989-90		38.59	8,642.90
1990-91	(RE)	38.70	9,686.94
1991-92	(BE)	39.67	10,639.40

Sources: a. Brochure on Pay and Allowance of Central Government Employees, Department of Expenditure.

b. Central Budget - Expenditure Vol. I, 1990-91 and 1991-92.

Notes: 1. The data do not include Defence civilians but includes Railways.

2. The figures shown in parentheses for 1970-71 are those shown in the Fourth Central Pay Commission Report and include Defence civilians.

3. Wage bill includes: (i) Basic pay; (ii) Dearness allowance; (iii) Additional dearness allowance; (iv) House rent allowance; (v) City compensatory allowance; (vi) Over time allowance; (vii) Hill compensatory allowance; (viii) Children's education allowance; (ix) Reimbursement of tuition fees; (x) Reimbursement of medical charges; (xi) Leave travel concession; and (xii) Other compensatory allowances. It does not include: (i) Travelling allowances; (ii) Productivity linked bonus; (iii) Honorarium; and (iv) Encashment of earned leave.

There has been - and there is - a tendency to treat this expenditure on government employees as a 'committed expenditure'. In other words, the expenditure on employees compensation and associated costs such as on housing, offices, etc., are seen as items which cannot be pruned. Inevitably, any cuts or compression in the internal expenditure of various departments has been absorbed entirely by other items, especially capital and maintenance expenditure. The net result has been a progressive crowding out of capital expenditure by revenue expenditure, especially employment related costs, and a deterioration in the condition of physical assets such as buildings, roads, transport equipment, etc.

The long term implications of this peculiar approach to expenditure containment should be obvious to all concerned. Under such a dispensation, across the board, **procrustean** expenditure cuts like the 10 per cent cut targeted for the current year can lead to disastrous consequences. Departments and agencies will have little money left to finance the performance of useful services or programmes and projects after meeting the salary bill and related costs. Furthermore, Central Government compensation patterns determine compensation patterns of the State governments and Local Authorities which are even more severely starved for resources. The result is that already today many local authorities exhaust all their resources in salary bills and cannot perform any useful service or programme. Some State governments are also having to close their treasuries from time to time and to postpone payment to Central Government agencies for coal, power, etc., and to contractors for works and even to pensioners, since they are finding it impossible to pay their bills.

Clearly, the financial crisis is a very deep one at the Centre and probably worse in the States and local authorities. Yet, as pointed out above, no remedy is feasible unless government is willing to curb the massive growth of posts and jobs in government. The tendency to look at the bill of employees compensation as `committed and inevitable expenditure' must be abandoned once and for all. The fact is of course that this item is `committed' or `inevitable' only because incumbent government officers choose to view it as such. Once a reasonable way is found of pruning such expenditure without unduly harsh measures, this expenditure would become `uncommitted'.

In dealing with this problem it is necessary to keep in view two important points. First, there is a distinction between the objective of generating more productive employment opportunities in the economy, to which the government attaches high priority, and that of creating more jobs in the government, as if the government itself is an employment programme. As shown in Table 3.1, just the direct cost of employing about 3.9 million persons in the Central Government in 1990-91 came to about Rs 11,000 crore, implying a direct cost of around Rs 28,000 per annum per job in government. After adding associated costs the figure would be still higher. Clearly, the government is a high cost employer as compared to agriculture, industry and services (other than the corporate sector), where the bulk of the Indian workforce is employed. By curtailing jobs in government, the resources saved could be deployed to generate many more jobs outside the government.

On the other hand, it is obvious that the average government servant in India does not by any means lead a life of luxury, even though he or she is much better off and secure as

compared to the huge mass of employees outside, especially in the unorganised sector. This paradox of a galloping wage bill despite the modest standard of living of government employees arises on account of the sharp growth in numbers. As a consequence, the available resources are having to be spread among too many employees.

Freeze on Creation of New Posts and on Recruitment

Given this background, government should try to preserve the present real income level of government employees while at the same time reducing the total number of government employees. How can this be done without harsh measures such as retrenchment? The first step in this direction is to simply ban creation of posts and any fresh recruitment in the government, including the various services and cadres, for a period of three years. Since there is a normal retirement rate of around 3 per cent to 4 per cent per annum, this measure alone will have reduced the number of government employees by around 10 per cent to 15 per cent within a period of three years, with a corresponding reduction in the bill of wages, salaries and associated costs in real terms. In 1992-93 alone this could lead to a reduction of about 1.2 lakh Central Government employees and reduction of direct and indirect costs of their employment amounting to a saving of around Rs 500 crore.

Moreover, this would have been achieved without either any retrenchment or any curbs on wages, salaries and allowances. Any number of arguments will be advanced for exemptions. In the past, one exemption led to another. Also, when recruitment was frozen temporarily, posts continued to be created at all levels. It is absolutely essential to freeze both creation of posts

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(unless they can be filled by identified surplus personnel, as explained below) and recruitment at all levels for a period of time.

To implement such a ban on creation of posts and on fresh recruitment successfully, it is necessary to have a transparent and institutionalised machinery which is suitably high powered and distanced from the concerned departments. This machinery should monitor the implementation of the recruitment ban and at the same time implement a reallocation of posts from `surplus' departments to those which genuinely need expansion. This is discussed further below.

A second proviso for implementing the recruitment freeze is to plug the leakage from such bans in the form of casual employment which is later `regularised'. Such leakages have been seriously undermining attempts to restrict the number of employees, particularly in departments like communications, public works, etc. Since regular employees cannot be easily induced to produce results, casual labour is hired to get things done as they are not covered by the ban. But after a given period they have to be regularised under law. Once that happens, they can no longer be induced to produce results though they have been permanently added to the payroll. Hence a fresh batch of casual labour has to be employed and the whole process is repeated all over again. In order to get around this problem, the departments should be informed that whenever such `regularisation' occurs, funds will not be available for hiring additional casual labour. They should also be advised to sub-contract various services such as cleaning, security, etc. Only a service will be bought from a firm in these activities and there would be no fresh employment.

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Surplus Posts

The freeze on fresh recruitment is only the first and easiest step. While the economies arising from it would be substantial they would not go far enough. The second step would be the identification of surplus posts. It is well known that many departments in government are highly overmanned. Jobs have been expanded over the years to accommodate the unabated expansion of personnel but with little reference to the required volume of useful work. To take only the example of civil servants at the apex, there were in all 319 officers at the level of secretaries, additional secretaries and joint secretaries as recently as in 1984 (Table 3.2). Today, their numbers have increased to as many as 889. The problem is of course multiplied along the line. For the Central Government as a whole, we have seen already that the total number has risen from about 3 million to 4 million in ten years.

When jobs expand faster than the volume of work obviously productivity per employee falls. Moreover, when incumbents in a job have little or no real work they create `work' in various ways, often delaying decisions and creating inefficiencies in the process.

Against this background Central departments can be classified into three groups. In the first category, there are a number of regulatory economic departments which have become virtually redundant as the system moves from a highly regulatory environment to one which is more dependent on market forces. These would include departments like the DGTD, Office of the former

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CCIE, Office of the Steel Controller, etc. Eighty to ninety per cent of the posts in these departments should be immediately declared surplus, before 'work' is created, and the incumbent officers transferred. A small residual staff may be retained for liaising with the relevant producing organisations in private or public sector.

TABLE 3.2

Senior (Civil) Posts at the Centre

	1972[1]	1984[1]	1991[2]
Secretary	45	61	131
Additional Secretary	32	66)	
Joint Secretary	169	192)	758
TOTAL	246	319	889

Sources: 1. Fourth Central Pay Commission Report - Part I, p. 114.

2. President's Secretariat - Official Directory, January, 1991.

The second category includes departments like agriculture, rural development, urban development, irrigation, small industries, etc., which are primarily state subjects, with large complements of competent officers attending to these subjects in the States. There is therefore little justification

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for having large bureaucracies dealing with these subjects at the Centre. The posts in these departments could be immediately reduced by atleast 20 per cent overall, with a larger percentage at the ministry-level.

Finally, in departments where the Central Government has a major responsibility such as communications, railways, finance, some aspects of law and order, etc. (we are not considering defence for the moment) the room for declaration of surplus posts is limited. At the same time no one would seriously argue that productivity cannot be raised by sharing out the same work among fewer posts. In these departments the number of posts may be cut by 10 per cent to ensure that the proposed expenditure cut already under way is not entirely absorbed by cuts in capital expenditure or essential funds for useful programmes and services.

The declaration of surplus posts for the three categories of departments cited above should apply to field posts as well as posts in the secretariat. In the past when restrictions were attempted on the creation of posts at the secretariat only, the measure had proved to be ineffective. Also, as an incentive, at least a part of the expenditure saved by surrendering surplus posts should be left with the department concerned to deploy as it thinks fit on programmes.

The identification of surplus posts must be extended to the highest levels of the bureaucracy, including secretaries, special secretaries and additional secretaries. This is essential even though the number of surplus posts at this level may be few in terms of numbers. It would be difficult to carry through any rationalisation at the lower levels of government and it would not be acceptable, unless the rationalisation is extended to the

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decision-making levels at the top. For the same reason the Ministry of Finance, which would presumably be the prime mover behind such rationalisation, must be the first to declare surplus posts in its own ranks. As regards the senior civil posts in the ministries, the number of posts of the level of Joint Secretary and above, should be brought to the 1984 level within a period of 30 months from now.

It has already been mentioned above that while posts may be declared surplus in most departments, there may be a few departments where the number of required posts may actually increase either as a consequence of the reforms or for other reasons. Expansion of the present BICP to a full scale Tariff Commission as a consequence of the trade policy reform is a case in point. The determination of such expansion requirements or declaration of surplus cannot be left as a matter to be sorted out between the concerned department and the department of expenditure for obvious reasons. A transparent and institutionalised machinery, distanced from the concerned departments and invested with sufficient powers to implement its decisions has to be put in place for this purpose. It is proposed that this function be performed by a committee headed by the Cabinet Secretary, a few selected secretaries and possibly some external experts. The committee could perhaps be serviced by the Staff Inspection Unit in the Department of Personnel which is best equipped to undertake this task.

Surplus Officers Pool

The discussion of surplus declaration has so far been confined to surplus posts. A distinction has to be drawn between surplus posts and surplus personnel. A question now arises about

the management of the personnel who become surplus when the number of jobs in government is reduced. It is quite possible that a post may be declared surplus in one department but the incumbent may be redeployed elsewhere where posts are to be expanded or filled. If such redeployment is largely applied to young government servants with suitable retraining and modern management skills, this would also raise the average quality of government personnel over time.Similarly a part of the posts declared surplus would be set off against the 3 per cent to 4 per cent net annual reduction in staff strength on account of retirement if there is an effective ban on fresh recruitment. But it is quite likely that after all these adjustments there would still be more personnel than there are posts. How is this surplus to be managed?

Retrenchment may be ruled out as a possible strategy. Apart from being insensitive and unduly harsh on those who would be retrenched after years of service, this policy is also not cost effective since the bill of termination benefits on forced retrenchment is likely to be very large. A better alternative for all concerned would be the creation of a Surplus Officers Pool. Even now the performance of officers is reviewed at age 50 and again 55, though nobody is generally declared surplus. Henceforth, the evaluation at age 55 must be undertaken seriously and given more teeth.

Except in the case of a few officers selected for higher appointment, most officers would join the Surplus Officers Pool from age 55 until the time of normal retirement. Officers in the pool would get their normal salary and other components of "wage bill", until retirement and then the normal retirement benefits. This would be less insensitive and less expensive than forced retirement with or without a golden handshake. However,

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employees in the pool should not be required to report for work unless they are so assigned. Of course, all such employees would be free to retire in advance and claim the premature retirement benefit. The posts vacated by such premature retirement will stand abolished.

Defence Expenditure

The foregoing discussion on compression of departmental expenditure has excluded from its purview the case of defence expenditure. For obvious reasons, defence must be treated as a special case. While considering economies here, abundant caution is necessary to ensure that national security is not compromised. On the other hand, it must be recognised that visible defence expenditure is one of the largest single items of Central Government expenditure and it now accounts for almost 16 per cent of total Central Government expenditure, having amounted to about Rs 16,000 crore by 1990-91. This is clearly an enormous burden for a poor country like India and there is no question that every effort must be made to ensure cost effectiveness, i.e., minimise the cost required for a given level of security. The Committee for Defence Expenditure has gone into all aspects of this question in great detail and there is little that can be added to the recommendations of the Committee here. The Committee has submitted its report to the government quite some time ago. It is essential that the government take an early decision on the recommendations of that Committee and initiate necessary follow up action with a due sense of urgency.

A Concluding Remark

The various measures for expenditure compression outlined above, in the category of both transfer payments as well as internal departmental expenditure, have been suggested specifically keeping in view their feasability in the immediate future. It turns out these measures by themselves, even without any allowance for compression of defence expenditure, could `save' between Rs 6,000 to Rs 8,000 crore in 1992-93, depending on the rate at which budgetary support to PSUs is phased out. This would go a long way in enabling the Central Government to meet its fiscal deficit target, while at the same time allowing more room for reforms on the revenue side. However, apart from such economies in the short run, what is much more important about these proposals is their potential for moderating Central Government expenditure growth in a medium to long term perspective.

TABLE A.1

Medium Term Macro Simulation: Set 1

Setting for policy variables	Rupee Trade Deficit Assumption		
	Continues to rise at 1990-91 rate (37 per cent per annum) exchange rate depreciation 5 per cent per annum	Stabilises at 1990-91 level exchange rate stable	Declines at 20 per cent per annum exchange rate stable
1991-92			
f = 6.5	$\dot{P}$ = 9.79	$\dot{P}$ = 9.79	$\dot{P}$ = 9.79
$\dot{P}_f$ = 10.00	$\dot{Q}_r$ = 2.78	$\dot{Q}_r$ = 3.48	$\dot{Q}_r$ = 3.86
$\dot{P}_a$ = 15.00	$\dot{M}$ = 16.56	$\dot{M}$ = 16.62	$\dot{M}$ = 16.65
	E = 105350	E = 106043	E = 106418
f = 6.5	$\dot{P}$ = 12.89	$\dot{P}$ = 12.89	$\dot{P}$ = 12.89
$\dot{P}_f$ = 15.00	$\dot{Q}_r$ = 2.06	$\dot{Q}_r$ = 2.76	$\dot{Q}_r$ = 3.14
$\dot{P}_a$ = 20.00	$\dot{M}$ = 16.76	$\dot{M}$ = 16.82	$\dot{M}$ = 16.86
	E = 107719	E = 108412	E = 108787
1992-93			
f = 5.0	$\dot{P}$ = 8.78	$\dot{P}$ = 9.26	$\dot{P}$ = 9.51
$\dot{P}_f$ = 10.00	$\dot{Q}_r$ = 1.74	$\dot{Q}_r$ = 2.57	$\dot{Q}_r$ = 3.03
$\dot{P}_a$ = 15.00	$\dot{M}$ = 13.05	$\dot{M}$ = 12.95	$\dot{M}$ = 13.01
	E = 109403	E = 111519	E = 112683
f = 5.0	$\dot{P}$ = 12.19	$\dot{P}$ = 12.67	$\dot{P}$ = 12.93
$\dot{P}_f$ = 15.00	$\dot{Q}_r$ = 2.33	$\dot{Q}_r$ = 3.17	$\dot{Q}_r$ = 3.63
$\dot{P}_a$ = 20.00	$\dot{M}$ = 13.41	$\dot{M}$ = 13.32	$\dot{M}$ = 13.39
	E = 116207	E = 118382	E = 119579
1993-94			
f = 5.0	$\dot{P}$ = 7.22	$\dot{P}$ = 7.70	$\dot{P}$ = 7.98
$\dot{P}_f$ = 10.00	$\dot{Q}_r$ = 3.84	$\dot{Q}_r$ = 4.98	$\dot{Q}_r$ = 5.66
$\dot{P}_a$ = 15.00	$\dot{M}$ = 12.69	$\dot{M}$ = 12.53	$\dot{M}$ = 12.65
	E = 122436	E = 126753	E = 129222
f = 5.0	$\dot{P}$ = 10.91	$\dot{P}$ = 11.39	$\dot{P}$ = 11.67
$\dot{P}_f$ = 15.00	$\dot{Q}_r$ = 6.42	$\dot{Q}_r$ = 7.56	$\dot{Q}_r$ = 8.23
$\dot{P}_a$ = 20.00	$\dot{M}$ = 13.40	$\dot{M}$ = 13.27	$\dot{M}$ = 13.39
	E = 137887	E = 142541	E = 145201

Policy Variables: f: Fiscal Deficit to GDP Ratio, $\dot{P}_f$: Percentage Change in Administered Price of Foodgrains, alternatively set at 10 per cent and 15 per cent per annum.

$\dot{P}_a$: Percentage Change in Administered Price of Industrial Products, alternatively set at 15 per cent and 20 per cent per annum.

Dependent Variables: $\dot{P}$: Inflation Rate, $\dot{Q}_r$: Real GDP Growth Rate, $\dot{M}$: Money Supply (M_3) Growth Rate, E : Level of Central Government Expenditure (Rs crore).

Medium Term Macro Simulation: Set 2

Setting for policy variables	Rupee Trade Deficit Assumption		
	Continues to rise at 1990-91 rate (37 per cent per annum) exchange rate depreciation 5 per cent per annum	Stabilises at 1990-91 level exchange rate stable	Declines at 20 per cent per annum exchange rate stable
1991-92			
f = 7.0	$\dot{P}$ = 9.79	$\dot{P}$ = 9.79	$\dot{P}$ = 9.79
$\dot{P}_f$ = 10.00	$\dot{Q}_r$ = 3.32	$\dot{Q}_r$ = 4.02	$\dot{Q}_r$ = 4.40
$\dot{P}_a$ = 15.00	$\dot{M}$ = 16.60	$\dot{M}$ = 16.66	$\dot{M}$ = 16.70
	E = 108232	E = 108943	E = 109327
f = 7.0	$\dot{P}$ = 12.89	$\dot{P}$ = 12.89	$\dot{P}$ = 12.89
$\dot{P}_f$ = 15.00	$\dot{Q}_r$ = 2.62	$\dot{Q}_r$ = 3.32	$\dot{Q}_r$ = 3.70
$\dot{P}_a$ = 20.00	$\dot{M}$ = 16.81	$\dot{M}$ = 16.87	$\dot{M}$ = 16.90
	E = 110662	E = 111373	E = 111757
1992-93			
f = 6.0	$\dot{P}$ = 9.15	$\dot{P}$ = 9.63	$\dot{P}$ = 9.89
$\dot{P}_f$ = 10.00	$\dot{Q}_r$ = 3.30	$\dot{Q}_r$ = 4.14	$\dot{Q}_r$ = 4.62
$\dot{P}_a$ = 15.00	$\dot{M}$ = 13.19	$\dot{M}$ = 13.08	$\dot{M}$ = 13.16
	E = 117323	E = 119578	E = 120820
f = 6.0	$\dot{P}$ = 12.57	$\dot{P}$ = 13.05	$\dot{P}$ = 13.31
$\dot{P}_f$ = 15.00	$\dot{Q}_r$ = 3.93	$\dot{Q}_r$ = 4.77	$\dot{Q}_r$ = 5.25
$\dot{P}_a$ = 20.00	$\dot{M}$ = 13.56	$\dot{M}$ = 13.47	$\dot{M}$ = 13.53
	E = 124573	E = 126879	E = 128160
1993-94			
f = 6.0	$\dot{P}$ = 7.58	$\dot{P}$ = 8.07	$\dot{P}$ = 8.35
$\dot{P}_f$ = 10.00	$\dot{Q}_r$ = 5.65	$\dot{Q}_r$ = 6.81	$\dot{Q}_r$ = 7.49
$\dot{P}_a$ = 15.00	$\dot{M}$ = 12.95	$\dot{M}$ = 12.80	$\dot{M}$ = 12.92
	E = 133982	E = 138666	E = 141344
f = 6.0	$\dot{P}$ = 11.29	$\dot{P}$ = 11.78	$\dot{P}$ = 12.05
$\dot{P}_f$ = 15.00	$\dot{Q}_r$ = 8.28	$\dot{Q}_r$ = 9.42	$\dot{Q}_r$ = 10.12
$\dot{P}_a$ = 20.00	$\dot{M}$ = 13.68	$\dot{M}$ = 13.56	$\dot{M}$ = 13.68
	E = 150729	E = 155744	E = 158658

Policy Variables: f: Fiscal Deficit to GDP Ratio, $\dot{P}_f$: Percentage Change in Administered Price of Foodgrains, alternatively set at 10 per cent and 15 per cent per annum.

$\dot{P}_a$: Percentage Change in Administered Price of Industrial Products, alternatively set at 15 per cent and 20 per cent per annum.

Dependent Variables: $\dot{P}$: Inflation Rate, $\dot{Q}_r$: Real GDP Growth Rate, $\dot{M}$: Money Supply (M_3) Growth Rate, E : Level of Central Government Expenditure (Rs crore).

Medium Term Macro Simulation: Set 3

Setting for policy variables	Rupee Trade Deficit Assumption		
	Continues to rise at 1990-91 rate (37 per cent per annum) exchange rate depreciation 5 per cent per annum	Stabilises at 1990-91 level exchange rate stable	Declines at 20 per cent per annum exchange rate stable
1991-92			
f = 7.5 $\dot{P_f}$ = 10.00 $\dot{P_a}$ = 15.00	$\dot{P}$ = 9.79 $\dot{Q_r}$ = 3.88 $\dot{M}$ = 16.65 E = 111188	$\dot{P}$ = 9.79 $\dot{Q_r}$ = 4.58 $\dot{M}$ = 16.71 E = 111918	$\dot{P}$ = 9.79 $\dot{Q_r}$ = 4.96 $\dot{M}$ = 16.75 E = 112312
f = 7.5 $\dot{P_f}$ = 15.00 $\dot{P_a}$ = 20.00	$\dot{P}$ = 12.89 $\dot{Q_r}$ = 3.18 $\dot{M}$ = 16.86 E = 113681	$\dot{P}$ = 12.89 $\dot{Q_r}$ = 3.89 $\dot{M}$ = 16.92 E = 114410	$\dot{P}$ = 12.89 $\dot{Q_r}$ = 4.27 $\dot{M}$ = 16.95 E = 114805
1992-93			
f = 6.5 $\dot{P_f}$ = 10.00 $\dot{P_a}$ = 15.00	$\dot{P}$ = 9.53 $\dot{Q_r}$ = 4.28 $\dot{M}$ = 13.30 E = 122173	$\dot{P}$ = 10.00 $\dot{Q_r}$ = 5.13 $\dot{M}$ = 13.21 E = 124509	$\dot{P}$ = 10.27 $\dot{Q_r}$ = 5.60 $\dot{M}$ = 13.27 E = 125796
f = 6.5 $\dot{P_f}$ = 15.00 $\dot{P_a}$ = 20.00	$\dot{P}$ = 12.96 $\dot{Q_r}$ = 4.93 $\dot{M}$ = 13.68 E = 129682	$\dot{P}$ = 13.44 $\dot{Q_r}$ = 5.77 $\dot{M}$ = 13.59 E = 132072	$\dot{P}$ = 13.69 $\dot{Q_r}$ = 6.19 $\dot{M}$ = 13.65 E = 133327
1993-94			
f = 6.5 $\dot{P_f}$ = 10.00 $\dot{P_a}$ = 15.00	$\dot{P}$ = 7.54 $\dot{Q_r}$ = 6.35 $\dot{M}$ = 13.09 E = 140345	$\dot{P}$ = 8.02 $\dot{Q_r}$ = 7.52 $\dot{M}$ = 12.95 E = 145236	$\dot{P}$ = 8.29 $\dot{Q_r}$ = 8.19 $\dot{M}$ = 13.06 E = 148025
f = 6.5 $\dot{P_f}$ = 15.00 $\dot{P_a}$ = 20.00	$\dot{P}$ = 11.23 $\dot{Q_r}$ = 9.00 $\dot{M}$ = 13.85 E = 157800	$\dot{P}$ = 11.72 $\dot{Q_r}$ = 10.16 $\dot{M}$ = 13.72 E = 163047	$\dot{P}$ = 12.01 $\dot{Q_r}$ = 10.82 $\dot{M}$ = 13.83 E = 165938

Policy Variables: f: Fiscal Deficit to GDP Ratio, $\dot{P_f}$: Percentage Change in Administered Price of Foodgrains, alternatively set at 10 per cent and 15 per cent per annum.

$\dot{P_a}$: Percentage Change in Administered Price of Industrial Products, alternatively set at 15 per cent and 20 per cent per annum.

Dependent Variables: $\dot{P}$: Inflation Rate, $\dot{Q_r}$: Real GDP Growth Rate, $\dot{M}$: Money Supply (M₃) Growth Rate, E : Level of Central Government Expenditure (Rs crore).

TABLE A.4

Centre's Debt to the Reserve Bank of India and Interest Thereon

(Rs. crore)

	As at the End of		
	1989-90	1990-91	1991-92 (BE)
1. Centre's indebtedness to the RBI:			
i. 91 days' Treasury Bills	25,184		
ii. Special Securities issued to RBI -			
a. in Conversion of Treasury Bills	36,000		
b. Others	882		
iii. 182 days' Treasury Bills	774		
TOTAL	62,840	72,587	82,618
2. Interest paid to the RBI		3,406	3,976
3. Interest paid as % of debt to RBI at the end of 1989-90		5.42%	
4. Interest @ 1% on debt to RBI		726	826
5. Saving if interest is paid at the assumed rate of 1% on debt to RBI		2,680	3,150

Sources: Item 1: Receipts Budget: 1991-92

       Items 2 & 3: Expenditure Budget: 1991-92, Vol.2.

Itemised Details of the Main Expenditure Groups

Expenditure Groups	1989-90 (RE) (Rs crore)	1990-91 (RE) (Rs crore)	Variation in 1990-91 over 1989-90 (Rs crore)	Per Cent variation	1991-92 (RE) (Rs crore)	Variation in 1991-92 over 1990-91 (Rs crore)	Per cent variation

ITEM 2: TOTAL TRANSFERS TO STATES

2.1 Statutory Transfers to States

Grants under Article 275(1) non-plan	1558	2252	694	44.54	1964	-288	-12.79
Grant in lieu of railway passenger fare tax	95	150	55	57.89	150	-	-
Grant for action plan on Bhopal Gas Tragedy	-	25	25	-	24	-1	-4.00
Grants under Article 275(1) plan	-	992	992	-	1333	+341	+34.38
States' share of small savings loans	5900	6770	870	14.75	6865	+95	+1.40
Write-off of loans to States	-	611	611	-	-	-611	-
Write-off of loans to States (erstwhile UTs)	-	355	355	-	-	-355	-
TOTAL 2.1	**7553**	**11155**	**3602**	**47.69**	**10336**	**-819**	**-7.34**

2.2 Other Transfers to States/UTs

a. State Governments	**10205**	**11386**	**1181**	**11.57**	**12568**	**+1183**	**+10.39**
i. Non-plan grants	757	453	-304	-40.16	418	-35	-17.73
ii. Non-plan loans	54	570	516	955.56	55	-515	-96.49
iii. Plan assistance to States	9394	10363	969	10.31	12095	+1732	+16.71
b. Union Territories (Pondicherry)	**95**	**128**	**33**	**34.74**	**150**	**+22**	**+17.19**
i. Non-plan assistance	35	62	27	77.14	65	+3	+4.84
ii. Plan assistance	60	66	6	10.00	85	+21	+32.81
c. Other Union Territories	**1574**	**1898**	**324**	**20.58**	**2188**	**+290**	**+15.28**
i. Non-plan assistance	5	3	-2	-40.00	6	+3	+100.00
ii. Plan assistance	788	942	154	19.54	1197	+255	+27.07
iii. Other expenditure	781	953	172	22.02	985	+32	+3.36
TOTAL: ITEM 2.2 (a + b + c)	**11874**	**13412**	**1538**	**12.95**	**14906**	**+1494**	**+11.14**
TOTAL 2 Transfers to States/UTs	**19427**	**24567**	**5140**	**26.46**	**25242**	**+675**	**+2.75**

Expenditure Groups	1989-90 (RE)	1990-91 (RE)	Variation in 1990-91 over 1989-90	Per Cent variation	1991-92 (RE)	Variation in 1991-92 over 1990-91	Per cent variation
	(Rs crore)	(Rs crore)	(Rs crore)		(Rs crore)	(Rs crore)	
ITEM 3: VISIBLE SUBSIDIES-3.4-OTHER SUBSIDIES:							
a. Railways	234	276	42	17.95	314	+38	+13.79
b. Subsidy on handloom and mill-made cloth	167	198	31	18.56	220	+22	+11.11
c. Interest subsidies -	932	379	-553	-59.33	316	-63	-16.62
i. National Textile Corporation	212	230	18	8.49	210	-20	-8.70
ii. Coal India	58	58	-	-	58	-	-
iii. Khadi & village industries	34	34	-	-	34	-	-
iv. D.T.C.	334	0	-334	-	-	-	-
v. Others	294	57	-237	-80.61	14	-43	-75.44
d. Payment to STC:							
i. to cover loses on imports of fatty acids for soap industry	2	-	-2	-	42	+42	-
ii. reimbursement of losses for export of commodities	17	50	33	194.12	45	-5	-10.0
iii. subsidy for loss on import of newsprint to medium and small newspapers	3	3	-	-	3	-	-
iv. Trading operation in respect of sugar	6	-	-6	-	-	-	-
e. i. Subsidy to shipyards	23	28	5	21.74	50	+22	+78.57
ii. Subsidy to Shipping Corporation of India for uneconomic shipping lines	10	13	3	30.00	14	+1	-
f. Subsidy to Bharat Gold Mines	11	27	16	24.54	10	-17	-7.69
g. Subsidy to Bharat Aluminium Co.	0	2	+2	-	-	-2	-
h. Price support operations for							
i. Jute and cotton	12	7	-5	55.33	18	+9	+128.57
ii. Potatoes, onions, etc.	4	8	4	-	8	-	-
i. Payment to States in lieu of sales tax on aviation fuel	40	45	5	12.50	15	-30	-66.67
j. Others	50	35	-15	-30.00	18	-17	-48.57
TOTAL: ITEM 3.4 Other Subsidies	**1511**	**1071**	**-440**	**-29.12**	**1071**	**-**	**-**

Expenditure Groups	1989-90 (RE) (Rs crore)	1990-91 (RE) (Rs crore)	Variation in 1990-91 over 1989-90 (Rs crore)	Per Cent variation	1991-92 (RE) (Rs crore)	Variation in 1991-92 over 1990-91 (Rs crore)	Per cent variation
ITEM 4: BUDGETARY SUPPORT TO PSUs							
a. Non-plan capital outlay	161	23	-138	-85.71	26	+3	+13.04
b. Non-plan loans	1131	1067	-64	-5.66	632	-435	-40.77
c. Plan investment*	8396	7595	-801	-9.54	6829	-766	-10.09
i. equity	4955	5118	163	3.29	4583	-535	-10.45
ii. loans	3441	2477	-964	-28.02	2246	-231	-9.33
TOTAL: ITEM 4	8688	8685	-1803	-18.35	7487	-1198	-13.79
*Break-Up of Plan Investment in Core Sector	8396	7595			6829		
a. Coal	1492	933	-559	-37.47	728	-205	-21.97
b. Power	1854	2194	240	12.28	1735	-459	-20.92
c. Surface transport	407	270	-137	-33.66	292	+22	+8.15
d. Railways	1429	1587	158	11.06	1694	+107	+6.74
TOTAL Core Sector	5282	4984	-298	-5.64	4449	-535	-10.73
Non-Core Sector	3114	2611	-503	-16.15	2380	-231	-8.85
ITEM 5: DEFENCE EXPENDITURE							
Revenue	10272	11012	740	7.20	11139	+127	+1.15
Capital	4228	4738	510	12.06	5211	+473	+9.98
TOTAL: ITEM 5	14500	15750	1250	8.62	16350	+600	+3.81
ITEM 6: General Services							
a. Police	1282	1581	299	23.32	1758	+177	+11.20
b. Pensions	2054	2167	113	5.50	2298	+131	+6.05
c. Tax collection	522	582	60	11.49	660	+78	+13.40
d. Organs of State	472	364	-108	-22.88	516	+152	+41.76
e. Service charges payable to IMF	291	205	-86	-29.55	409	+204	+99.51
f. Other fiscal services	276	326	50	18.12	345	+19	+5.83
g. External affairs	312	651	339	108.65	364	-287	-44.09
h. Other administrative and miscellaneous general services	712	873	161	22.61	882	+9	+1.03
TOTAL: ITEM 6	5921	6749	828	13.98	7232	+483	+7.16

Expenditure Groups	1989-90 (RE) (Rs crore)	1990-91 (RE) (Rs crore)	Variation in 1990-91 over 1989-90 (Rs crore)	Per Cent variation	1991-92 (RE) (Rs crore)	Variation in 1991-92 over 1990-91 (Rs crore)	Per cent variation
ITEM 7: Social Services							
a. Education, etc.	1433	1672	+239	16.68	1885	+213	+12.74
b. Health, family welfare, etc.	1081	1279	+198	18.32	1312	+33	+2.58
c. Water supply, etc.	511	638	+127	24.85	1094	+456	+71.47
d. Information and broadcasting	517	480	-37	-7.16	650	+170	+35.42
e. Labour, etc.	287	316	+29	10.10	414	+98	+31.01
f. Welfare of SC/ST	339	324	-15	-4.42	418	+94	+29.01
g. Social welfare and nutrition	319	364	+45	14.11	478	+114	+31.32
h. Others	346	245	-101	-29.19	268	+23	+9.39
TOTAL: ITEM 7	**4833**	**5318**	**+485**	**10.04**	**6519**	**+1201**	**+22.58**
ITEM 8: Economic Services							
a. Non-plan revenue expenditure	2966	2641	-325	-10.96	2618	-23	-0.87
b. Plan (excluding support to PSUs)	6512	6513	+1	-	7438	+925	+14.20
c. Non-plan capital outlay	458	697	239	52.18	571	-126	-18.08
d. Postal deficit	182	150	-32	-17.58	243	+93	+62.00
e. Debt relief to farmers	-	1500	+1500	-	1500	-	-
f. Other non-plan loans	164	216	+52	31.71	232	+16	+7.41
g. Grants/loans to foreign countries	557	1460	+903	162.12	1395	-65	-4.45
TOTAL: ITEM 8	**10839**	**13177**	**+2338**	**21.57**	**13997**	**+820**	**+6.22**

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