Per Capita Budget Deficit

What is the issue?

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- In India successive governments are stoking GDP growth by increasing the budget deficits.
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- In this scenario a new concept called Per capita budget deficit can be taken in to consideration.
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What is the existing fiscal deficit mechanism?

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- The measure of the budget deficit linked to GDP became stringent after Latin American debt crisis of 1982-88, this pawed way for the notion of "fiscal discipline".
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- Maintaining fiscal deficit around 3 per cent of GDP was conjured up by the IMF as a way of giving the bond markets a peg to hang their coats on.
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- It has as much sanctity as any religious benchmark. 3.5 per cent or 4 or 4.5 or even 5 would have done just as well.
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What are the concerns with existing mechanism?

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- The method of linking fiscal deficit with GDP was based on the needs of the city of London and Wall Street which has the objective of pushing the government back and letting the private sector do most of the heavy lifting.
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- If high deficits were going to crowd out private investments or raise interest

rates, it was seen as inimical to the political objective. So the need to keep them low was invented.
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- The political and economic objectives were, in a very large measure, because of flooding of petro-dollars into Western banks following the sudden increase in the revenues of the Middle East after oil prices started rising dramatically in the 1970s.
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- There was also a massive US deficits of the 1960s and 1970s arising from the Vietnam War which pushed an ever-increasing number of dollars into the market.
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- A new pact was made by international market regulators that they would give more room to them to earn higher returns by reducing the amount governments borrowed.
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- This has been the orthodoxy since the 1990s, And India has followed the formula blindly to keep capital inflows up because it just doesn't seem to be able to export very much.
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What is the concept of per capita budget deficit?

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- At present India tie the budget deficit to the GDP which is an efficiency measure.
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- But if a country has to incur a lot of welfare expenditure, which in a highly competitive democracy it must tie its budget deficit to the number of intended beneficiaries.
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- It can be estimated in the way that suppose the deficit was Rs 100 in 1988 and the population 50,the deficit per head was Rs 2.
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- The estimated per capita deficit later can be cross verified with the notional number of 3 per cent of GDP by using appropriate formulas, which will give the real fiscal scenario of the nation.
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- Thus the time has come for Indian economists to come up with a new benchmark number.
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Source: Business Standard

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