CHAPTER-6

CONCLUSION AND SUGGESTIONS
The fiscal trend of 1970s suggests that this was a period of moderate growth in public expenditure in line with revenue flow and deficit on revenue account occurred only in 1979-80. The break came during 1980s, when the total expenditure of the Central Government increased. This was mainly due to the increase in non-plan expenditure. What is more striking about this increase is the rise in almost all categories of non-plan expenditures namely interest payment, defence, subsidies, loan and grants to States and UTs as also other non-plan expenditures. Plan expenditure also remained upward throughout 1980s. So was the capital expenditure. Capital formation indeed increased from 6.6 percent of GDP during the first half of 1980s to 7.2 percent during the second half of 1980s. Thus, 1980s were characterized by a significant increase in Government expenditure, both plan and non-plan as also revenue and capital expenditures.

Similarly, during 1980s, the revenue receipts of the Central Government has also moved up. A major problem with tax system was that the share of direct taxes had virtually stagnated during 1980s. The buoyancy in tax revenue was experienced mainly due to an increase in indirect taxes. Here also, the increase mainly came for custom duty. This happened both due to an increase in the level of custom duty and increase in imports. Thus, the second half of 1980s witnessed a rather disturbing trend on the external front. The foregoing analysis has shown that the public debt to GDP ratio increased throughout the 1980s, going up to almost 59 percent at the end of the decade.

What is worth noting for the decade of 1980s is that both the revenue and expenditure of the Government grew substantially but the growth in revenue could not keep pace with the growth in expenditure. This not only widened the resources gap but also resulted in growing public debt and a higher fiscal deficit. A closer analysis of the Central finances reveals that a widening of about two percentage points of gross fiscal deficit come from the revenue deficit which widened from 1.4 percent of GDP in 1980-81 to 3.3 percent in 1990-91. Increase in interest payments was the key factor behind the worsening of revenue and fiscal deficit because it has registered a rise of almost two percentage points of GDP over the same period. All the indicators of fiscal imbalances were on rise throughout the 1980s. The fiscal imbalance, fuelled by the revenue and budget deficit and financed by the borrowings and decumulation of
reserves, was accompanied by accelerated inflation to double digit levels. Such a fiscal situation had become unsustainable.

To remove the deficit and bring stability, fiscal stabilization measures were introduced in 1991. The essential features of the Central Government’s overall fiscal strategy for controlling the budgetary deficit comprises expenditure compression, completion of tax reforms, institutional reforms, disinvestment of Government ownership, deregulation of financial system, elimination of automatic monetization, and reduction in pre-emption of institutional resources by the Government.

The strategy of fiscal consolidation initiated in the early 1990s was a mix of measures towards revenue augmentation through tax reforms and expenditure compression. Given the limited improvement in revenue mobilization, the fiscal consolidation during the first half of the 1990s was essentially achieved through expenditure containment. The sharp cuts in expenditure were effected as part of the stabilization package in 1991, attempts to curb expenditure growth in successive Central Government budgets in the 1990s were found to be mostly irregular and illogical in nature. It is only in the second generation of economic reforms that expenditure reform has become an integral part of the overall fiscal reform. Expenditure Reform Commission set up by the Government suggested a host of measures to curb built-in growth in expenditure and to bring about structural changes in the composition of expenditure. Some of these measures have been implemented by the Government. Despite, the wide range of measures, the expenditure compression was mainly effected in the capital expenditure. A major initiative towards institutionalizing an expenditure management system was through constitution of Expenditure Reform Commission to look into various areas of expenditure correction. These included creation of national food stock along with cost minimization of buffer stock operations, rationalization of fertilizer subsidies through phased dismantling of controls, imposing a ceiling on Government staff strength through a two-year ban on new recruitment. With a view to promoting transparency and curbing the growth of contingent Government liabilities, a Guarantee Redemption Fund has been set up as a part of expenditure management strategy.

Systematic and comprehensive efforts to reform the tax system in India started only after market based economic reforms were initiated in 1991. Government proposed to implement various suggestions made by the Chelliah Committee on tax reforms. Tax Reform Committee recommended moderate direct tax rates with reduced
tax deduction and exemptions, ways of improving compliance of direct taxes and strengthening enforcement, revamping of tax administration and computerization, simplification and rationalization of customs tariffs with a view to reducing the multiplicity and dispersion of rates and to eliminate exemptions which have become unnecessary, reducing the level of tariff rates and simplification and rationalization of the structure of excise duties for better tax compliance and administration, the scope of extending the MODVAT Scheme.

With double digit inflation, fiscal deficit, the precarious foreign exchange, and current account position in 1990-91, the fiscal stabilization programme was directed inter alia at drastically cutting the budget deficit and tightening monetary policy with the objective of reducing inflation and achieving external sector viability. Reforms in the public sector enterprises have also been introduced in the form of disinvestment and autonomy etc. Priorities in reforms include raising return on investments in PSUs and infusing professionalisation in management. Reform of PSUs including privatization and phasing out of unviable units have not gathered as much momentum as had been hoped for. Disinvestment has been piecemeal and the funds so raised are being used to reduce budget deficits, rather than strengthen the PSUs.

India has adopted a rule-based fiscal framework with the enactment of the FRBM Act, 2003 by the Central Government and the framing of FRBM Rules, 2004, thereby marking a new beginning in the fiscal consolidation process. Under the FRBM Act, 2003 the Central Government is committed to eliminate revenue deficit and reduce fiscal deficit to 3 percent of GDP by end-March 2009.

It is found from the foregoing analysis that revenue receipts as percent of GDP was 10.08 percent in 1985-86 which reached to 10.28 percent in 1989-90. From 1990-91 onwards revenue receipts as percent of GDP has not grown much. It is more or less stagnant. In 2007-08 it is budgeted at 10.4 percent of GDP. The 1990s have witnessed a fall in the collection of tax revenue as a proportion of GDP. Between 1990-91 and 1999-2000, when there were substantial tax rates reductions the ratio of gross tax revenue to GDP declined from 10.1 percent to 8.9 percent. However, as a result of tax reforms introduced since then, it became as low as 8.2 percent in 2001-02. Of late, recovery is noticeable in the tax-GDP ratio i.e 11.4 percent in 2006-07 and it was budgeted at 11.7 percent in 2007-08. A remarkable feature of the Centre’s revenue trends in the reform years reflect that there is the jump in the share of direct taxes of total tax revenue from 19.2 percent in 1990-91 (pre-reform period) to 34.7 percent in
1997-98. The figure stood at 48.8 percent in the 2006-07 budgets. In case of corporation tax, the relative contribution was 10 percent in 1985-86, while in 1990-91 it was 9.28 percent. In the intervening period, however, moderate changes are noticeable in the proportionate share of corporation tax. It has increased sharply during the post-1991 period. In 2006-07 it was 30.6 percent and was budgeted at 30.7 percent in 2007-08. While personal income tax has also shown greater buoyancy in the reform period, from 8.8 percent of the total revenue in 1985-86 it rose to around 10 percent in 1991-92. After the tax reforms initiated since early 1990s, the share of personal income tax in gross tax revenues of the Central Government increased sharply and reached at 18.1 percent in 2006-07 and was budgeted at 18 percent in 2007-08. The leap in revenue from direct taxes, however, has not been able to neutralize the decline that has taken place in the indirect taxes. The share of customs revenue in total tax collection shows upward trend from 33.27 percent in 1985-86 to 35.89 percent in 1990-91. This upward was attributable to a changed emphasis from physical to fiscal controls to regulate imports, a policy reiterated in the Long-Term Fiscal Policy, 1985. However, during the post-liberalization period, a sharp fall is noticeable in the relative share of custom duties in gross tax revenues of the Central Government. This is due to drastic reductions in the tariff rates across the rate categories including the peak rate in the wake of WTO commitments and to become globally competitive. In 2006-07 the share of customs revenue was 18.3 percent and was budgeted at 18 percent in 2007-08. The proportionate share of excise revenue declined from 45.25 percent in 1985-86 to 41.79 percent in 1990-91. In 2006-07 it was 24.94 percent and was budgeted at 23.75 percent in 2007-08. Revenue from indirect taxes has been decelerating even before the reforms but the decline has been sharper in the reform period. There has been a noticeable shift in the tax structure at the Centre. The two key aims of the reforms, viz, lessening the weight of foreign trade taxes and increasing that of direct taxes, are evidently materializing. The rise in the share of income tax has, however, not sufficient to make-up fully for the loss from the tariff reforms. In sum, reforms so far have succeeded in making a small dent on India’s tax structure by reducing the weight of custom and excise duties and raising that of direct taxes. The shift away from foreign trade taxes and excise duties appears to have taken place at the cost of overall revenue growth. The rise in the relative share of direct taxes has resulted partly from the decline in the revenue from customs and excise duties. The non-tax revenue of the Centre as a proportion to GDP recorded some rise, poor cost recovery for the services provided by
the Government have been responsible for this trend. As proportion of GDP non-tax revenue recorded an improvement from 2.45 percent in 1985-86 to 2.67 percent in 1992-93 and broadly at 2.97 percent in 2001-02. After that it had a declining trend from 2.79 percent in 2003-04 to 2.01 percent in 2006-07, and is estimated at 1.8 percent of GDP in 2007-08.

Moreover, the foregoing analysis also indicates the failure on the part of expenditure reduction. There has been a sharp rise in interest payment. Throughout the 1990s, while capital expenditure as proportion of GDP have fallen sharply, the revenue expenditure net of interest payments have stagnated. It is evident in the analysis that the ratio of capital expenditure to GDP has fallen about 6 percent in 1990-91 to 2.6 percent in 1999-2000 and further declined to 1.7 percent in 2006-07. Though, the ratio of net revenue expenditure which fell sharply between 1990-91 and 1996-97, has risen in recent times, but well below to its 1989-90 figures.

In the foregoing analysis we also show the trends in various indicators of fiscal imbalances since 1980-81. It is evident that between 1980-81 and 1990-91 the revenue def.cit of the Central Government rose substantially. This fact suggests that the fiscal situation had been under mounting pressure throughout the decade. In this period the gross fiscal deficit of the Central Government rose alarmingly, from 5.71 percent of GDP from 1980-81 to 7.7 percent in 1990-91. However, primary deficit which was 3.8 percent in 1980-81 declined to 2.8 percent in 1990-91. The gross fiscal deficit of the Centre declined from 5.55 percent in 1991-92 to 4.84 percent in 1996-97, it again started rising from 1997-98 to reach at the level of 6.19 percent of GDP in 2001-02. Thereafter it again indicated a falling trend till 2003-04 to reach a level of 4.48 percent of GDP. A similar trend is observed in respect of revenue deficit of the Centre, which after declining in 1996-97 rose steadily to 4.4 percent in 2001-02. While the primary deficit declined from 2.8 percent in 1990-91 to 0.24 percent in 1996-97, it also again started rising from 1997-98 to reach at the level of 1.4 percent of GDP in 2001-02. Although there was decline in fiscal deficit and primary deficit to 5.91 percent and 0.2 percent of GDP in 2002-03 respectively, the revenue deficit continued almost at the same level as 2001-02. There was, however, improvement in 2003-04 when both fiscal deficit and revenue def.icit declined to 4.48 percent and 3.6 percent of GDP respectively. In 2004-05, revenue def.icit and fiscal def.icit as proportion of GDP were 2.5 percent and 3.99 percent respectively. Primary def.icit, as a proportion of GDP remained unchanged. The fiscal def.icit declined from 4.09 percent in 2005-06 to 3.1
percent in 2007-08. A similar trend is observed in respect of revenue deficit, which declined from 2.58 percent in 2005-06 to 1.5 percent in 2007-08.

For evaluating the performance of fiscal reforms the parameters such as total receipts and expenditure, real GDP growth, tax-GDP ratio, total expenditure as percent of GDP, debt-GDP ratio, deficit indicators, BOPs indicators, inflation have been undertaken. For this purpose the study has been divided into three sub-periods:

- First phase (P1) - 1980-81 to 1990-91 (Prior reform period)
- Second phase (P2) - 1991-92 to 1999-2000 (First generation reform period)
- Third phase (P3) - 2000-01 to 2007-08 (Second generation reform period)

The study shows that during 1990-91 to 2007-08, the average, SD, CV and CAGR of revenue receipts (Rs. crores) are 195874, 127811.6, 65.3 and 13.08 percent respectively. During the same period the average, SD, CV and CAGR of tax revenue (Rs. crores) are 146616, 104750.6, 71.4 and 13.26 percent which is found to be higher than that of non-tax revenues (Rs. crores) 49314.9, 25859.5, 52.4 and 12.21 percent respectively. The average, SD, and CAGR of tax revenue as a percent of revenue receipts are 73.6, 4.4 and 0.16 percent respectively which is higher than the non-tax revenue as percent of revenue receipts i.e 26.4, 4.3 and -0.78 percent respectively, but CV of non-tax revenue as percent of revenue receipt (16.3 percent) is higher than that of tax revenue (5.9 percent). During 1990-91 to 2007-08 the average, SD, CV and CAGR of capital receipts (Rs. crores) are 117453, 61853.3, 52.6 and 11.6 percent respectively which is found to be lesser than that of revenue receipts.

In case of total expenditure the average, SD, CV and CAGR (Rs. crores) are 315071, 176316, 55.9 and 11.8 percent respectively. And the average, SD, CV and CAGR of total expenditure as percent of GDP are 15.8, 1.2, 7.6 and -0.8 percent respectively. During 1990-91 to 2007-08, the average, SD, CV and CAGR of revenue expenditure (Rs. crores) are 255565, 151280.2, 59.2 and 12.8 percent respectively. During the same period the average, SD, CV and CAGR of interest payments (Rs. crores) are 84486.6, 44559.4, 52.7 and 12.3 percent respectively which is found to be higher than that of subsidies (28017.6, 16450.6, 58.7, 11.8 percent respectively), and defence (30775.5, 14666.4, 47.6 and 10.7 percent respectively). The average and SD of interest payments as percent of revenue expenditure are 33.7 and 2.8 which is higher than that of subsidies (11.2 and 1.9) and that of defence (12.8 and 1.5) but CV of subsidies as percent of revenue expenditure is highest i.e 16.9 percent among defence
(11.7 percent) and interest payment (8.3 percent). The CAGR of interest payment, subsidies and defence are -0.5, -0.9 and -1.91 percent respectively. During 1990-91 to 2007-08, the average, SD, CV and CAGR of capital expenditure (Rs. crores) are 59507.5, 29213.0, 49.1 and 8 percent which is lesser than revenue expenditure. During the same period the average, SD and CAGR of loan and advances (Rs. crores) are 36472.4, 23602.6 and 8.4 percent respectively which is found to be higher than capital outlay i.e 23001.8, 18748.8 and 3 percent respectively. But CV of capital outlay is 81.5 percent which is higher than the CV of loan and advances i.e 64.7 percent. Average and CAGR of loan and advances as percent of capital expenditure are 61.2 and 0.4 percent respectively which is higher than the average and CAGR of capital outlay i.e 38.2 and -4.6 percent respectively. SD of both capital outlay and loan and advances is come out to be same i.e 15.9 percent. But CV of capital outlay is 40.97 percent which is higher than the CV of loan and advances i.e 25.9 percent.

In case of real GDP growth it is found that during 1980-81 to 2007-08, the average, S.D, C.V, and CAGR of real GDP growth are 6.01, 2.20, 36.59 and 1.88 percent respectively. So far as period of reforms is concerned, it is found that during 2000-01 to 2007-08(P3) real GDP growth is 7.2 percent which is higher than that of period P2 i.e 5.7 percent and P2 is higher than that of P1 i.e 5.6 percent. It is meant that real GDP growth after reforms (first and second generation reforms) is higher than that of prior reform period.

The analysis of direct tax as a percent of GDP shows that there is significant difference in direct tax over the three periods. It is assumed that, in alternative hypothesis, there is significant difference in direct tax as a percent of GDP over the three periods. Since P value (0.0000006) is less than α (0.05), therefore, alternative hypothesis is accepted. So far as period of reforms is concerned, it is found that during 2000-01 to 2007-08(P3) direct tax is 4.3 percent which is higher than that of period P2 (1991-92 to 1999-2000), and P1 (1980-81 to 1990-91) i.e 2.7 percent and 1.97636 percent respectively. It is meant that direct tax as percent of GDP after reform was higher in comparison to P1 and P2. This shows that there has been a continuous increase in direct tax as a percent of GDP. The direct tax to GDP ratio has seen an uptrend because of the reforms in income and corporate taxes that simplified the tax system, reduced exemptions and tax rates, thus providing an incentive for better compliance. Likewise, in case of indirect tax as percent of GDP, there is significant difference between indirect tax as percent of GDP over the three periods. It is assumed
that, in alternative hypothesis, there is significant difference in indirect tax as a percent of GDP over the three periods. The calculated result reveals that $P$ value (0.00000004) is less than $a$ (0.05), therefore alternative hypothesis is accepted. So far as period of reforms is concerned, it is found that during 2000-01 to 2007-08(P3) indirect taxes as percent of GDP was 5.5625 percent which is less than that of period P2(1991-92 to 1999-2000) i.e 6.55556 percent and P2 is less than that of P1 (1980-81 to 1990-91)i.e 7.88909 percent. It is meant that indirect tax as percent of GDP before reform was higher in comparison to I$^{st}$ and II$^{nd}$ reform periods. But there is no significant difference between total taxes as percent of GDP over the three periods. Since $P$ value (0.25508) is not less than $a$ (0.05), therefore, null hypothesis is accepted. Total taxes as percent of GDP before reform was 9.86364 percent (P1) which is higher than 9.24444(P2) but P2 is less than that of P3 i.e 9.9 percent.

Further, it is assumed that, in alternative hypothesis, there is significant difference in expenditure-GDP ratio over the three periods. Since $P$ value (0.00297) is less than $a$ (0.05), therefore, alternative hypothesis is accepted. So far as period of reforms is concerned, it is found that during 2000-01 to 2007-08(P3) expenditure-GDP ratio was 15.55 percent which is less than that of period P2 i.e 15.77778 percent and P2 is less than that of P1 i.e 17.62 percent. It is meant that expenditure-GDP ratio before reform was higher in comparison to I$^{st}$ and II$^{nd}$ reform periods.

In case of debt as percent of GDP, it is assumed that, in alternative hypothesis, there is significant difference in debt-GDP ratio over the three periods. The analysis shows that $P$ value (3.02E-06) is less than $a$ (0.05), therefore alternative hypothesis is accepted. There has been continuous increase in the debt-GDP ratio over all the three periods. It has increased from 48.59 percent during P1 to 52.21 percent during P2, and further to 61.4 percent during P3.

For deficit indicators, we first analyze gross fiscal deficit. It is assumed that, in alternative hypothesis, there is significant difference in gross fiscal deficit over the three periods. Since $P$ value (0.00027) is less than $a$ (0.05), therefore, alternative hypothesis is accepted. So far as period of reforms is concerned, it is found that during 2000-01 to 2007-08(P3) gross fiscal deficit was 4.56 percent which is less than that of period P2 i.e 5.67 percent and P2 is less than that of P1 i.e 6.83 percent. It is meant that gross fiscal deficit before reform was higher in comparison to I$^{st}$ and II$^{nd}$ reform periods. Likewise, there is significant difference between revenue deficit over the three periods. The calculated result reveals that $P$ value (0.007661) is less than $a$ (0.05),
therefore alternative hypothesis is accepted. During pre-reform period, P1, it was 1.8 percent, while it was 2.99 percent during P2 and 3.06 percent during P3. Hence, it has been continuously increasing over the period of time. There is also a significant difference between primary deficit over the three periods. Since $P$ value (0.00011) is less than $a$ (0.05), therefore, alternative hypothesis is accepted. Primary deficit before reform was 3.13909 percent (P1) which is higher than 0.66222(P2) and 0.3875(P3).

The current account balance shows significant difference over the three periods. Since $P$ value (0.00028) is less than $a$ (0.05), therefore alternative hypothesis is accepted. So far as period of reforms is concerned it is found that during 1991-92 to 1999-2000(P2) and 2000-01 to 2007-08(P3) the current account balance was -1.07778 and -0.0625 respectively which is lower than during the period 1980-81 to 1990-91(P1) i.e -1.95455. It is meant that current account balance before reform was higher in comparison to 1st and IIrd generation reform periods. The BOPs condition has been improved over the given periods. The average, S.D, and C.V of net invisibles to GDP are 2.3, 1.7 and 73 percent respectively. The average and SD of import are 11.3 and 4.1 which is found to be higher than that of export i.e 7.9 and 3.1 respectively. But C.V and CAGR of export are 38.8 and 4.7 percent which is found to be higher than that of import i.e 35.9 and 3.6 percent. Between 1980-81 to 2007-08 India’s merchandise trade deficit to GDP ratio rose steeply from 4.3 to 7.7 percent. And this happened despite strong growth of exports.

The analysis of rate of inflation shows that there has been continuous decline over the given periods. It has declined from 8.2 percent during P1 to 7.9 percent during P2, and further to 5.13 percent during P3. However, the average, S.D, C.V, and CAGR of inflation during 1980-81 to 2007-08 are 7.23, 3.39, 46.88 and -2.51 percent respectively.

However, in the light of the study few important points may be mentioned so as to make fiscal stability a long-lasting feature. Undertaking fiscal adjustment often requires difficult decisions involving increasing Government revenue and reducing spending. This can be achieved by a progressive reduction in public debt and through higher revenues. The possibility of achieving higher revenues through increased rate of taxes is both undesirable and non-feasible. Higher tax revenues can be achieved only through buoyancy and expansion of the tax base. It must be emphasized, however, that improvements in tax policy are more likely to be successful when they are accompanied by measures to strengthen tax administration. An explicit and sustained
political commitment, a team of capable officials dedicated to tax administration reform, relevant training for staffs, additional resources for the tax administration, changes in incentives for both tax payers and tax administrators are the essential elements required for successful tax administration reform. It is important to remember that “tax administration is tax policy”. Making the transition to information-based tax administration, online filing of tax returns, and compiling and matching information are key to administration reform. Tax administrators should also assist tax payers in a timely fashion and help them to reduce their compliance cost.

Thus, a tax system becomes desirable which should be responsive to GDP growth and its revenue generating capacity should be high, from the point of view of its efficiency, thus leaving the allocation of resources essentially undisturbed, taxes should be levied in a fair and equitable manner, a simple transparent tax system is relatively easy to administer and promotes compliance, and the ratio of tax revenue to GDP should increase at appropriate level.

Following taxes may be helpful in raising revenues of the Central Government:

i. The personal income tax can be increased at least by broadening the base and strengthening the administration while at the same time ensuring that the main aim of the administration would be to collect increasing revenues without harassment that the exacting illegal payments will be drastically cut down. The base of income tax can be widened by:
   a) Removing many exemptions that are unjustified and reducing the magnitude of some of the concession;
   b) Bringing into the tax net a large number of income earners who are evading tax;
   c) Introducing such acceptable simplified procedures as the estimated income scheme; and
   d) Introducing a minimum profits tax on all business income other than income of professionals.

ii. On the corporation tax, base broadening involves getting rid of the tax concessions and preferences. In particular, the exemption for profits from exports, free trade zones, and technology parks, as well as exemptions for area-based development and for infrastructure should be phased out.

iii. Sales tax/VAT should be broadly based tax on final domestic consumption that does not tax intermediated consumption or export, and one that does not
differentiate by source of production (foreign and domestic). Because of its efficiency and revenue security the ideal instrument to achieve this objective is a VAT at a single rate, with crediting provisions and zero rating of exports.

iv. Wide-ranging exemptions is the bid problem with excise duties. Therefore, one of the most important base-broadening measures should be to reduce the exemptions. In particular, the exemptions given to small scale industry have not only eroded the tax base but have inhibited the growth of firms into an economically efficient size. Similarly, various exemptions given to project imports have significantly eroded the tax base. This has infused the tax system with selectivity and discretion. The rate structure should be rationalized by converting the remaining items subject to specific duties to ad valorem and by unifying the rates towards a single CenVAT.

v. If a moderate level of protection is thought desirable to encourage local industry, a low uniform custom duty, when properly coordinated with a VAT and excises, is the preferred instrument. Duty drawback or suspension schemes are needed to relieve exporters of the anti-export bias caused by custom duties on inputs. Exemptions from customs duties should be limited and clearly defined to avoid abuse. With the rates of custom duties coming down, it would be necessary to subject at most all imports to some import duty. That would also be economically a rational policy.

Likewise, expenditure reduction measures have to be pragmatic, adequate to achieve the intended stabilization, but nonetheless economically, politically, and socially feasible. Several types of expenditure measures can be adopted quickly to contain a deteriorating fiscal situation. Sustainable expenditure reform, however, requires a review of underlying Government policies, the composition of spending, the coverage of activities by the public sector, and the modes of delivery of public services. Similar to the importance of tax administration in tax reform, efficient spending reduction usually requires improvements in systems of budget design, preparation and execution. There are no hard and fast rules about how public expenditure should be cut. This will depend partly on the factors driving the growth in spending, as well as on the social and political constraints facing policymakers. However, some guidelines may be suggested:

i. Avoid across-the board cuts. Across-the-board cuts often seem attractive, this approach allows each individual operating ministry to decide how to cut its
budget- whether to delay the purchase of goods and services, run down stocks, cut back on temporary staff, etc. and it appears to imply equal hardship for all and is thus seen as equitable.

ii. It is essential to identify specific programs for reductions. Some programmes should be dropped, pruned or consolidated, as economic development is there such as subsidies etc.

iii. Wage restraint in the public sector can be a major source of savings. But there is limit for wage freezing. Cutbacks in civil services numbers are more appropriate since it has expanded more to absorb a growing labour force.

iv. Target social programmes narrowly.

v. By raising fees and charges.

vi. Public enterprises should, in general, not be a drain on the budget. If they are in deficit, pricing structures should be adjusted, the scope of activities redefined, their employment policy reassessed, and their capital programme rationalized. Preferably, they should be privatized and fully exposed to a competitive market environment.

vii. Expenditure restructuring relating to both its size and sectoral allocations aimed at removing inefficiencies arising from misallocation, design and implementation of scheme, and delivery of services.

viii. Rationalizing subsidies by reducing their overall volume, increasing their transparency by making them explicit, and improving their targeting.

Following measures may be suggested to eliminate wasteful expenditure:

i. The elimination of unproductive or very low-priority services.

ii. Privatization of activities that can and should be carried out in the private sector.

iii. The introduction of a mere commercial approach to public activities, including competitive tendering, the contracting out of some services to the private sector, and the use of commercial accounting techniques to set the basis for full cost recovery.

iv. The wider use of balance sheets to improve the analysis of the long-term implications of existing and new expenditure.

v. The stimulation of market discipline, including separate assessment of its application to the Government’s role as purchaser and provider of services for example, in health care.
vi. For those services that are to remain in the public sector, measures designed to improve managerial performance, efficiency and effectiveness, including establishing cost centres which combine under a unified management, the costing interlinked activities, setting objectives, output requirements, and inputs for each centre, more developed managerial authority for the centres, and the linking of manager’s salaries to performance.

It may be concluded that viable and effective fiscal adjustment may be restored, if the above suggestions are taken into consideration and implementation in an earnest and proper manner.

The major findings of the study can be summarized as follows:

1. The study reveals that during 1990-91 to 2007-08 the compound annual growth rate (CAGR) of revenue receipts (13.08 percent) is higher than that of capital receipts (11.6 percent). Likewise, the CAGR of tax revenue (13.26 percent) is also higher than non-tax revenue (12.21 percent). However, the coefficient of variation (C.V) of non-tax revenue (16.3 percent) is larger than tax revenue (5.9 percent) during the same period reflecting greater variability of non-tax revenue.

2. The CAGR of total expenditure during 1990-91 to 2007-08 is found to be 11.8 percent, but the CAGR of total expenditure as percent of GDP is -0.8 percent showing decline in total expenditure over the given period. However, the CAGR of revenue expenditure (12.8 percent) is higher than capital expenditure (8 percent) during the same period. Likewise, the CAGR of interest payments (12.3 percent) is higher than the expenditure on subsidies (11.8 percent) and defence expenditure (10.7 percent). However, the CV of subsidies as percent of revenue expenditure (16.9 percent) is larger than defence expenditure (11.7 percent) and interest payments (8.3 percent) during the same period.

3. There has been continuous increase in the real GDP growth of the country during the reforms period. It has increased from 5.6 percent during P1 (1980-81 to 1990-91) to 5.73 percent during P2 (1991-92 to 1999-2000), and further to 7.25 percent during P3 (2000-01 to 2007-08).
4. The study shows that direct tax-GDP ratio during P3 is 4.3 percent which is higher than P2 i.e 2.7 percent and P1 i.e 1.97 percent. But indirect tax-GDP ratio is found to be 5.56 percent during P3 which is less than P2 i.e 6.55 percent and P1 i.e 7.88 percent. This implies that indirect tax as percent of GDP before reforms was higher in comparison to 1st and 2nd reform periods, while direct tax reveals continuous increase over the given periods. But tax-GDP ratio does not reflect any significant difference over the given periods i.e P1 (9.86 percent), P2 (9.24 Percent), and P3 (9.9 percent).

5. The expenditure-GDP ratio reflects that during P3, it was 15.55 percent which is less than P2 i.e 15.77 percent and P2 is less than P1 i.e 17.62 percent. This implies continuous decline in expenditure-GDP ratio over the given periods.

6. The debt-GDP ratio shows continuous increase over all the three periods. It has increased from 48.59 percent during P1 to 52.21 percent during P2, and further to 61.4 percent during P3.

7. Fiscal deficit shows continuous decline over the given periods. It has declined from 6.83 percent during P1 to 5.67 percent during P2, and further to 4.56 percent during P1. But revenue deficit shows rising trend over the given periods. It has increased from 1.8 percent during P1 to 2.99 percent during P2, and further to 3.06 percent during P3, which is not desirable for the country. However, the primary deficit reflects decline from 3.13 percent during P1 to 0.66 percent during P2, and further to 0.38 percent during P3.

8. The study of current account balance shows that there has been continuous decline in the current account deficits. It has declined from 1.95 percent during P3 to 1.07 percent during P2, and further to 0.06 percent during P3. This reflects marked improvement in the BOPs conditions of the country. However, during 1980-81 to 2007-08 India’s merchandise trade deficit rose steeply from 4.3 percent to 7.7 percent of GDP implying the net contribution of invisibles.
9. The analysis of the rate of inflation shows that there has been continuous decline over the given periods. It has declined from 8.2 percent during P1 to 7.9 percent during P2, and further to 5.13 percent during P3. The average, SD, CV, and CAGR of inflation are 7.23, 3.39, 46.88 and -2.51 percent respectively.

10. Finally, fiscal measures have been successful in correcting the problem of fiscal imbalances and accelerating the growth performance of the country. However, further there is the need of effective and prudent fiscal measures to achieve the basic objective of growth with economic stability.