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CHAPTER NO. II

REVIEW OF UNION GOVERNMENT FINANCES 1986-87 TO 1993-94.

A. Budgetary operations of the Government.

B. Major Trends in the Deficits in the Budget of the Union Government of India.

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REVIEW OF UNION GOVERNMENT FINANCES : 1986 - 87 TO 1993 - 94

A BUDGETARY OPERATIONS OF THE GOVERNMENT :

In a democratic form of government the budget is a statement or document presented under the constitution by the Government to the Parliament every year. The main objective of the budget is to provide explicit information of the financial position of the Government, so that it can carry out it's revenue and expenditure functions for furthering the economic development and welfare of the society. The Budget is not only a statement but also an instrument of economic policy through which national resources are directed into various sectors of the economy to achieve given objectives.

In India, the Union or Central Government presents it's annual budget under Article 112 of the constitution of the nation. The Union Finance Minister first holds discussion with various groups representing agriculture, industry, trade and consumers and receive their views and expectations about the budget. After consultations with the Union Cabinet and taking into account the needs and requirements of the economy he prepares the budget.

The Budget is then presented to the Lok-Sabha which is lower house of the Parliament after it's approval the budget proposals go to the Raysabha the Upper house of the Parliament and then to President for final consent. When President of India gives consent, the Budget Proposals an enshrined in the Budget becames the finance bill passed by both housed of Parliament approved and consented by the Hon. President of India.

The Budget consist of two aspects namely :

a) Revenue Side.

b) Expenditure side.

REVENUE SIDE :

Total Budgetary Receipts of the Union Government consists of Revenue receipts and Capital Receipts.

Revenue Receipts :

Revenue Receipts either come by way of taxes levied on individual or corporate bodies and by way of non-tax revenue receipts. The primary function of the tax structure in developing economies is to raise resources in an efficient equitable manner. Taxes can be classified into direct and indirect taxes. Direct tax receipts cover

income tax, wealth tax etc. Indirect tax receipts consists mainly of custom and excise duties. Non-tax receipts include interest, dividends, profit from the Central Public Sector enterprises and external grants. Interest and dividends includes the revenue received from all Government owned companies. External grants are the grants received by the Government from foreign institutions and foreign Government.

Capital Receipts :

Capital Receipts accruing to the Union Government include Market borrowings, recovery of loans, external assistance, disinvestment of Public Sector Enterprises shares and receipts of Provident Funds and Small savings. Recovery of loan is the recovery of the initial principal amount of the loan excluding interest payments. Market borrowing is the borrowing from the public or Foreign institutions, while external assistance is the external debt raised from foreign Government and institutions.

EXPENDITURE SIDE :

The Government has to perform numerous social, economic and political functions. In order to perform

these functions, it has to incure expenditure. It is the expenses incurred by the Government on its various activities. Government expenditure consist of Revenue expenditure and Capital expenditure.

Revenue Expenditure :

It comprises money spent on items which do not create assets. They cover payment to Government Staff, Pensions, Bonus, Dearness Allowence, expenditure on defence and non-plan support to Public-Sector enterprises.

Capital Expenditure :

It is the money spent on items which create assets or the money which goes towards payment of principal amount.

In recent years, various concept of deficit are used frequently in the analysis of Budgetary trends of the economy. The understanding of the meaning of these concepts is absolutely essential in the study of budgetary analysis. The meaning of various concepts used in our dissertation is as follows :

1) <u>Revenue Deficit</u> :

Revenue deficit is the difference between revenue receipts and revenue expenditure. It means that tax and non-tax revenues become insufficient to cover the revenue expenditure of a Government, leading to use of capital receipts to fillup the revenue gap thus created.

2) <u>Budgetary Deficit</u> :

Usually Government Expenditure always exceeds Government revenue and this leads to a Budget Deficit. The difference between receipts (Revenue + Capital) received by the Government and the total expenditure (Revenue + Capital) incurred by the Government is Budgetary Deficit.

Budgetary Deficit = Total Expenditure - Total Receipts.
(Revenue+Capital) (Revenue+Capital)

This occurs when the Government spends more than it receives by way of revenue. This gap is financed by the issue of Treasury Bills (which are mainly held by Reserve Bank of India) and drawing down of cash

balance with the Reserve Bank of India by the Union Government. Budgetary deficit also reflects the 'Net Reserve Bank of India credit to the Government', (for investment made in treasury bills and Government Securities) adjusted for changes in cash balances with Reserve Bank of India. Reserve Bank of India net credit to the Union Government is thus a better measure of 'Seignorage' or 'Printing of Monety' to finance Government expenditure which has serous consequences on the macro-economic situation in the economy, more so a developing economy.

3) <u>Fiscal Deficit</u> :

The above concept of budgetary deficit excluded the element of Government borrowings and hence was not wide in it's scope. The real picture of deficit of the financial operations of the Government had to include not only budgetary or monetised deficit but also all borrowings and other liabilities of the Government. The S. Chakravarty committee on the working of Monetary system as well as International Monetary Fund gave emphasis on this aspect of deficit and hence in recent years the concept of 'Fiscal Deficit' has become more popularly used. Fiscal

deficit' has a much wider connotation in as much as it measures the total resource gap in terms excess of total expenditure over revenue receipts. Hence Fiscal Deficit measures the net addition to Public Debt.

Fiscal Deficit = Revenue Receipts - Total Expenditure.

(Tax + Non-Tax) (Revenue + Capital).

4) <u>Primary Deficit</u> :

It is the Fiscal Deficit less interest payments.

Primary Deficit = Fiscal Deficit - Interest Payment.

BUDGET AT GLANCE

- **Receipts**
  - **Revenue Receipts**
    - **Tax Receipts**
      - Direct
        1) Income Tax
        2) Corporate Tax
        3) Wealth Tax
        4) Gift Tax
      - Indirect
        1) Custom Duties
        2) Excise Duties
        3) Others
    - **Non-Tax Receipts**
      1) Interest & Dividend
      2) Profits from Public Sector Enterprises
      3) External Grants
  - **Capital Receipts**
    1) Recoveries of loan
    2) Market borrowings
    3) External Assistance
    4) Disinvestment of Public Sector Enterprises Shares
    5) Receipts in provident fund and small savings
- **Expenditure**
  - **Revenue Expenditure**
    1) Subsidies
    2) Interest payments
    3) Staff Expenses
    4) Pension Bonus & D.A.
    5) Nonplan Grants to Public Sector Enterprises
  - **Capital Expenditure**
    1) Money spent on items which create Assets
    2) Repayment of principal

B MAJOR TRENDS IN THE DEFICITS IN THE BUDGET OF THE UNION GOVERNMENT OF INDIA.

Along with growing Public Debt, more so internal one also sees a trend of gradual increase in the overall fiscal deficits in the Budget of the Unon Government of India. However in the later years the efforts of the Government have been noteworthy to keep the rise in deficits within managable limits. This is also mean that monetised deficit is also controlled and the Cetnre has kept a firm hold on the limits of deficit financing. This has been mainly done to keep inflation under control so that prices do not take upward swing. The New Economic Policy adopted since 1991, surely needs inflationarly potential to be kept under check, and reduction in deficit financing and efforts of the Union Government ot keep the deficits also within limits have contributed a great deal to keep inflation compaired to other nations lower in our domestic economy.

Our study amply reveals that the single largest contributory factor to gross fiscal deficit has been the inability of the Union Government to keep down the fast growth in it's Revenue Deficits during the entire period under study. Growth in Revenue expenditure, rise in

interest payments, use of capital receipts for revenue expenditure have been fiscal issues that need deeper probe and analysis.

The main sourcespring of the debt is the revenue dificit which measures the gap between the revenue expenditure and revenue receipt of the Union Government. Table II-1 shows that revenue deficit has increased substantially from Rs. 7,776 Crores in 1986-87 to Rs. 18,562 Crores in 1990-91 fell to Rs.. 16,261 Crores in 1991-92 but again rose to Rs. 18,574 crores in 1992-93 and reached to Rs. 32,716 crores in 1993-94.

Thus revenue deficit has increased by nearly five times during 1986-87 to 1993-94. Such a quantum jump in the magnitude of the deficit is invariably associated with a corresponding increased borrowings. A comparatively lower growth of revenues and steady growth of Government expenditure, particularly non-planned spending is the root cause of this Fiscal crisis. In order to bridge the gap between receipts and expenditure, Union Government resorted to borrowing both internal as well as exteranl and as a last resort of deficit financing which is reflected in the extent of fiscal and Budgetary deficits.

TABLE NO. - II-1

TRENDS IN UNION DEFICITS

(Rs. in Crores)

YEAR	REVENUE DEFICIT	BUDGETARY DEFICIT	FISCAL DEFICIT	PRIMARY DEFICIT
1986-87	7,776	8,261	26,790	17,553
1987-88	9,137	5,816	27,842	16,606
1988-89	10,515	5,642	31,312	17,051
1989-90	11,914	10,592	40,612	22,855
1990-91	18,562	11,347	50,344	28,846
1991-92	16,261	6,855	45,399	18,803
1992-93	18,574	12,312	48,490	17,415
1993-94	32,716	10,960	66,440	29,745

Source : Issues related to 'Finances of the Government of India : 1987 TO 1995.

The Budgetary deficit was Rs. 8,261 Crores in 1986-87, fell to Rs. 5,642 Crores in. 1988-89 rose to Rs. 11,347 Crores in 1990-91, but fell significantly to Rs. 6,855 Crores in 1991-92, again rose to Rs. 12,312 Crores in 1992-93 but fell to Rs. 10,960 Crores in 1993-94 .

The Budgetary deficit resulted into creation of new money in the economy, which measures the source of inflationary pressure in the economy. The fiscal deficit which was Rs. 26,790 Crores in 1986-87 shot up to Rs. 50,344 Crores in 1990-91, fell to Rs. 45,399 Crores in 1991-92 but started climbing up from Rs. 48,490 crores in 1992-93 to Rs. 66,640 Crores in 1993-94 . The primary deficit which measures the net demand on resources by the Government was Rs. 17,553 Crores in 1986-87 rose to Rs. 28,846 Crores in 1990-91 fell to Rs. 18,803 Crores in 1991-92 but went up to Rs. 17,415 Crores in 1992-93 and again reached upto Rs. 29,745 Crores in 1993-94.

Table II-2 compares deficits in the Union Government Budget as a ratio of GDP, Revenue deficit as a ratio of GDP was 2.65% in 1986-87 fell to 2.60 % in 1989-90 but rose sharply to 3.49% in 1990-91, again fell to 2.63% in 1992-93 but skyrocketted to 4.11% in 1993-94. While Budgetary Deficit as a ratio of GDP shows diminishing trend from 2.81% in 1986-87 to 1.37% in 1993-94. Fiscal Deficit as a ratio of GDP was 9.14% in 1986-87 , brought down to 7.91% in 1988-89 but rose to 8.99 % in 1989-90 and stood at highest level in 1990-91. This hefty increase

in Fiscal deficit resulted into grave fiscal crisis.

TABLE NO. : II-2

REVENUE, BUDGETARY AND FISCAL DEFICITS AS A RATIO OF G.D.P.

YEAR	REVENUE DEFICIT	BUDGETARY DEFICIT	FISCAL DEFICIT	GDP AT CURRENT MARKET PRICE
1986-87	2.65	2.81	9.14	2,92,949
1987-88	2.74	1.74	8.35	3,33,200
1988-89	2.66	1.42	7.91	3,95,779
1989-90	2.60	2.31	8.89	4,56,820
1990-91	3.49	2.13	9.46	5,32,030
1991-92	2.64	1.11	7.37	6.15,655
1992-93	2.63	1.74	6.87	7,05,566*
1993-94	4.11	1.37	8.35	7,95,878**

Note : * Based on Revised Estimate.

** Based on Budget Estimate.

Source : As of Table No. I-1.

in fiscal deficit resulted into grave fiscal crisis. To improve fiscal scenario, Union Government of India launched Fiscal stabilisation programme, under which Union government had wanted to bring down deficit to 4.7% of the GDP by 1993-94. Table II-2 shows that Fiscal deficit fell from 9.46% in 1990-91 to 7.37% in 1991-92 and 6.87% in 1992-93. The fiscal deficit swell to 8.35% in 1993-94 Thus objective of fiscal stabilisation has not succeded to the extent, as was visualised. However, comparatively speaking of the experience with New Economic Policy in other developing nations of S. America and Asia, we find that the growth rate alongwith lesser rate of inflation has been so far being managed in India. However, this has been accompanied mainly due to good industry performance backed by successive good season of rainfall in the mansoon dependent agricultural production of India. Relatively inflation has been managed but persistent rise in revenue deficit and rising public Debt of the nation are fiscal issues which will cause concern to the ultimate structural Adjustment Programme whose success is crucial for the gains of New Economic Policy to reach to the common man in India.

In recent years, especially since the introduction of New Economic Policy and for sustained high economic growth fiscal stabilisation Programme has been

emphasised a great deal in the short term strategy of macro-economic policy of every developing nation adopting the structural Adjustment Programme. In this, the concept, usuage and importance is given to the term and quantum of Fiscal Deficit in the Union Government Finances and the method of financing it. This is so because the size of the Fiscal deficit and the method of financing it are crucial for containing both money supply and the pressure of inflation within such a economy. Hence in recent literature this concept has assumed significance though fiscally it may not truly reflect the deep crisis the government is in actually.

In the next chapter a review of the Expenditure growth and Composition in Section A and Growth and Composition Trend of Union Government Revenues is attempted in Section B.