

Expenditure Reforms: Let's clone GST Council-like body

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By TIOL Edit Team

Dr. Bibek Debroy, chairman of the Economic Advisory Council to the Prime Minister (EAC-PM), has done well to moot a permanent forum for conceiving and sustaining expenditure reforms from top to bottom of the country's governance chain. The call is timely as both the Centre and States are apparently splurging public money, including borrowings on the freebies.

We hope Prime Minister Narendra Modi would ask Dr. Debroy to detail his proposal. We wish this would also help PM introspect over his undying passion for flaunting provision of goods and services, right from food grains to vaccines as free.

Delivering the keynote address at the recent Business Standard awards event, Dr. Debroy called for constitution of a forum on the lines of Goods and Services Tax Council (GSTC) to initiate expenditure improvements at three tiers of government - Union, states and local bodies.

This proposal is similar to the one recommended by Sarkaria Commission on Centre-States Relations (CSR) in 1988. It was endorsed as relevant today by Punchhi Commission on CSR in 2010.

The former commission recommended renaming and transformation of National Development Council (NDC) into a constitutional body. Sarkaria Commission stated:

"We are, therefore, of the view that being the supreme inter-governmental body for all matters related to socio-economic development, it is necessary that NDC should be renamed and reconstituted as National Economic and Development Council (NEDC) by Presidential Order under the provisions of Article 263 so as to have direct moorings in the Constitution. The provisions of the clauses (b) and (c) of Article 263 are wide enough to encompass the functions of the NDC. The NEDC thus constituted will, while retaining adequate flexibility, have a measure of authority with formalised status having the constitutional sanction of Article 263".

Chaired by Prime Minister, NEDC should comprise certain union ministers and all Chief Ministers as mooted by Sarkaria Commission. Mr. Modi drew curtains on this vision by abolishing both NDC and Planning Commission. They were replaced with NITI Aayog in 2015.

Punchhi Commission found NEDC idea relevant. The relevance has increased since then amidst conflicts over laws, policies and projects. The unsustainable debt taken by Centre and the States lends urgency to the need for expenditure reforms.

It is pertinent to recollect the fact that Mr. Modi, as Gujarat Chief Minister, was a vocal advocate for implementation of 7-volume report of Punchhi Commission. Sincere Action on it can bring about paradigm shift cooperative federalism and accelerate economic development.

As Chairman of Inter-State Council (ISC), PM is yet to bite the bullet on this matter. After Mr. Modi became PM, ISC met only once during July 2016, as compared to his earlier advocacy that it should at least meet twice a year. We urge him to convene a meeting of ISC on Punchhi Commission's recommendations, which were earlier processed by ISC's standing committee in three meetings held over two years.

In the third volume of its report, Punchhi Commission articulated the need for NEDC. On expenditure reforms, it observed:
"Central and State governments should take into account the high opportunity cost of populist measures. It is necessary that a comprehensive paper on direct, indirect and cross-subsidies, covering both the Union and the State Governments is prepared by the Planning Commission every year and brought before NEDC for discussion".

There is, in fact, need for two annual papers or reports - one on tax expenditures borne by Centre, States and local bodies. To begin with, each tier of Government can bring out its annual tax expenditure report. The second report should be on direct and indirect subsidies doled out by three tiers of governance. To get going, each Government can bring out its own annual report on subsidies of all sorts.

So also, each Government can set up an independent Fiscal Council (FC) to monitor inflows and outflows into their respective exchequer. FC plays a vital role in improving implementation of annual budget as evident from experience of countries that have FCs.

The setting up of FC has been recommended time and again by International Monetary Fund, Finance Commission and other Government-constituted panels.

The Committee on Fiscal Statistics (CFS), for instance, noted: "

Fiscal Councils serve as a counterpart to Monetary Policy Committees. Just as formulation of monetary policy has attained a degree of autonomy by the prevalence of Monetary Policy Committees across the world, independent Fiscal Councils may provide a degree of autonomy to the formulation of Fiscal Policies".

CFS felt that FC can play major role in filling alarming deficiencies in fiscal data collection and dissemination. It observed: ***"Unfortunately, the compilation and dissemination of fiscal data in India falls well short of desirable norms and suffers from a number of infirmities. Improving our fiscal data system may lead directly to augmenting policy efficiency, increased growth, and welfare-enhancing outcomes"***.

We can cite reports of dozens of such committees that recommended enlightening reforms in fiscal domain after Independence, starting with 1952 Report of Public Accounts Committee on ***'Exchequer Control over Public Expenditure'***

. One of its recommendations pertaining to public sector enterprises and government's investment in private companies remains unimplemented.

Hundreds of recommendations made by macro-level bodies such as Pay Commission, Administrative Reforms Commission and sectoral or ministerial panels, such as one on defence expenditure and another on railways have been virtually shelved.

Reports of many panels such as Modi Government-constituted Expenditure Management Commission have been kept under the carpet. The first step towards forming GSTC-type forum on expenditure reforms should be to make public all reports on a single portal for easy access.

Expenditure reforms is an ocean of opportunities that has been tapped to the bare minimum or best said, partly by all Governments, right from the Raj era. Such initiatives require political will as expenditure cuts and preventing revenue leakages are unpopular. They require sacrifices by all citizens starting with the President and the Prime Minister.

It is here apt to quote late V.P. Singh, who served as Finance Minister before becoming Prime Minister. Presenting budget for 1986-87 on 28th February 1986, Mr. Singh referred to the growing expenditure burden. He stated: "

I believe that a frank debate is essential for the long-term economic health of our nation.... We have to cut every rupee of wasteful expenditure, get more out of every rupee of essential expenditure, and improve efficiency all round. A full debate on what we can and must do to reduce expenditure is necessary".

National Economic and Development Council

(NEDC) can serve as the right forum for such debates. These are essential to make all of us realize that Dream India should not be made to ***fly*** with excessively borrowed money.