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FROM THE RINGSIDE

## Whistling in the wind

The forthcoming Budget is likely to be centered around tax reforms. This is appropriate and suits Chidambaram's temperament. After all, expenditure reforms are unrelenting and full of drudgery. On the contrary, tax reforms are exciting; they could even be popular with visible outcomes.

Tax reforms began with Manmohan Singh's successive Budgets in moderating and rationalising tax rates. They got an impetus in Chidambaram's ''Dream Budget'' in 1997. Based on subsequent recommendations, he will hopefully complete the residual measures in his forthcoming proposals.

One must be somewhat sympathetic to Chidambaram's multiple woes. Expenditure compulsions have kept mounting — the ongoing commitments of the Tenth Plan and the new commitments on health, education, agriculture, rural sector, the Employment Guarantee Scheme to name a few. The 12th Finance Commission entails inescapable large commitments. In addition, there are pressures for enhanced Gross Budgetary Support (GBS) for Plan Expenditure. Add to this the contingent liabilities from any clever financial engineering through Special Purpose Vehicle for infrastructure. Between accommodating both the Common Minimum Programme (CMP) and the GBS, pursuing fiscal rectitude must be a daunting challenge. Announcing new tax breaks with multiple expenditure largesse makes compliance with Fiscal Responsibility Bill elusive. Instead of clever creative accounting, it would be more credible and honest to take a break for one year in meeting stipulated fiscal targets.

So what does this all add up to? One inescapable conclusion is that Expenditure Reforms have been given a go by or at least, for the present, are not in fashion. However, people are interested as much in how much and how we collect taxes as in how well we spend the money we collect.

Past discussions on improved expenditure management have resulted in cosmetic changes. The recommendations of the Expenditure Commission and earlier specialised reports centered around evaluating activities and even their modest recommendations remain largely un-implemented. This is a time when everybody believes that the electoral mandate favours large public outlays in social and physical infrastructure.

Expenditure Reforms, however, must entail the following:

• **First** and foremost, it must entail an objective evaluation of the ongoing portfolio, both Plan and non-Plan. Efforts at the inception of the Tenth Plan to discontinue programmes which had outlived their utility resulted in some amalgamations, but the resultant savings were negligible. It received resistance from line departments because staff maintenance connected with project activity have over time become an end in themselves.

• **Second**, expenditure evaluation is largely predicated on achievement of physical and financial targets. There is little emphasis on evaluating ‘‘expenditure quality’’, more so the sustainability of the activities once the project life cycle has been completed.

• **Third**, for over a decade, we have recognised irrationalities in the expenditure classification between Plan versus non-Plan, and revenue versus capital expenditure. While asset maintenance is non-Plan (and the money available meagre), creation of new assets is part of Plan; if past assets deteriorate as rapidly as we create assets, the society remains impoverished. Or even though capital expenditure is preferred, devolution to States for Health and Education are part of the not so desirable revenue expenditure! Successive Finance Ministers have commented on the need to iron out these ambiguities. Actually nothing has been done.

• **Fourth**, our expenditure management in practice is no more than incremental expenditure provisioning. Our energy is spent in keeping allocations constant in real terms, allowing neutralisation for inflation. This incremental expenditure approach is divorced from examining the rationale and quality of ongoing portfolios per se. Zero Based Budgeting has become a statistical compliance divorced from the original purpose of subjecting the activity to a more rigorous evaluation.

• **Fifth**, project related activities require medium-term planning. Annual budgetary appropriations mitigates against the pursuit of activity on an ongoing basis. The discussion for a ‘‘Three-Year Plan’’ or a ‘‘Rolling Plan’’ remains inconclusive.

• **Sixth**, expenditure control also involves calibration of subsidies, ensuring improved targeting to intended beneficiaries. This is easier said than done. Identification of intended beneficiaries and alternative options for subsidy delivery require careful consideration but a credible beginning could be made in this Budget.

• **Seventh**, re-organisation of government has been postponed for long. Coalition politics and the need to accommodate more ministers inhibits action. How else can we explain the presence of a separate department for mines which does not include coal; or petroleum which does not include petrochemicals; or industry which does not include steel or textiles; and transport which does not include roads or shipping to name only a few anomalies.

Downsizing government has also lost favour. The previous government made a feeble attempt by restricting new recruitments at levels lower than annual attrition. There is talk of constituting a new Administrative Reforms Commission but there have been many commissions earlier whose recommendations gather dust. If there is to be a new commission it must be an empowered one whose recommendations are more or less binding on the Government.

• **Finally**, expenditure management requires a holistic approach. The expenditure department is pre-occupied in managing the non-Plan expenditure and containing pressures for higher Gross Budgetary Support. The reputation of the Planning

Commission on the other hand, has come to rest on the maximum GBS it can extract. These demarcations are artificial as they detract from sensible expenditure management. Many countries have come up with innovative arrangements to deal with these complex issues. The Office of Management and Budget in the US, headed by a director with Cabinet rank, reports directly to the White House. In quite a few other countries, expenditure provision and management are outside Treasury functions. The annual turf war between Yojana Bhawan and North Block, requiring the mediation of the Prime Minister, is a byproduct of institutional infirmities. As the economy grows more rapidly and there are changes in expenditure pattern with emphasis on social and physical infrastructure and as public-private partnership grows, we need innovative institutional responses.

Expenditure Reforms have been neglected for long. They have been postponed on one pretext or the other. Any fiscal management strategy cannot ignore this. Expenditure outcomes must result in ‘‘achievement’’ instead of ‘‘activity’’. North Block alone cannot achieve this outcome. By seeking a holistic approach, is one asking for too much? Or is one just ‘‘whistling in the wind’’?

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