The Scramble for Resources*

C.P. Chandrasekhar

Given the obsession to limit the dressed up fiscal deficit figure and unable to think of better responses to the growth slowdown than tax cuts, it is more than likely that better economic management and ways to address the intensifying stagflation would not be the focus of the Finance Minister’s attention when presenting the next Budget. Objective number one is likely to be a show of fiscal prudence. But, given the recessionary environment, that alone would not do, since there must be some indication of further efforts to stimulate the economy and trigger a turnaround. That needs enhanced spending.

Faced with these twin objectives, the government would have to project substantially higher receipts, that can match increased expenditures without flouting its own conservative fiscal stance, signalled by tight control over the fiscal deficit. This is bound to set off a scramble for resources, real or imaginary. Some would be extracted from the RBI, though having cleared out accumulated “surplus” reserves in fiscal 2019-20, the sum that would be available from this source in 2020-21 would be lower than in the preceding fiscal year.

Non-debt capital receipts from privatisation appear a source that the Finance Minister can turn to because of the projected large shortfall in privatisation receipts in 2019-20. If the opportunity identified for 2019-20 remains unutilised, then tapping that source should be an obvious option for 2020-21. However, the shortfall in 2019-20 raises a number of questions. As per plans revealed in bits and pieces, the principal means of raising large resources from privatisation was to be strategic sale. The Cabinet had cleared plans for a large stake sale along with transfer of management control in BPCL, Container Corporation of India and Air India and had identified a set of steel and other projects that could be put through the same process, all with the primary aim of raising budgetary resources. In fact, in instances like BPCL, the conventional arguments of negative profits and inefficiency characterising public sector entities warranting privatisation did not apply.

While these were among the advertised plans, in actual fact a significant chunk of the resources raised so far was from sale of public sector enterprise equity-linked exchange traded funds. Besides this, money came in through IPOs by IRCTC and Rail Vikas Nigam and an offer for sale of equity from RITES. This limited mobilisation suggests that there was some set of factors holding back the effort to garner resources through strategic sales and wholesale privatisation. In some cases, like Air India, the accumulated debt and liabilities of enterprises were so huge that private buyers were unwilling to take over, unless the government cleaned the books. But for a cash-strapped government looking for resources any effort to neutralise debt with its money prior to a sale hardly made sense. The second reason why the privatisation effort may have stalled is the state of the economy, which could have affected the government’s assessment of its ability to ensure sales of public assets at prices that seemed reasonable, let alone lucrative. Finally, the same state of the economy may be just discouraging private investors who still had access to the required cash to hold back on making a bid for these enterprises.

The prospect that the RBI and privatisation may not be major sources of funds, has set off a scramble for resources, real or imaginary. Despite the recession the government has claimed that it would be able to significantly increase tax collection in the remaining months. The Revenue Department of the Finance Ministry has reportedly set the Central Board of Indirect Taxes and Customs a target of GST revenue collection of Rs.3.55 lakh crore over the last three months of fiscal 2019-20. Set at Rs. 1.15 lakh crore for January and February 2020, and Rs. 1.25 lakh crore for March 2020, this amounts to an average of Rs. 1.18 lakh crore over the three months. That seems near impossible since the average achieved over the first nine months of the financial year was just marginally above Rs.1 lakh crore.

But the fact that the government can set such targets shows that it would be willing to inflate estimates presented in the Budget. The claim is that the tax authorities would come down heavily on those availing “fake” input credits, of which they claim to have evidence. What is unclear is if such evidence was available, why did the government have to wait till this late stage to start the process of extracting taxes due from tax law violators. Since the Budget is being presented on February 1, which is two months before the financial year actually ends, revenue and expenditure figures for the financial year as a whole are estimates. Those estimates should be based on trends in the first 9-10 months of the current financial year and full year figures for recent years gone by. But if targets can be set that are not based on what the trends suggest but what it is claimed the tax department can do, then it is possible to convert such ‘targets’ into estimates of revenue that would be realised. And if estimates can be inflated for the current financial year that can be easily done for the next as well.

Finally, there is the possibility of not bringing into the budget expenditures that must be accounted for and not making allocations to agencies like the FCI, and getting them to borrow to meet what should be budget financed expenditures. This is a practice that has been adopted by previous government’s as well, but reliance on this has increased considerably. Off-budget transactions of that kind reduce the ‘declared’ fiscal deficit to GDP ratio, but unfairly burden public institutions with debt that arises merely because they are implementing central government policies.

Put together, these measures would amount to little more than playing with figures, while the economy continues its downward slide. But that is the price to be paid for being obsessed with ‘business friendly” policies, while believing that politically the economy does not matter, since Hindutva attracts voters.

*** This article was originally published in asiavillenews on January 27, 2020.**