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Public Accountability and the Role of CAG for Rationalization of Public Expenditure to Minimize the Fiscal Deficit of Union Govt

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Abstract: *The research is focused on the analysis of Public Accounts to look into the nature of Savings Investments, Imbalances and borrowings and the importance of the Comptroller and Auditor General of India to rationalize Govt. expenses to maintain a healthy accounting profile. The study has brought out a chronic pattern of dissaving in case of Govt. departments engaged with Administration. This can be substantiated by the nature of expenditure of the departments which is predominantly in the form of operating expenses. Non-departmental enterprises save above 3% of the GDP, while the saving ratio is the least for the Quasi-Govt. bodies that is around 0.13% for the reference period. It is also revealed that higher fiscal support is channelised towards the investments made by the Administrative Departments. On the other hand, Departmental Savings are the prime source of funding the Non-departmental Investments. Therefore, the revenue income does not meet the extent of Capital Expenditure. In the early decades post-Independence, the Debt to GDP ratio was around 12%, which recorded the largest annual increase. The Primary Deficit for that decade was around 20%, one-third of which was covered by the growth-interest differential. Another higher Debt to GDP ratio was observed during the decades of 80's and 90's because of economic distress and the Primary Deficit also rose to 50% and 40% for those decades. However, most of these deficits were covered by the G-I differential. The CAG recommended to reduce the deficit ratio to 6% gradually and debt ratio to 60% by 2008-09 and maintain thereafter.*

Key Words: *Public Expenditure, CAG, Fiscal deficit, Primary deficit, Interest Payment, Debt accumulation, growth-interest differential.*

1. INTRODUCTION:

A developing nation like India has a huge responsibility of citizen's welfare in terms of upliftment of poor and reducing inequality. Also, the persistent need to build up social infrastructure where the private investment is unlikely to happen, makes the Govt. to allocate a large sum of money every year from its budget. These expenditures sometimes fall short of the revenue and gives rises to fiscal deficit, compelling the Govt. to borrow funds to fill the gap. Almost all countries in the world including India faces fiscal deficit and incurs debt liability each year. Economists argue that borrowing to some extent is permissible and considered healthy for the economy. But irrational federal borrowing to finance the State expenditure contributes to debt pileup each year and an unsustainable debt burden could even lead the Govt. to default on its repayment obligation. It can further degrade the Sovereign credit rating of the Govt. and creates hurdle for the follow-on borrowing. That is why, rationalization of public expenditure and sustainability of public debt have been in focus in recent days. The Comptroller and Auditor General of India (CAG) is a statutory body in India constituted by the Article 148 of the Constitution. It is the supreme Auditor entrusted with the role of examining the Receipt and Expenditure account of the Central as well as the State Govt. and also the Public Sector Undertakings (PSUs) and state-owned Autonomous bodies. CAG submits its report to the President of India for discussion in the Parliament by the Public Accounts Committee. The Comptroller and Auditor General of India, 1971 gives statutory backing to the CAG. Although initially performing both auditing and accounting function for the Central and State Governments, CAG was discharged of the duty of accounting in the year of 1976.

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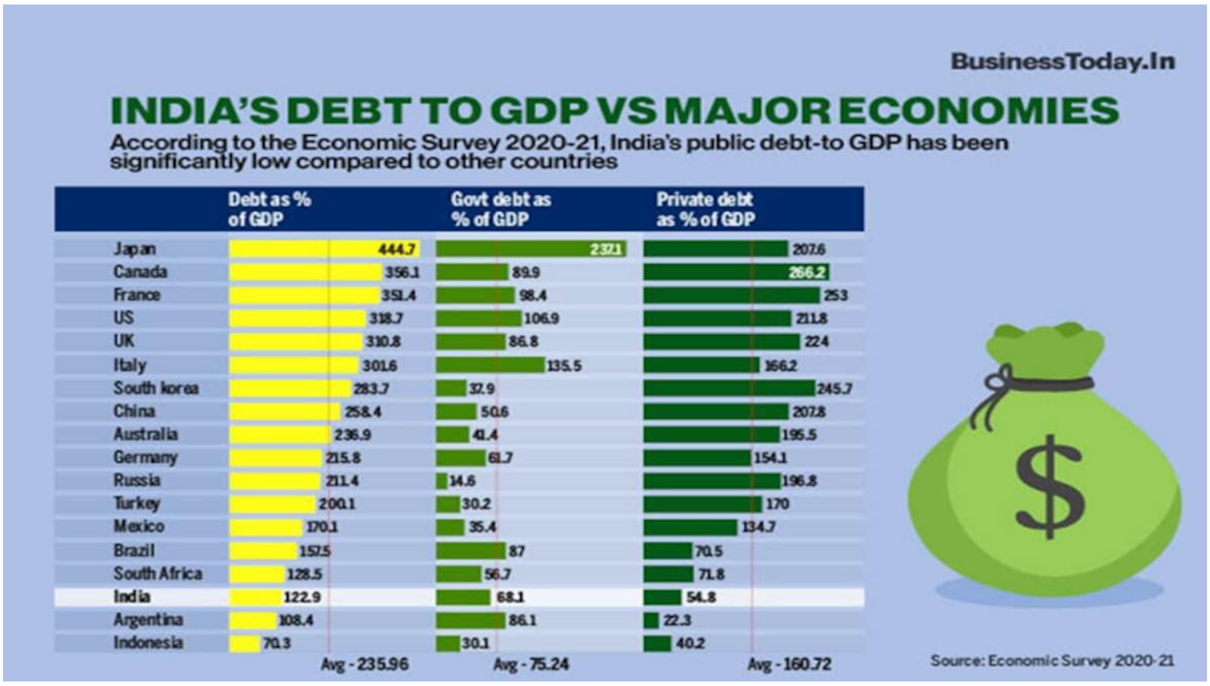

Figure 1: India's Debt to GDP Ratio vs Major Economies

2. REVIEW OF LITERATURE:

Sharma & Mittal, 2019 made a study on the impact that fiscal deficit had on the GDP growth of India from 1985 to 2015. From their study, they concluded that the fiscal deficit has a significant impact on GDP growth. However, the impact of GDP growth on fiscal deficit is not so clear. This finding is in line with the neoclassical theory of GDP growth. They viewed that federal resources should be properly utilized to reduce the fiscal deficit.

Amrutha, Gowda, Zainab, & Rahmi, 2017 analysed the interconnection between the fiscal deficit and GDP growth taking into account the government data from 1980 to 2013. Johansen's methodology has been used in their study. They found an inverse relationship between the two variables. The widening of the Fiscal deficit by 1% is observed to have a 0.61% declining impact on the GDP growth. They recommended that government should work on narrowing the gap between expenditure and revenue.

Iqbal, Din, & Ghani, 2017 studied the relationship between the GDP growth and fiscal deficit in Pakistan with the reference period ranging from 1972 to 2014. They too found an inverse relationship between the study variables and the result was a 5.57% declining impact on the GDP growth followed by a unit change in the fiscal deficit. The researchers advocated that the fiscal deficit generated through capital expenditure is beneficial for the economy in the long term.

Gupta & Singh, 2016 studied the fiscal condition of India in two parts: one being prior to the Reform period and another post-reform fiscal condition. They found that the fiscal condition of India was unsustainable due to high deficit and debt accumulation for the period from 1980 to 2002. His later reference years of study starting from 2002 have seen the improvement in fiscal health due to the benefits accrued from the Reform measures taken by the Govt.

Tiwari, 2011 examined the effect of Fiscal deficit and inflation in the context of the Indian scenario. The paper concluded that inflation doesn't have any decisive impact on the fiscal deficit. However fiscal deficit is impacted by the money supply and government expenditure. Although there is some sort of correlation between the inflation and fiscal deficit that was observed in his paper.

3. RESEARCH GAP:

After studying the relevant literatures, following research gaps have been highlighted.

- Role of Primary deficit excluding interest payment on the accumulation of debt.
- Importance of growth-interest differential in offsetting the negative fiscal account needs to be focused.
- While analysing debt-creating deficits, capital expenditure should be focused separately from the revenue expenditure.
- The role of CAG in monitoring and advising the Govt. on rationalization of Govt. expenditure needs to be emphasized.

4. OBJECTIVES OF THE STUDY:

- To look into the nature of public savings and investment made by various Govt. ministries, department and undertakings.
- To analyse the nature of deficit over the years and its corresponding impact on debt creation.
- To examine the role of CAG in rationalizing Public expenditure and sustaining public debt.

5. DATA ANALYSIS:

5.1. Analysis of Public Savings:

	Admn. depart ments	Dep. Enterp-rises	Non-depart-mental enterp-rises	Quasi-govern-ment bodies	Admn. dept. and dept. enterp-rises	Non-dept. enterp-rises and quasi-govt. bodies
Gross Domestic Saving						
1993-94	-3.16	0.86	2.79	0.14	-2.30	2.93
1994-95	-2.68	0.99	3.23	0.12	-1.69	3.36
1995-96	-2.14	0.83	3.19	0.14	-1.30	3.33
1996-97	-2.41	0.75	3.25	0.09	-1.66	3.34
1997-98	-2.92	0.68	3.45	0.13	-2.25	3.58
1998-99	-5.23	0.57	3.53	0.14	-4.66	3.67
1999-00	-5.10	0.57	3.36	0.14	-4.53	3.49
2000-01	-5.55	0.23	2.86	0.14	-5.32	3.00
2001-02	-6.22	0.04	3.29	0.14	-6.18	3.43
2002-03	-5.81	0.09	3.72	0.14	-5.72	3.87
Gross Domestic Investment						
1993-94	1.68	1.94	4.47	0.15	3.62	4.62
1994-95	1.93	1.80	4.85	0.16	3.73	5.01
1995-96	1.77	1.72	3.96	0.14	3.49	4.11
1996-97	1.66	1.54	3.71	0.12	3.20	3.83
1997-98	1.44	1.60	3.44	0.14	3.04	3.57
1998-99	1.61	1.40	3.37	0.19	3.02	3.56
1999-00	1.70	1.48	3.58	0.18	3.18	3.76
2000-01	1.70	0.11	4.30	0.18	1.81	4.48
2001-02	1.61	0.81	3.23	0.19	2.41	3.41

Table 1: Gross Domestic Savings and Investment of Public Sector relative to GDP

The above table analyses the Savings and Investment of various Govt. departments over the years. Administrative departments and department enterprises are consecutively dissaving given the nature of operating expenditure they incur. Non-departmental enterprises are having more than 3% Saving to GDP ratio. Quasi-Govt. bodies record lowest savings over the study periods averaging around 0.13% of GDP.

However, Administrative departments are recording some investments at around 1.7% of GDP. Departmental enterprises incur investment expenditure at around 1.6% of GDP on an average, although the investment fell substantially in early 2 years of 21st century. Highest investments over the years are undertaken by the Non-departmental Enterprises and quasi-govt. bodies. Some important intuition from the dataset obtained as that

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Administrative Investment are mostly financed by the fiscal support rather than departmental savings, whereas the Non-departmental Investments are mostly financed by the departmental savings. So, the Revenue income is not sufficient to meet the Capital expenditures.

5.2. Analysis of Public Debt:

	Cumulated changes in			Relative impact of cumulated primary deficit	
	Debt-GDP ratio	Primary def-GDP ratio	Growth & interest rate differential	Increase in debt-GDP ratio	Absorption by growth-interest differential
				D/p	W(g-i)/p
1951-52 to 1959-60	12.89	19.39	6.50	66.47	33.53
1960-61 to 1969-70	3.87	32.18	28.31	12.03	87.97
1970-71 to 1979-80	0.07	26.18	26.12	0.25	99.75
1980-81 to 1989-90	14.71	52.09	37.38	28.24	71.76
1990-91 to 2002-03	14.67	39.09	24.42	37.53	62.47
1951-52 to 2002-03	46.21	168.94	122.73	27.82	72.18

Table 2: Decade-wise Debt scenario of India

In the fifties, Debt-GDP was 12.8%, which is the highest increase (66%) from previous year. The Primary Deficit (PD) in this decade stood at 19.3%, 33% of which is absorbed by the Growth-Interest (g-i) differential. The leftover 67% led to 3.87% Debt-GDP in the following decade. In the sixties, PD was substantially higher. However almost 88% of the PD was absorbed by the g-i differential, which led to almost nil debt pile up in the next decade (0.07%). In the seventies, nearly 100% of PD is absorbed by g-i differential, which indicates a sound fiscal health of the economy.

However, in the decades of eighties and nineties, due to economic slowdown, debt to GDP ratio rose to almost 15% of GDP. Primary deficit was also higher at 52% and 39% respectively. However, around 72% and 62% of the deficits are absorbed by the growth-interest differential in those decades.

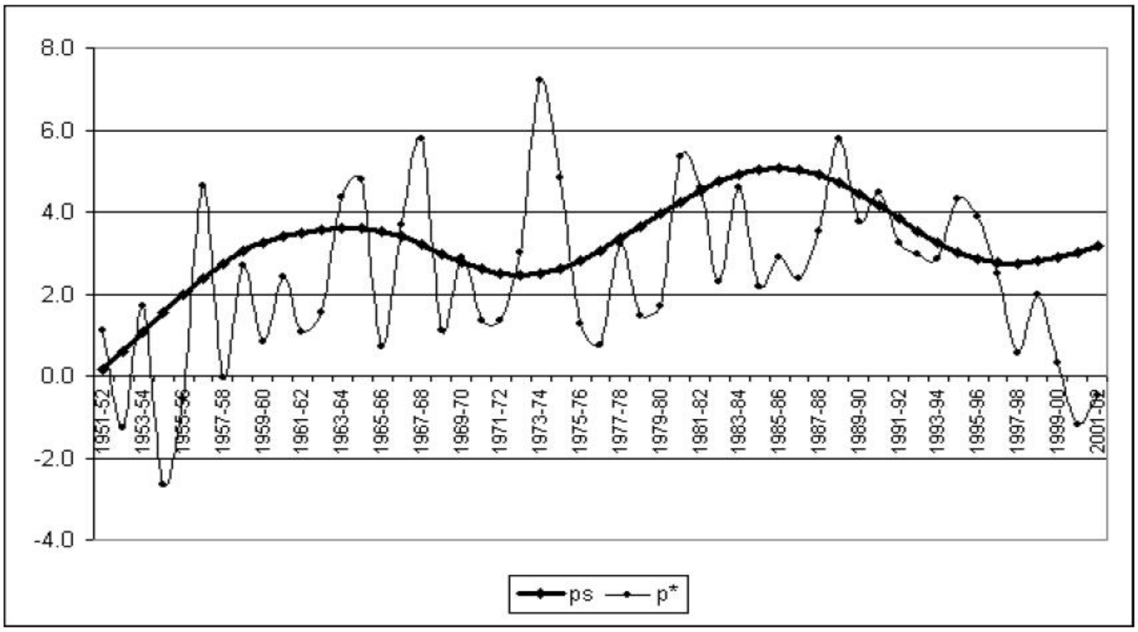

Table 3: Structural and Debt-Stabilizing Primary Deficit

The Structural deficit shown by the bold line has reached its top in the decades of sixties and eighties. However, the debt-stabilizing primary deficits marked by the sleek line, reaches its top in seventies. This period led to lower debt accumulation with respect to GDP. In late nineties, structural debt is much higher than the Primary deficit, which is marked by large structural interest payment. This interest payment along with the primary deficit made the fiscal deficit even wider.

6. CONCLUDING REMARK: ROLE OF CAG:

- CAG is entrusted with the responsibility of keeping in check on public expenditure and subsequent debt accumulation. CAG should periodically examine and disclose that the combined Centre and State fiscal deficit is within the 6% of GDP target recommended by the Fiscal Responsibility and Budget Management Act (FRBM) 2003. The 2002-03 level of fiscal deficit that was around 8.57% of GDP, corresponded with a combined debt-GDP ratio of 80%. It was propounded that the narrowing fiscal deficit year-on-year could lead to the debt-GDP ratio to reduce from the 80% level. It was envisaged to draw down the fiscal deficit ratio to 6% step by step along with the debt burden to 60% by 2008-09 and sustain thereafter. The following figure represents this scenario, where the bold line is debt-GDP ratio and the sleek line is the fiscal deficit.

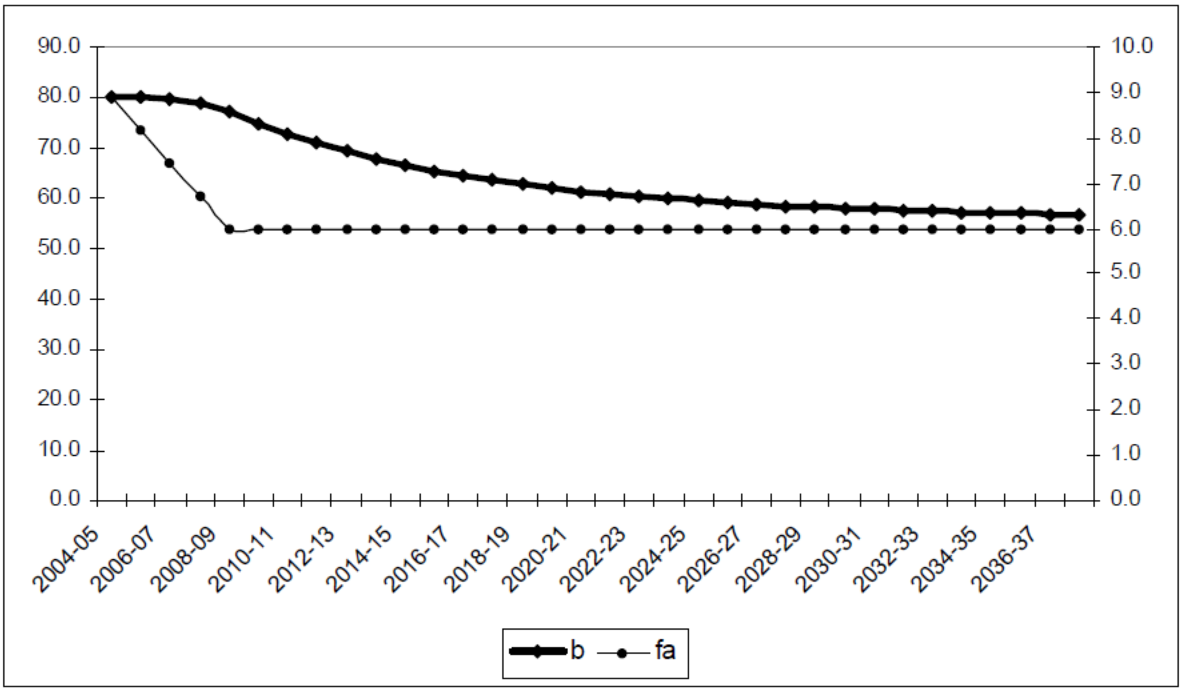

Table 4: Projected Debt-GDP Ratio and Fiscal Deficit for the upcoming years

- CAG should ensure that there is proper source of revenue earning to fund the revenue expenditure of the Govt. The Govt. is not recommended to resort to Capital expenditure to fund the Revenue deficit. CAG has an important role in pointing out the same and prescribe rationalization in this regard.
- Higher fiscal deficit by the Govt. beyond the prescribed level can only be permitted by the CAG in the event where such deficit is created by Capital Expenditure aimed at augmenting the income generating capacity of the economy.
- CAG is required to stress on containing the Primary deficit along with preventing further increase in interest cost on the Govt. account.

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