CHAPTER 4

SUMMARY OF FINDINGS
4.1 Introduction

In the earlier chapters, the initiatives taken by the government in the area of fiscal and administrative reforms to achieve structural adjustment were discussed. This involved critical examination of the fiscal deficit levels in the context of public expenditure, financial management and accountability. With a certain degree of deregulation and decentralisation coming into play in the context of structural adjustment, the various legislative measures undertaken to raise grants to local self-governments were also examined. The legislative measures initiated to facilitate capital value-based property taxation were also discussed in fulfilment of the objectives of the study. This was done on the basis of the information accessed from the medium-term fiscal plan of the government.

Based on the foregoing analysis, some valuable and insightful findings were arrived at which are summarised in the following paragraphs.

4.2 Summary of Findings

The following is the summary of findings:
1. In 1995-96, the divergence between revenue receipts and capital receipts reduced considerably only to diverge increasingly from the very next year. All the same, the correlation coefficient between the two is a high plus 0.84 since the degree to which the two receipts have moved together has been high for a greater part of the period. The graphical and statistical indication testifies to this fact.

2. Receipts on public account have been volatile. The peaks and troughs tell the story. The 2003-04 and 2004-05 levels really represent a paradigm shift public account receipts. The standard deviation was Rs 18390.32 although the maximum receipt was Rs 63,216.09 and the minimum receipt was Rs 6,030.36.

3. Total receipts peaked in 2001-02 at Rs 84,507.78 crores and hit a trough in 1990-91 at Rs 11,081.13 crores, the first year of the period under review. The standard deviation was Rs. 23,078.36, in view of the volatility that characterised the total receipts.

4. Barring a couple of occasions, revenue expenditure and capital a/c disbursements of the government have tended to move together. The statistical tool which is 0.89 or close to unity also confirms this trend.
5. Revenue expenditure has maintained an increasing trend during the period under review. For the year ending 2001-02 and 2002-03, revenue expenditure has remained almost the same but during 2003-04, it has increased significantly. The highest revenue expenditure was incurred in 2004-05; it was a whopping Rs 25,437.48 crores. The growth rate in revenue expenditure has been volatile throughout which explains the rather high level of standard deviation, viz., Rs 6,809.88.

6. Only thrice (1993-94, 1995-96 and 2004-05) during the period under review have the revenue receipts exceeded the revenue expenditure; the surplus was not significant either. The correlation coefficient is almost perfect since it is 0.99, too close to 1, for comfort.

7. Revenue surplus has been achieved only during three years out of the ten years reviewed, viz., the years are 1993-94, 1995-96 and 2004-05. The correlation is -0.54; it is a negative figure since increasing revenue expenditure has led to a widening revenue deficit except when there has been a corresponding increase in revenue receipts. The latter seldom occurs. Even the Table reveals that surplus of some significance has been generated only once (1993-94) during the period under review.

8. Revenue expenditure on account of general services has tended to accelerate from the year 1996-97. Revenue expenditure on account of
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services has always been higher than revenue expenditure on account of social services. Revenue expenditure on account of general services has always been higher than revenue expenditure on account of social services and economic services.

9. An increase in expenditure on economic services has led to more or less a proportionate increase in expenditure on social services more or less similar because the correlation coefficient between the two, viz, 0.99 is almost perfectly positive.

10. Expenditure on economic services and general services too has moved together though to a slightly lesser degree, as evidenced by a slightly lower correlation coefficient of 0.93. At times, an increase in general services has resulted in a decrease in economic services. The figures for 1996-97 and 1997-98 vouch for this fact. At times, an increase in the former has led to an increase in the latter. The figures for 1999-00, 2000-01 and 2001-02 vouch for this fact. This also explains the slightly lower correlation coefficient between the two components of revenue expenditure.

11. Expenditure on social services and general services has moved in tandem; whenever expenditure on general services has increased so has expenditure on social services albeit in varying degrees. Expenditure on
general services has increased year after year, unfailingly. However, expenditure on social services has increased in all but one year, viz., 2002-03; while in 2001-02 it was Rs 6,428.81 crores, in 2002-03 it was Rs 6,326.25 crores. This to some extent has resulted in the correlation coefficient falling below 1 to 0.94. Amongst the three components of revenue expenditure, the correlation has been the highest between social services and economic services at 0.99 or almost unity.

12. Employee strength hit a trough of 4,96,921 in the year 1991-92. It peaked in 1999-00 with 6,39,331 employees after which there has been a fall, albeit gradual in employee strength. As of 2004-05, the number was only 6,18,826.

13. Salary expenditure on the other hand, does not reflect volatility of a similar degree although it has been increasing too. It was Rs 1,321.21 crores in 1990-91 but peaked to Rs 5,751.39 crores in 2004-05. During the years 2001-02 and 2002-03, salary expenditure has almost stagnated which in itself should be regarded as an achievement since salary expenditure goes up with each passing year in every government.

14. The correlation coefficient, which is a high 0.91 indicates that the employee strength and salary expenditure have moved almost hand-in-hand which does not augur well for the financial health of the government.
In the present-day environment where the emphasis is on downsizing staff and improving employee productivity, this outcome is not welcome.

15. A comparison between salary expenditure and pension expenditure presents a disconcerting picture indeed. The co-movement between the two items of expenditure is almost perfectly positive, as indicated by the high level of correlation coefficient of 0.98 (after rounding off), just 0.02 less than 1. The divergence between these two items of expenditure has been on the ascendant right from the beginning.

16. Even more disconcerting is the fact that pension which accounted for just 19.71% of salary expenditure in 1995-96, increased to 38.50% of salary expenditure in 2004-05. At this rate, before long, pension expenditure will surpass salary expenditure. This is already true in the case of the country's armed forces.

Projections

17. By the year 2014-15, revenue expenditure will mount to Rs 42,532.98 crores and capital account disbursement will mount to Rs 11,797.81 crores.

18. The gradually increasing divergence between the two trendlines is a telltale sign of things to come – the gulf between revenue expenditure and
revenue receipts does not bode well for prudent management of public expenditure.

19. With each passing year, the growth in salary expenditure has been alarming. For the year ending 2015, it is projected at Rs 9,425.42 crores compared to a mere Rs 2,480.74 for the year ending 1995-96. This represents a compounded annual growth rate (CAGR) of 7.28%.

20. Pension expenditure will touch Rs 4,100.39 crores by 2014-15 from a mere Rs 558.55 crores in 1995-96. This implies that pension liability will grow at a CAGR of 11.06%. This compares unfavourably with the CAGR of 7.28% associated with salary expenditure.

21. Tax revenue has declined from 66% to 63% in 2006-07. Non-tax revenue and devolution from the Centre have remained more or less constant. Grants from the Centre have increased to 13% from 9%.

Medium Term Fiscal Plan (MTFP), 2006-10

22. Tax revenue has declined from 66% to 63% in 2006-07. Non-tax revenue and devolution from the Centre have remained more or less constant. Grants from the Centre have increased to 13% from 9%.

23. The government has managed to hold interest cost, salaries and pension at the same level during the two years under review. Subsidy of the general kind and power subsidy have come down from 6% to 5%.
Devolution to the urban local bodies has also remained at the same level during the two years. Other revenue expenditure has come down to 29% from 30%.

24. Performance of the State's economy in 2004-05 and 2005-06 consecutively in terms of growth in Gross State Domestic Product (GSDP) has been far better than that of the previous two years, due to a strong agricultural recovery supplemented by improved power supply position. A quick estimate of 2004-05 has revealed a remarkable growth of 10.2%, much higher than the all-India average of 7.5% during 2004-05. However for 2005-06 the estimated growth rate of the State is 8.7%. The reduction in the growth of GSDP in 2005-06 is mainly attributed to the slow growth of the primary sector. The floods of July and September 2006 devastated agricultural crops in Karnataka at least in parts. Despite these problems the projected total growth rate of GSDP in 2005-06 is higher than the projected national average of 8.1% for 05-06. The advance estimate of GSDP growth in primary sector consisting of agriculture, forestry and logging, fishing, mining and quarrying is 6.4% during 2005-06. The secondary and tertiary sectors are expected to maintain their overall growth trends.

25. In respect of commercial tax, the highest percentage, viz., 113 of the budget estimate was achieved in 2005-06; the corresponding percentage
was 114 in respect of excise in 2005-06; MVT decelerated in 2005-06 as did the other or residual items, compared to the immediate previous year.

26. The performance on the motor vehicle tax front is anomalous considering that with each passing day, more number of vehicles are sold. The trend should have reflected a consistent secular rise in respect of MVT. It is to be ascertained whether the lackadaisical performance on the MVT front is on account of an ambitious budget estimate or on account of genuine failure on the part of the governmental machinery.

27. The projections in MTFP 2006-10 estimate revenue surplus to increase from 0.82% of GSDP to 1.53% of GSDP and consolidated revenue surplus to increase from 0.44% of GSDP to 1.36% of GSDP. Subsequent to phase out off-budget borrowings, the consolidated fiscal deficit reduces from 2.71% of GSDP to 2.38% of GSDP. Since the resources mobilized on account of revenue surplus are to be ploughed back for capital formation, the same is projected to increase from 2.72% of GSDP to 3.73% of GSDP during the MTFP period. As additions to consolidated debt stock are to be regulated through maintenance of fiscal deficit at sub-3% level and through phase-out of off-budget borrowings the same is projected to decrease from 33.45% of GSDP to 29.61% of GSDP.
28. Thankfully gross off-budget borrowings have been coming down if the revised estimates, budget estimates and projections are anything to go by. From a high 838 crores to a modest projected 150 crores in 2009-10 is really worthy of appreciation. The government has succeeded in controlling gross off-budget borrowings.

29. Net borrowings will be -995 crores of rupees in 2009-10, starting with a negative 347 crores of rupees in 2004-05. Negative borrowings imply lending and hence indicate that the government's debt will not only come down but will engender some savings.

30. The consolidated revenue deficit has not shown a consistent trend. The fits-and-starts variation in revenue deficit ought to be smoothed out at the earliest in the interest of the fiscal and financial health of the State.

31. The consolidated fiscal deficit has shown a more consistent trend than the consolidated revenue deficit. The fits-and-starts variation in revenue deficit ought to be smoothed out at the earliest in the interest of the fiscal and financial health of the State. The growth in deficit gives an indication that it will be within tolerable limits.