C.68(12)/3121 13.11.2013

The Chairperson
Departmentally related Parliamentary Standing Committee on Finance
Parliament of India
New Delhi - 110 001

Sub: The Petition of Shri Pradeep Mehta, Secretary General, Consumer Unity and Trust Society, Jaipur, for review and revision of the fiscal management regime in India

Sir,

1. This petition undertakes an overall assessment of fiscal management practices of the Government of India (**Government**) and highlights the need to press upon the Government for an urgent review and revision of fiscal management regime for the country.

I. The FRBM Mandate

2. The Fiscal Responsibility and Budget Management Act, 2003 (**FRBM Act**) and the Fiscal Responsibility and Budget Management Rules, 2004 (**FRBM Rules**), were adopted by the Government to ensure implementation of sustainable fiscal management practices and hold Government accountable in case of non-compliance.

3. The Preamble of the FRBM Act provides:

   "*An Act to provide for the responsibility of the Central Government to ensure inter-generational equity in fiscal management and long term macro-economic stability by achieving sufficient revenue surplus and removing fiscal impediments in the effective conduct of the monetary policy and prudential debt management consistent with fiscal sustainability through limits on the Central Government borrowings, debt and deficits, greater transparency in fiscal operations of the Central Government and conducting fiscal policy in a medium term framework and for matter connected therewith or incidental thereto.*"

4. In its original form, Section 4 of the FRBM Act read with Rule 3 the FRBM Rules, required systematic reduction in the fiscal deficit and revenue deficit so as to eliminate revenue deficit and achieve fiscal deficit of 3% of Gross Domestic Product (**GDP**), by 31.03.2008.

5. The excess of revenue expenditure over revenue receipt is revenue deficit and excess of total expenditure (revenue as well as capital, excluding debt repayment) over total receipts (revenue as well as capital, excluding debt receipts) is fiscal deficit.

6. In order to fund fiscal deficit, the Government borrows in form of market loans, short term borrowings, external borrowings, etc. Eventually, in order to repay the debt raised, the Government has to resort to taxation, which forms significant portion of its receipts.

7. As noted by the Twelfth Finance Commission, in its report of November 2004:

"*The financing of budgets by deficits amounts only to postponement of taxes. The deficit in any current period is exactly equal to the present value of future taxation that is required to pay off the increment to debt resulting from the deficit. Since government spending must be paid for, whether now or later, the present value of spending must be equal to the present value of tax and non-tax revenues.*" (paragraph 4.34)

8. Further, in their paper titled 'The Importance of Being Earnest About Fiscal Responsibility', (**Fiscal Responsibility Paper**) published in 2007, Dr. C. Rangarajan (noted economist, ex-Governor, Reserve Bank of India, and Chairman, Prime Minister Economic Advisory Council) and Dr. D. Subbarao (noted economist, ex-Governor, Reserve Bank of India), noted:

"*Fiscal deficits, especially in the face of revenue deficits, exacerbate inter-temporal equity concerns as they give the pleasure of spending to the current generation while passing on the pain of debt servicing to the later generation.*" (paragraph 16)

"*In general, continued high fiscal deficits are a concern for several reasons. First, they disempower the government's fiscal stance by preempting a larger share of public resources for debt servicing thereby leaving that much less for desirable expenditures such as physical infrastructure (e.g.: roads, power) and social infrastructure (e.g.: education, health). This leads to a declining ratio of capital expenditure to total expenditure…*" (paragraph 12)

9. According to the paper on 'Binding the hands of Government-a credible fiscal rule for the UK' published by the Institute of Economic Affairs, UK, published in May 2012:

"*Debt is a burden on future taxpayers…Moreover, repaying debt involves higher tax rates, which damage the economy. Finally, while future taxpayers and holders of government debt overlap, they remain distinct groups-debt is owed to taxpayers in general by the holders of debt.*" (page 5)

Consequently, deficits are future taxes on the taxpayers, as they are funded by the funds collected by way of tax.

10. Article 265 of the Constitution of India provides that no tax shall be levied *or* collected except by authority of the law.

11. Article 265 of the Constitution of India envisages levy and collection of tax as two separate activities. Legislative backing is required for both, either by way of separate statutes or one. As soon as the Government borrows money, the obligation to repay is triggered, which has to be funded by way of taxpayers' money. Consequently, the point of levy of tax is incurring of debt to fund the Government's expenditure. The

relevant statutes that authorise the Government to run specific levels of deficit or levy 'future tax' are FRBM Act and the FRBM Rules and the yearly finance acts formally authorise the Government to collect the tax. Consequently, violation of FRBM Act and FRBM Rules would mean incurring of debt beyond authorised limits, meaning levy of tax without legislative authority. Such an action at the part of Government would be ultra vires of Article 265 of the Constitution of India.

12. Further, in order to limit the borrowing of the Government, and consequently limit the future tax, Article 292 of the Constitution of India provides that the Government may borrow upon the security of the Consolidated Fund of India within such limits, if any, as may from time to time be fixed by Parliament by law and give guarantees within such limits, if any, as may be so fixed. The FRBM Act provides such limit, within which the Government is authorised to borrow. Consequently, exceeding the limits set under the FRBM Act is concomitant to violation of mandate of Article 292 of the Constitution of India.

13. Accordingly, any violation of FRBM Act and FRBM Rules would mean violation of Articles 265 and Article 292 of the Constitution of India.

14. As per Section 120 of Finance Act, 2004, the deadline to eliminate revenue deficit and limit fiscal deficit to 3% of the GDP was extended from 31.03.2008 to 31.03.2009.

15. The Report on Task Force on Implementation of the FRBM Act, July 2004 (**Report**), projected that if India were to achieve the targets mentioned in the FRBM Act and Rules, and implement related reforms as proposed, GDP growth is expected to accelerate to 13% per year in 2008-09.

16. In addition, the Twelfth Finance Commission noted:

"*If the revenue account is balanced, the entire fiscal deficit would be spent on capital expenditures. Such investment can provide direct as well as indirect returns. The direct returns are in the form of interest receipts or dividends. The indirect returns arise when government investment stimulates growth, which results in higher revenue receipts.*" (paragraph 4.32)

"*Getting the right size and the right composition of government expenditure with a view to facilitating achievement of highest attainable growth rates, and meeting governments' social obligations including poverty reduction and provision of health and education should be considered integral to any plan for restructuring public finances. This requires increasing public spending in social and economic infrastructure for accelerating growth while reducing the overall fiscal imbalance.*" (paragraph 4.6)

II. Continual non-compliance from 2009 to 2012

17. The deficit targets under the FRBM Act were not met. According to the Accounts at Glance (2008-09), maintained by the Controller General of Accounts, Ministry of Finance, for the financial year 2008-09, the net receipts of the Government were sufficient to meet only 62% of the total expenditure, leaving a deficit of Rs. 3,36,992

crores. In terms of GDP, fiscal deficit was 6.21% of GDP and revenue deficit was 4.67% of GDP.

18. The adverse impact of fiscal indiscipline and not achieving deficit targets has been well documented. The Twelfth Finance Commission noted:

"*In a way, by nursing large revenue deficits, the centre and the states contributed to a fall in the aggregate government savings to GDP ratio which, although partially compensated by a rise in the households savings relative to GDP, set in motion a vicious cycle of falling growth rates, decreasing transfers, increasing borrowings, rising interest payments, and worsening revenue deficit*." (paragraph 3.46)

"*High levels of debt-GDP ratio result in high interest payments relative to revenue receipts. Since interest payments are committed expenditures, revenue deficits are bound to increase when revenue receipts to GDP ratios remain sluggish. This has the effect of lowering the saving rate on the one hand and increasing the fiscal deficit on the other to maintain primary expenditures. Eventually, these changes have the potential of developing into a spiral of rising fiscal deficits, debt, interest payments, revenue deficits, and back to a higher fiscal deficit*." (paragraph 4.31)

"*Excessive dependence on domestic market borrowing can push the interest rates, while excessive dependence on borrowing from the central bank can unduly accelerate the inflation rate. The use of external borrowing under certain circumstances can put pressure on the exchange rate.*" (paragraph 4.12)

19. As noted by Dr. C. Rangarajan and Dr. D.K. Srivastava (noted economist), in their paper titled 'Fiscal Deficits and Government Debt: Implications for Growth and Stabilisation', dated July 2, 2005:

"*High levels of fiscal deficit relative to GDP tend not only to cause sharp increases in the debt-GDP ratio, but also adversely affect savings and investment, and consequently growth. The usability of fiscal policy as a tool of countercyclical intervention is also compromised when the fiscal deficit is high and structural in nature.*" (page 2919)

20. In addition, the report of the Committee on Roadmap for Fiscal Consolidation (**Kelkar Committee**), dated 03.09.2012, noted that:

"*Runaway fiscal deficits, leading to unsustainable levels of public debt, can cause diverse forms of macroeconomic imbalances varying with the means through which the deficit is financed. High fiscal deficits tend to heighten inflation, reduce room for monetary policy stimulus, increase the risk of external sector imbalances and dampen private investment, growth and employment.*" (paragraph 1.1)

21. Starting September 2008, the international financial sector was engulfed in a crisis. In order to counter financial crisis, the Government released three fiscal stimulus packages in quick succession (December 2008, January 2009, and February 2009) comprising reduction in tax rates, enhancement of drawback rates for exports, extension of tax exemptions and additional allocations under the plan for centrally sponsored schemes like the National Rural Employment Guarantee Scheme.

22. Such stimulus packages were blamed by the Government for inability to achieve deficit targets. In the interim budget speech for the financial year 2009-10 dated February 16, 2009, the then Minister of Finance, noted:

"*Extraordinary economic circumstances merit extraordinary measures. Now is the time for such measures. Our Government decided to relax the FRBM targets, in order to provide much needed demand boost to counter the situation created by the global financial meltdown.*" (paragraph 20)

23. In addition, in the regular budget speech for the year 2009-10, dated July 6, 2009, the then Minister of Finance, noted:

"*To counter the negative fallout of the global slowdown on the Indian economy, the Government responded by providing three focused fiscal stimulus packages in the form of tax relief to boost demand and increased expenditure on public projects to create employment and public assets. The RBI took a number of monetary easing and liquidity enhancing measures to facilitate flow of funds from the financial system to meet the needs of productive sectors. This fiscal accommodation led to an increase in fiscal deficit from 2.7 per cent in 2007-08 to 6.2 per cent of GDP in 2008-09. The difference between the actuals of 2007-08 and 2008-09 constituted the total fiscal stimulus. This fiscal stimulus at 3.5% of GDP at current market prices for 2008-09 amounts to Rs.1,86,000 crore.*" (paragraph 13)

24. However, the claims of the Government, that fiscal stimulus packages in response to financial crisis, being responsible for fiscal deficit, were demolished by the Thirteenth Finance Commission, in its report dated 29.12.2009, which stated:

"*Implementation of the recommendations of the Sixth Central Pay Commission by the Centre, farm debt waiver and additional provision of funds for food and fertiliser subsidies have added to the fiscal burden. These additional commitments, though not a part of the stimulus, have, nevertheless, served as fiscal stimulus to the economy. Collectively, these have meant a 'pause' in the implementation of the FRBMA by the Centre.*" (paragraph 4.3)

"*The reversal of fiscal correction was not entirely on account of the fiscal stimulus measures. Pay revision, farm debt waiver and additional expenditure on food and fertiliser subsidies have added substantially to the fiscal burden. Much of the deterioration in fiscal indicators observed in 2008-09 was on account of these additional expenditure commitments.*" (paragraph 4.8)

25. The Accounts at Glance (2008-09), maintained by the Controller General of Accounts, Ministry of Finance, for the financial year 2008-09, also reveal that the year-on-year increase in food and fertilizer subsidies was 40% and 136% respectively.

26. Dr. M. Govinda Rao, (noted economist, ex-Director, National Institute of Public Finance and Policy and member, Fourteenth Finance Commission) in his paper titled, 'The Fiscal Situation and a Reform Agenda for the New Government' dated 20.06.2009, noted:

"*Is the deterioration in the fiscal health in 2008-09 due to the fiscal stimulus given to combat the economic slowdown? A closer examination shows that the revision was mainly because there was significant under-provision of expenditures in the 2008-09 budget estimates and during the course of the year expenditures had to be provided to fund the commitments made in the budget. The detailed analysis of the Supplementary Demands shows provision for additional cash expenditures amounting to almost 2.8% of GDP. This includes provision for pay revision, additional funds for food and fertiliser subsidies, funding of the loan waiver scheme and additional allocation to various flagship programmes including the National Rural Employment Guarantee. Thus, in order to show that the government was adhering to the FRBMA, the expenditures were simply under-budgeted. Thus, the deterioration in the fiscal situation was not due to any stimulus package, though, these expenditure certainly provide additional stimulus to the economy.*" (page 80)

"*The analysis also shows that overwhelming proportion of the deficit continues to be structural and not cyclical. Furthermore, the increase in the expenditures was not due to fiscal stimulus packages but to adequately fund the commitments made in the budget itself. Inadequate funding of the programmes in the budget only creates inefficiency in expenditure implementation. Thus, even as it passed the FRBMA, the government missed the opportunity to adhere to the set targets by weeding out unproductive expenditures. In particular, the proliferation of explicit and implicit subsidies has long been a concern not only because to the large and growing magnitude but also its poor targeting and fiscal responsibility legislation provided a good opportunity to rationalise them.*" (page 80)

27. First proviso to Section 4 of the FRBM Act provides that the deficit targets may be exceeded **only** on the grounds of national security, national calamity, or such other exceptional grounds as may be specified. Second proviso of Section 4 of the FRBM Act provides that the grounds shall be placed before both the Houses of the Parliament, as soon as may be, after such deficit amount exceed the targets.

28. Consequently, the deficit targets could have been exceeded only on the exceptional grounds such as national security and national calamity. Such exceptional grounds ought to be unpredictable and outside the control of the Government. These must also jeopardise other sectors of the economy, and the country in general.

29. Actions such as pay revision, food and fertiliser schemes, and loan waiver are populist measures and in no case could be classified as grounds of national security, national calamity or such other exceptional grounds.

30. Further, as required under Section 7 of the FRBM Act, any breach of the deficit limits is required to be accompanied by the following:

- Appropriate measures to increase revenue or decrease expenditure (sub-section (2) to Section 7)
- Approval of the Parliament (sub-section (3)(a) to Section 7)
- Statement by the Minister of Finance explaining the deviation and the remedial measures proposed to be taken (sub-section 3(b) to Section 7)

31. Consequently, in case of deviation, the Government was required to take appropriate measures to increase the revenue and reduce the expenditure. However, after non-compliance with targets in 2009, never did the Government was able to eliminate revenue deficit or reduce fiscal deficit to 3% of the GDP. The Government also did not lay down any plans to revert to the path of fiscal discipline, as no amendments were introduced until 2012-2013, to the FRBM Act and the FRBM Rules, and the original targets continued to require compliance by the Government.

32. Consequently, the Government violated the provisions of FRBM Act, specifically section 4, and the FRBM Rules. As the borrowing limits under the FRBM Act were breached, the excess borrowings did not have any legal basis and consequently were ultra vires to Article 292 of the Constitution of India. As such excess borrowings are future taxes, levied without any authority of law, the Government also violated Article 265 of the Constitution of India.

33. From the years 2009 up to 2012, no amendments to the FRBM Act and the FRBM Rules were introduced. Consequently, the Government was required to comply with the originally set targets of eliminating revenue deficit and reducing (and maintaining) fiscal deficit to 3% of the GDP. However, never did the Government was able to eliminate revenue deficit or reduce fiscal deficit to 3% of the GDP. The Government also did not lay down any plans to revert to the path of fiscal discipline, as no amendments were made to the FRBM Act and the FRBM Rules, and the original targets were required to be complied with by the Government.

34. For the years 2009 to 2013, following were the fiscal deficit levels:

Year	**Fiscal deficit (absolute in Rs. crores)**	**Fiscal deficit (% of GDP)**
2009-10	4,18,483	6.79
2010-11	3,73,591	4.87
2011-12	5,16,269	5.79
2012-13	4,89,890	4.90

35. For the years 2009 to 2013, following were the revenue deficit levels:

Year	**Revenue deficit (absolute in Rs. crores)**	**Revenue deficit (% of GDP)**
2009-10	3,38,999	5.50
2010-11	2,52,252	3.29
2011-12	3,94,627	4.42
2012-13	3,63,459	3.60

36. Consequently, the Government has been in continual non-compliance with the targets under the FRBM Act and the FRBM Rules starting March 2009.

37. In order to revert to the path of fiscal discipline, the Thirteenth Finance Commission (November 2009) recommended a revised roadmap for fiscal consolidation. Among other things, the recommendations included:

"*The revenue deficit of the Centre needs to be progressively reduced and eliminated, followed by emergence of a revenue surplus by 2014-15.*" (paragraph 9.18, 9.31)

"*The Medium Term Fiscal Plan (MTFP) should be reformed and made a statement of commitment rather than a statement of intent. Tighter integration is required between the multi-year framework provided by MTFP and the annual budget exercise.*" (paragraph 9.38)

"*The FRBM Act needs to specify the nature of shocks that would require a relaxation of FRBM targets.*" (paragraph 9.62)

" *Structural shocks such as arrears arising out of Pay Commission awards should be avoided by, in the case of arrears, making the pay award commence from the date on which it is accepted.*" (paragraph 9.64)

"*An independent review mechanism should be set-up by the Centre to evaluate its fiscal reform process. The independent review mechanism should evolve into a fiscal council with legislative backing over time.*" (paragraph 9.65, 9.66)

38. However, the amendments suggested by the Thirteenth Finance Commission were not considered by the Government. Instead, the Government preferred to be in continual denial of the mandate of the deficit targets and remained in non-compliance of the targets for the years 2009 – 2012.

III. Dilution and postponing the FRBM targets

39. In the years 2012 and 2013, pursuant to the Chapter VI of the Finance Bill, 2012 (**FRBM Amendment Bill**) and the Fiscal Responsibility and Budget Management (Amendment) Rules, 2013 (**FRBM Amendment Rules**), certain amendments to the FRBM Act and the FRBM Rules were introduced.

40. Amongst other things, the FRBM Amendment Bill and the FRBM Amendment Rules required the Government to take appropriate measures to reduce fiscal deficit, revenue deficit and effective revenue deficit, to eliminate the effective revenue deficit by the 31.03.2015 and thereafter build up adequate effective revenue surplus, and also to reach revenue deficit of not more than 2% of GDP by the 31.03.2015 and thereafter as may be prescribed by rules made by the Government.

41. A comparison of the targets under the original FRBM Act and the FRBM Rules, with the FRBM Amendment Bill and the FRBM Amendment Rules, shows the following picture:

Original FRBM Act and the FRBM Rules	**FRBM Amendment Bill and FRBM Amendment Rules**
Fiscal deficit target of 3% of GDP to be achieved by 31.03.2008, extended by Finance Act, 2004, to 31.03.2009	Fiscal deficit target of 3% of GDP to be achieved by 31.03.2017
Revenue deficit to be eliminated by 31.03.2008, extended by Finance Act, 2004, to 31.03.2009	Revenue deficit to be limited to 2% of the GDP by 31.03.2015

42. A comparison of the specific amendments to the FRBM Act as suggested by the Thirteenth Finance Commission with the FRBM Amendment Bill and the FRBM Amendment Rules, shows the following picture:

Recommendations of the Thirteenth Finance Commission	**FRBM Amendment Bill and FRBM Amendment Rules**
The revenue deficit to be eliminated, followed by emergence of revenue surplus by 2014 -15	Revenue deficit to be limited to 2% of the GDP by 31.03.2015
Reforms in the Medium Term Fiscal Plan/ Medium Term Fiscal Policy Statement	Not accepted
Specification of the nature of shocks that would require a relaxation of FRBM targets	Not accepted

43. Consequently, pursuant to the FRBM Amendment Bill and FRBM Amendment Rules, the deadline for limiting the fiscal deficit to 3% of GDP was extended from 31.03.2008/09 to 31.03.2017. The revenue deficit target was diluted wherein, originally it was supposed to be eliminated by 31.03.2008/09, but subsequently, it was supposed to be limited to 2% of GDP by 31.03.2015. Further, none of the amendments recommended by the Thirteenth Finance Commission were accepted by the Government.

44. The Finance Commission is constituted under the Constitution of India. In terms of Article 281 of the Constitution of India, the President is required to cause every recommendation made by the Finance Commission under the provisions of this Constitution together with an explanatory memorandum as to the action taken thereon to be laid before each House of Parliament. In spite of such high importance attached to the Finance Commission under the Constitution of India, the Government disregarded its valuable suggestions in order to adopt a path of fiscal profligacy.

45. The dilution and postponement of the targets under the FRBM Act is contrary to the objectives and preamble of the FRBM Act, which fixed responsibility on the Government to ensure inter-generational equity in fiscal management in long-term, and achieving fiscal sustainability through limits on the Government's borrowings, debts and deficits. The Government has disregarded the recommendations of the Thirteenth Finance Commission of adopting tighter and accountable fiscal management regime, and instead opted for a relaxed framework that does not ensures accountability.

46. The Reserve Bank of India, in Chapter VI on 'Lessons and Future Challenges' of its Report on Currency and Finance 2009-12 Fiscal Monetary Co-ordination, dated December 31, 2012, noted:

"*Against the backdrop of an imminent need to revert to rule-based fiscal discipline, it is important to examine what rules can work in India. A notable lacuna in the FRBM regime has been that there are often deviations from the fiscal rules. FRBM Act explicitly provides for breach of targets in the case of national security need, national* *calamities and other exceptional circumstances. This leaves a lot of leeway in interpretation. The amendment to the FRBM Act in 2012-13 has re-established the regime of fiscal rules, and introduced a medium-term expenditure framework. Going forward, there is a need to remove a large part of ambiguity about any exceptions to be made, by adding expenditure rules to deficit rules and by adopting broader definition of deficit to cover quasi-fiscal activities.*" (paragraph 6.27).

47. Further, the report of the Kelkar Committee noted:

"*The Indian economy is presently poised on the edge of a fiscal precipice, making corrective measures aimed at speedy fiscal consolidation an imperative necessity if serious adverse consequences stemming from this situation are to be averted in an efficient and timely manner.*" (paragraph 1.1)

"*…the consequences of not quickly taking credible effective measures for correcting the current fiscal deficit is likely to be a sovereign credit downgrade and flight of foreign capital. This will invariably further weaken the rupee and negatively impact the capital markets and the banking sector. In addition, the situation leaves little head room for counter-cyclical policy measures in the event of another global crisis. The growing fiscal deficit also leaves limited monetary space for lowering interest rates to stimulate private investment and growth. In a country where millions of young, both skilled and unskilled, enter the labour force each year, a growth slowdown is inefficient, inequitable, and potentially politically destabilizing. It is the poor and the unemployed who will suffer the most in the event of sluggish growth and consequent political instability.*" (paragraph 1.1)

48. Consequently, it is imperative for the Government to urgently put its house in order, and quickly revert to the path of fiscal discipline.

IV. Violation of provisions of the Constitution of India

49. Article 38 of the Constitution of India requires the Government to secure and protect a social order in which economic justice shall inform all the institutions of the national life. In addition, the Government is required to strive towards minimising the inequalities of income. Article 39 requires the Government to secure that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment.

50. As noted by the Fiscal Responsibility Paper:

"*..if we incur fiscal deficits together with revenue deficits, it means we are using up borrowed resources for current consumption which may raise growth in the short term, but of the spurious variety. For sustainable growth, we need to balance our books on the revenue account and use borrowed funds only for investment.*" (paragraph 13)

51. By not adopting fiscal discipline, the Government has failed to achieve economic justice for its citizens and is increasingly putting them under tax burden, without any legislative backing, consequently violating Articles 38 and 39, part of the Directive Principles of State Policy under the Constitution of India.

52. As per the revised fiscal roadmap envisaged by the FRBM Rules, as amended, and as provided in the 'Budget at a Glance' document (part of budget documents for the financial year 2013-14), the fiscal deficit and revenue deficit targets for the financial year 2013-14, is 4.8% of the GDP or Rupees 5,42,499 crores (Rupees Five Lakh Forty Two Thousand Four Hundred Ninety Nine crores), and 3.3% of the GDP or Rupees 3,79,838 crores (Rupees Three Lakh Seventy Nine Thousand Eight Hundred Thirty-Eight crores).

53. According to the estimates released by the Central Statistics Office, Ministry of Statistics and Programme Implementation, for the first quarter (April – June) of 2013 – 14, the growth rate of the economy was 4.4% over the corresponding quarter for the previous year. The index of mining, manufacturing and electricity, registered growth rates of (-) 4.5%, (-) 1.2% and 3.5%, respectively, during first quarter of 2013-14, as compared to the growth rates of (-) 1.6%, (-) 0.8% and 6.4% in these sectors during first quarter of 2012-13.

54. In late August, the value of Indian Rupee slid to Rs. 68.85 for 1 US Dollar. On 27.08.2013, the Minister of Finance, made the following statement in Rajya Sabha:

"*We recognise what are the domestic factors [for sliding of rupee]. One of the domestic factors is that we allowed the fiscal deficit to be breached and we allowed the current account deficit to swell because of certain decisions that we took during the period 2009-11*." (page 50)

55. As per the National Summary Data for the period April-September 2013 as released by the Controller General of Accounts, Ministry of Finance, the fiscal deficit has reached Rupees 4,12,088 crores (Rupees Four Lakh Twelve Thousand and Eighty Eight crores), i.e. 75.96% of the full year's target. The revenue deficit has reached 84.8% of the target. Going by the initial trends, it is highly unlikely that the Government would achieve the revised targets proposed under the FRBM Amendment Bill and the FRBM Amendment Rules.

56. The fiscal mismanagement practices followed by the Government, especially during the period from 2008-present, are responsible for non-compliance with the provisions of the FRBM Act.

57. The FRBM Act and the FRBM Rules were meant to immunize economic policy from Government's discretion and populism. The Government failed to comply with its provisions, blamed the ballooning deficit on financial meltdown, and abdicated its responsibility. As a result, the Indian economy has plunged into an economic mess of surmounting deficits, low growth rates, currency depreciation and high current and future taxes.

58. Non-compliance with FRBM Act and FRBM Rules has led to violation of Articles 265 and 292 of the Constitution of India. Failure to ensure fiscal discipline by the Government has also led to non-compliance with Articles 38 and 39 of the Constitution of India.

59. Fiscal mismanagement by the Government has resulted in economic injustice for the citizens of the country, wherein they are faced with the possibility of high present and future taxes, to fund the profligate practices of the unaccountable Government. This has resulted in loss of economic freedom emanating from Article 21 of the Constitution of India, which guarantees protection of life and personal liberty, including economic liberty.

60. Consequently, the Government must immediately adopt better fiscal management practices that fix accountability.

V. International experience and way ahead

61. Preliminary analysis of fiscal management practices adopted by different countries demonstrates various alternatives available.

62. Article 126 of the Federal Constitution of the Swiss Confederation requires the Confederation to maintain its income and expenditure in balance over time. The ceiling for total expenditure that is to be approved in the budget is based on the expected income after taking account of the economic situation. Further, if the total expenditure in the federal accounts exceeds the ceiling, compensation for this additional expenditure is required to be made in subsequent years. Article 115 of the Basic Law of the Federal Republic of Germany requires revenues and expenditures to be balanced without revenues from credits. The revenues obtained from borrowing of funds cannot exceed 0.35% of the nominal GDP.

63. In addition to Germany and Switzerland, countries such as Slovenia and Spain, among others, have learned from their mistakes and adopted a ‘balanced budget’ principle, which requires structural balances on a yearly basis and absolute balances over the course of a business cycle. An expansionary fiscal policy during recession is required to be balanced with savings during good times. In addition, the United Kingdom, from the budget for the year 1997, adopted a ‘golden rule’, that over the economic cycle, the government will borrow only to invest and the current spending will be met by taxation, effectively eliminating the revenue deficit.

64. The Treaty of the European Union, dated 29.07.1992, which established the European Union, under Article 1 the Protocol on the excessive deficit procedure, read with Article 104(c)(2) of the Treaty, requires the member states not to exceed the ratio of the planned or actual government deficit to gross domestic product by 3%, effectively limiting fiscal deficit of each of the member states to 3% of their respective GDPs. In addition, the Treaty limits the debt to GDP ratio of member states, provides for detailed procedure for monitoring and ensuring compliance by the member states, and penalties in case of non-compliance.

65. Given that the current unaccountable fiscal management practices has the potential to cause irreparable and unimaginable loss and damage to the economy and the citizens of the country, and given the available alternatives, the petitioner prays for pressuring the Government to immediately start the process of adoption and effective implementation of efficient and accountable fiscal management practices.

Yours faithfully,

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