Does the FM have elbow room in Budget formulation?

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Union Finance minister Nirmala Sitharaman. (Photo | Shekhar Yadav, EPS)

One question that is often asked in connection with the formulation of the annual Budget is: How much elbow room does the Union finance minister have, while designing it? The tax revenue of a country generally follows stable growth and expenditure is often more or less committed and growing.

The budgeting for India is similar to budgeting for a middle-class family: If only I have 10 per cent more income, I can meet all my commitments.

On the one hand, the FMs speak about how little space they have in Budget management, and on the other hand, there will be these hidden pumpkins. I will just illustrate a few cases that will help in understanding how the government works under self-imposed limitations and with 'no-go areas'.

Shackled by committed expenditure: Probably 90 per cent of the recurring expenditure is committed. After all, if there are employees, salaries have to be paid and if there are operations to be maintained, funds have to be allocated. Once I was doing a consulting assignment for APSRTC (of old AP), and the top management tried to put me in a fix by throwing a challenge on expenditure control.

Their contention: The cost of fuel is around 35 per cent and the salary is 40 per cent per km; and along with maintenance and all other expenses, these exceeded the revenue per km. Now tell us, where do we control the expenditure? This is indeed a challenge.

APSRTC was running the largest fleet globally with more than 20,000 buses and had even received the Guinness Book of Records award for it. They were always boasting about it. I asked them the simple question: Why are they running so many buses when private players are willing to operate these routes more efficiently?

This was of course beyond their realm of exploration. It feels good to keep fighting for fuel efficiency and cost saving, but what if the activity or operation itself is redundant or has lost relevance? Poorly leveraged assets: Certain sectors are by design expenditure departments and so, do not ask for revenue from them.

I was a member of the Expenditure Reform Commission of the Karnataka government. One day it was the turn of the commissioner of horticulture and he spoke about what would be required to make his department fully functional and effective in achieving its goal. He was pitching for an additional x% over the current budget and again, it beget a simple question.

His department was having quite a few research labs, hundreds of acres of land and many scientists. I said if Dabur and Himalaya, with a fraction of these resources, can generate thousands of crores, this department should ideally be giving dividend to the government. It immediately changed the direction of the discussion.

This is the crux of the story. The departments and public sector enterprises that should be Kamadhenus are the guzzlers of expenditure. For public sector enterprises including the railways and postal department, their staff and the large extent of land are both the assets and drivers of expenditure. These occupy huge townships and the departments protect it like gated communities.

The lands are in the hearts of cities and can be easily monetised as transport corporations have done, like capitalising the bus depots. On the contrary, they are spending huge money maintaining these assets and also paying legal and security fees to protect them.

The entities can monetise their land and revive their units, instead of disinvesting. This is just to illustrate how they squander their assets, including gross underutilisation of capacities.

Underleveraged potential: Another way we run a sack race is by treating assets as liabilities. Over the years, we have built, in some wisdom, many facilities like research labs, manufacturing and infrastructural facilities. DRDO has more than 50 labs.

If any foreigner visits the DRDO facilities in Pune or Hyderabad, he would think these are Fortune 500 companies and global suppliers of defence items. Similar is the case of HAL and BEL with huge infrastructure and critical equipment.

The railways has at least six factories and 42 workshops. It has an engineering service for every discipline, which even Japan or China cannot boast of. Where does it stand now? USD 5 trillion is under-pegging the target, considering that all these are potentially Fortune 500 companies.

Imagine at the end of the day, their leadership is struggling, and they are comfortable with this struggle instead of breaking through the performance barriers. These are Fort Knox against reforms and they have built huge firewalls against commercial thinking. The way forward: These are just some samples of hidden pumpkins.

With so many 'no-go areas', the FM will be obviously saddled with little elbow room. We have converted all our assets into liabilities and expenditures into long-term commitments with or without activities.

Maybe we have to spend more and convert this expenditure into assets rather than working within the cost-cutting framework. Cost-cutting does not require strategic thinking, leveraging expenditure does. In the absence of transformational thinking, let us run with the sack race.

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