Q12

The public expenditure management is a challenge to the Government of India in context of budget making during the post liberalization period. Clarify it.

UPSC Civil Services Mains 2019 · GS III · 15 marks · Government Budgeting

Government Budgeting.

Core demand of the question

- Clarify why public expenditure management is hard in Union budget-making after 1991 liberalisation
- Cover committed spending, subsidies, tax reform, federal transfers, off-budget, and quality of capex
- Recommend reforms

Revision summary

After 1991 the budget, not industrial licensing, became the State's main economic tool.

Committed interest, subsidies, defence, and pensions leave little discretionary room.

GST transition and a 42 per cent Finance Commission share tightened Union receipts relative to political demands.

Off-budget borrowing and March-rush spending weaken FRBM as a true constraint.

Better management is DBT, PFMS, a medium-term capex plan, and a full debt statement.

Introduction

After **1991**, the State stepped back from running many factories and stepped forward as a spender on **public goods, subsidies, and infrastructure**. The budget still has to fit that spend into a tax base that was being reformed, a **Finance Commission** share that rose, and a **Fiscal Responsibility and Budget Management (FRBM)** ceiling. **Public expenditure management** is the craft of choosing, releasing, tracking, and evaluating that money. In the post-liberalisation decades it has been a standing challenge, not a one-year squeeze.

Body

Why the challenge grew after liberalisation

- **The old Plan-non-Plan split hid a simple fact:** a large share of outlay is **committed** - interest, defence salaries and pensions, food-fertiliser-fuel subsidies, and statutory transfers. Discretion for new capital is thin.
- Liberalisation raised the political demand for **safety nets and infrastructure** at the same time as industrial licensing and many public-sector monopolies receded. The budget became the main remaining instrument.
- **Tax reform** (modvat to CENVAT, then **Goods and Services Tax from July 2017**) aimed at a wider base but created transition gaps, compensation promises, and uncertainty for States.

Expenditure plans cannot be firm if receipts wobble.

• The **Fourteenth Finance Commission** raised States' share of the divisible pool to **42 per cent**. That was healthy federalism. It also tightened the Union's room unless expenditure quality improved.

• **FRBM (2003)** and later reviews asked for deficit and debt paths. Escape clauses, off-budget borrowing through **Food Corporation of India, National Highways Authority of India**, and extra-budgetary resources made the printed deficit an incomplete map.

Concrete pressure points in budget-making

• **Subsidies:** food (National Food Security Act), fertiliser, and (earlier) fuel were poorly targeted; leakages meant expenditure without inclusion.

• **Revenue expenditure** crowding out **capital expenditure:** announcements of highways and rail need multi-year cash, not one Budget speech.

• **Centrally sponsored schemes** proliferated; States complained of rigidity while the Union still carried the political brand.

• **Public Financial Management System (PFMS)** and **Direct Benefit Transfer** improved tracing, but many departments still spend in a March rush.

• Outcome and gender budgets exist on paper; **linking outlay to output** is still weak, so expenditure management stays input-heavy.

• Populist **loan waivers** and unfunded State promises spill onto banks and, later, onto Union recapitalisation - a hidden expenditure cycle.

Clarifying the post-1991 specificity

• Before 1991, shortages and licences rationed the economy; after 1991, **macro-fiscal credibility** rations the budget because markets punish a loose deficit.

• The challenge is therefore not "too little spending" in the abstract. It is **too little flexible, well-audited, capital-and-human-development spending** inside a hard envelope of interest and subsidies.

What would ease it

• **A true** medium-term expenditure framework**:** three-year ceilings by ministry, with project-wise cash plans for infrastructure.

• Shift subsidies to **DBT and income support** where markets work; keep kind transfers where food markets fail.

• Bring **off-budget** liabilities onto one debt statement; honour FRBM in spirit.

• Fewer CSS, more **block flexibility** with outcome contracts.

• Protect **capital and health-education** from the March scramble; use PFMS stop-lists for parked funds.

• Independent **expenditure evaluation** (NITI, CAG performance audits) feeding the next Budget, not a shelf report.

Flow diagram

Post-1991 demands -> Union budget

Committed interest subsidy defence -> Union budget

GST and 42 percent FC share -> Union budget

Union budget -> Quality of expenditure

Quality of expenditure -> DBT PFMS medium-term capex

Off-budget FCI NHAI -> Hidden deficit

Conclusion

Post-liberalisation India asks the Union budget to insure the poor, build networks, and still look FRBM-respectable after a larger State tax share and GST transition. Committed interest, subsidies, and off-budget vehicles leave little honest room. Public expenditure management is the challenge of quality and transparency inside that room - DBT, PFMS, a medium-term ceiling, and a full debt picture - not a larger speech.

Facts & figures

FRBM Act 2003

Fiscal Responsibility and Budget Management law that sets deficit and debt discipline for the Union, with later reviews and escape clauses.

Fourteenth Finance Commission

Raised States' share of the divisible tax pool to 42 per cent, shrinking the Union's unencumbered pool.

GST July 2017

Destination-based indirect tax that subsumed many levies; compensation to States was a large expenditure-side promise.

PFMS and DBT

Public Financial Management System and Direct Benefit Transfer: tools to track and target spending after liberalisation-era leakages.

Off-budget vehicles

FCI food subsidy arrears and NHAI extra-budgetary resources that keep some spending off the headline deficit.