

Astonishing Public Expenditure and its Bang on Fiscal Deficits



Commerce

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ABSTRACT

Public expenditure is a key factor for economic growth as well as development of a country. This paper probes about how daunting increase in public expenditure and fiscal deficits are mounting day by day. Developmental as well as Non-developmental expenditure are taken into account to know about their scenario and came into notice that unproductive expenditure is more which should be curtailed. The receipts of central government and various forms of deficits are highlighted to know about their picture. Fiscal deficits are like a virus causing macroeconomic imbalances and suggestions are also given to curb fiscal deficit.

INTRODUCTION

Public expenditure is the expenditure incurred by three-tier government for economic and social welfare. Public expenditure plays an important role for the economic development as well as economic growth of a country especially in developing countries. Public expenditure can deal well with exigency. Public expenditure is the way to reform sectors which are not performing well. Now a days, Public expenditure is growing in India and with it fiscal deficits are also mounting every year. Fiscal deficit is the difference between total budget expenditure and total budget receipts (excluding the money it borrows).

Now the question arises that from-

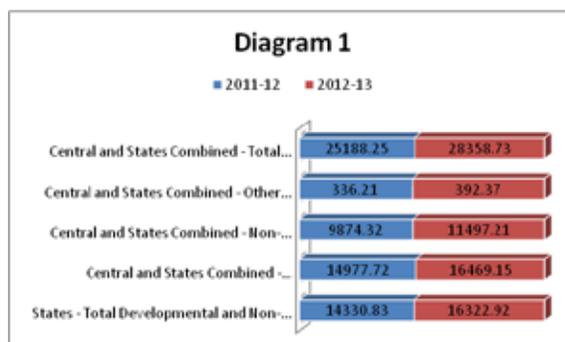
From where does the fund for public expenditure is generated?

How effectively Public expenditure is utilised by the government?

Public expenditure generates fund from tax as well as non-tax revenue. The various reforms had been taken place in tax structure since independence and earlier to it. Most important reform is said to be done during 1990s i-e Chelliah committee reform and after it Kelkar committee reform. Public expenditure is one of the key sources for the development of different sectors of the economy. Due to changing needs of the situation, public expenditure is also rising. Due to imbalance between receipts and expenditure a situation of fiscal deficit is created in our economy. Some percentage of fiscal deficit is good for economy but after some limit it has hazardous effect. In every newspaper and media, they are talking about impact of fiscal deficit. It is also a challenge for the government to overcome such problem. To fill the gap of fiscal deficit, government borrows from international organization, Reserve Bank of India.

The fiscal imbalances as well as inflation in Pakistan causes high interest rate, inflationary pressure and crowds out private investment (Agha and Khan 2006). The linkage between fiscal deficit and inflation is examined and found that there is strong positive relationship in developing countries group with high inflation (Catao and Terrones 2003). Three schools of thought had also given their views of fiscal deficit i-e Neoclassical, Keynesian and Ricardian. Neoclassical as well as Ricardian give their view on short-run phenomena and Keynesian on long-run. Keynesian says that resources are under-employed and Neo-classical, Ricardian are of view of full-employment. When comes to the contention of fiscal deficits, Neo-classical as well as Ricardian in our country contents that fiscal deficit is detrimental as well as irrelevant respectively and on other hand, Keynesian says that fiscal deficits are beneficial.

The term Fiscal deficit was first of all used by Dr. Manmohan Singh during 1991 crisis prevailing. At that time he thought that the term fiscal deficit should be taken into consideration to come out from crisis. After it government is much concerned about reducing their fiscal deficit in the coming years. In, 2003 law was passed by parliament to reduce fiscal deficit to 3% by 2008 but could not able to do so due to economic whirl of 2008 crisis. Now, a days it is becoming a serious problem that how to tackle fiscal crisis and reduce it to the desired rate. The reckless expenditure done by the government in the recent years is a big cause for the growing fiscal deficit every year.

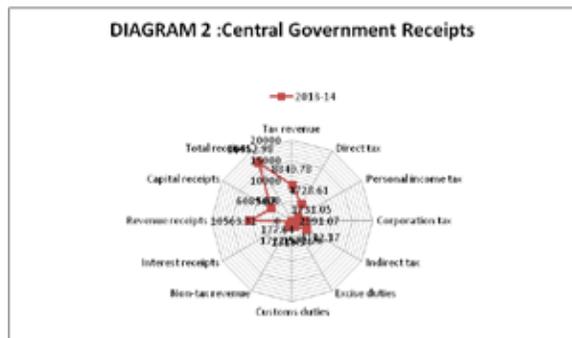


Source: Budget document of the Government of India and State Government.

The diagram 1 depicts that non-developmental expenditure of centre and state combined is increasing rapidly than developmental expenditure. Now, it's a matter of concern that non-developmental expenditure is much more and it simply means that expenditure on non-productive side is more which is not going to generate income further. Government plan expenditure for 2014-15 stood at 5.75 lakh crore and non-plan at 12.19 lakh crore. Our Finance Minister Jaitley fixed fiscal deficit as targeted by its predecessors and take it as challenge to attain it. He further promised to keep fiscal deficit to 3.6% in 2014-15 and down it to 3% in 2015-16. The fiscal deficit level is estimated to be 240837 crore up to May 2014 (current year 2014-15). According to Union Budget documents, subsidy covers 2.56% and 2.26% of G.D.P in 2012-13 and 2013-14(R.E) respectively. The subsidy given in food as well as fertilizer is recorded as 85,000crore and 65,613crore in 2012-13 and it increases to 92,000 crore and 67,971 crore 2013-14(R.E). This means that expenditure on subsidies are growing up which should be brought down. Expenditure on subsidies is increasing after 2008. In 2013-14, major portion of subsidy is shared by agriculture sector.

The outstanding internal liabilities in 2013-14(B.E) is

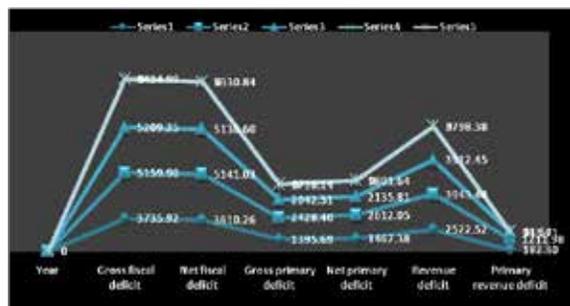
4,856,266 crore and interest on internal liabilities is 3,48,888 crore. The average cost of borrowing (percentage per annum) is 8.1 in 2013-14(B.E) where as in 2012-13 it is 7.7%. It means interest payment as well as increasing subsidies together give flame to fiscal deficit. There are various ways through which fiscal deficit can be controlled and various policies should be launched by the government at state as well as center level to know about alarming fiscal deficits. The public expenditure on defence is one of the major non-development expenditure. In the budget of 2014-15, outlay on defence has been increased to 2,29,000 crore and for new 'One Rank One Policy' 1000 crore has been allotted. The fiscal deficit with it invites lot of economic problems and it is a kind of virus which is spreading its effects in every sector of economy. The public debt is also mounting to keep in pace with the increasing fiscal deficit.



Source: Budget Documents of Government of India and Finance Accounts (various issues).

During 2013-14 central receipts of government is more from revenue than capital as shown in diagram 2. The receipts from indirect tax are more than direct as there is less tax evasion possibility in indirect tax than direct tax. These receipts are the source of revenue for the public expenditure. These receipts can be enhanced by their transparent collection as it seems that there is problem in supervision, collection as well as management of central receipts. That's why we see mostly in media or news continuous raids are done by income tax department. Now the receipts are there but the need is the judicious expenditure of central receipts.

DIAGRAM 3



Source: Budget Documents of Government of India.

The various deficits faced by our economy has been evinced in the diagram 3 from 2010-14. Gross fiscal deficit and Net fiscal deficit is rising but other deficits are decreasing after a

period of time. The major area of focus is to what should be the ways, means to control mounting Gross fiscal deficit. According to budget 2014-15, fiscal deficit will be 4.1% of G.D.P and revenue deficit to be 2.9% of G.D.P. These two are major areas of concern to be dealt with. Due to fiscal deficit, our economy is prone to regular shocks and increases macro-economic imbalances.

- Deficit funding hardens Bond-yield.
- High interest rate will effect desires of corporate to grow.
- Rupee depreciation due to outflow of foreign capital through capital and bond market which leads to unstable currency which is happening now a days.
- High budget deficit is due to low per-capita income and high population rate.
- It creates inflation and economy who is already clutched in inflation like India falls in critical position.
- Revenue collected by the government is less and expenditure incurred on subsidies as well as economic development will rise.

If we are not able to bring down high level of fiscal deficit then sovereign ratings bring down. It shows the nation's economic health and if it degrades then foreign investors and agencies will reduce their investment in a country.

SUGGESTIONS

- To check unproductive investment and more emphasis on development expenditure.
- Expenditure Reform Policy launched by government should work effectively and proper supervision is also needed in three-tier system.
- Auditing at proper time can help to find out loopholes of public expenditure.
- Fiscal Responsibility and Management Act (FRBM) which targeted 3% fiscal deficit in 2016 and zero revenue deficit should be strongly supported as well as implemented.
- By maintaining good relation with our neighbours , as lot of expenditure is done on defence. As our Prime Minister Narendra Damodar Das Modi is inviting SAARC nations to our country is one of the steps towards improvement of relations with our neighbours.
- The collection of revenue should be transparent and evasion should be checked.
- Tax structure should be widened and high tax on luxurious items.

CONCLUSION

Public expenditure is the wheel for the development of different sectors of economy. Revenue is the backbone for public expenditure and when there is imbalance between them fiscal deficit will occur. Fiscal deficits now as days is a matter of breatching by the government as it is doing macro-economic imbalances and crowding-out of private investment. We came to know that lot of expenditure is done on non-productive side and the result is that they are yielding nothing in future but if such expenditure is on productive side then beneficial to reduce fiscal deficit. Due to fiscal deficit, governments have to borrow to get back on the track. Thus, we can conclude that situation pertaining to fiscal deficit is alarming and should be checked now and effective steps should be taken by the government to achieve targeted fiscal deficit.

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