A Study on Fiscal Implications of

5th & 6th CPC

On the Union & States

Report by - IIM Calcuta

Appointed by 7th CPC

Analysis by K.V.RAMESH, Sr.JGS/IRTSA

(Done for implication on Central Government Only)

AIM OF THE STUDY

1. Assessing the fiscal and macro economic impacts of the Fifth and Sixth Central Pay Commissions (CPC).
2. The analysis is based primarily on the detection of trends and breaks in the fiscal data of the Union and the State Governments.

5^{th} CPC & Union Government Finances

1. Impact of the 5^{th} CPC was most pronounced during 1997-98 and 1998-99.
2. The increase in pay plus pensions began to taper off only after 2000-01.
3. In two years fiscal deficit rose from 4.70 to 6.29 as a percentage of GDP.
4. Revenue deficit were 2.30 and 3.71 per cent of GDP.
5. Not to argue that pressure on GFD & RD can be attributed to increase in pay, allowance and pension.

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5th CPC & Union Government Finances *…..Continued*

6. But they were contributing factor to overall fiscal stress.
7. 30.71% increase in Pay, Allowances & Pension.
8. 17% increase in following two years.
9. Govt made no efforts to cut the expenditure.
10. Tax & non-tax revenue growth was not sufficient to soften the impact.

Union Government Finances in the decade of 5th CPC

Central Govt. Pay & Allowances, Pension & Deficit					
Year	Pay & Allowances	Pension	Committed liability	Gross Fiscal Deficit	Revenue Deficit
1994-95	1.53	0.35	1.88	5.52	2.97
1997-98	1.70	0.30	2.00	5.66	2.95
1998-99	1.78	0.31	2.09	6.29	3.71
1999-00	1.71	0.30	2.01	5.18	3.34
2000-01	1.59	0.30	1.89	5.46	3.91
2004-05	1.21	0.30	1.51	3.88	2.42
Source : Hand Book on Indian Economy, 2013-14, RBI.					

NO FINANCIAL STRESS AS CLAMIED

Between 1994-95 and 2004-05

1. Pay & Allowance decreased from 1.53% of GDP to 1.21%.
2. Pension has come down from 0.35% of GDP to 0.30%.
3. Gross fiscal deficit has come down from 5.52% of GDP to 3.88%.
4. Revenue deficit has come down from 2.97% of GDP to 2.42%.

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NO FINANCIAL STRESS AS CLAMIED …. Continued

Between the period of 10 years, in which 5th CPC recommendations were implemented

5. In terms of GDP - Pay, Allowances & Pension has only came down.
6. Gross Fiscal Deficit & Revenue Deficit also came down in terms of GDP
7. **Projected steep increase in Pay, Allowance & Pension for 1st two years of 5th CPC was due to payment of arrears for the period of previous two years.**
8. **When it was spread to 10 years Govt liability clearly came down.**
9. **Ultimately Govt's earnings went up, but, pay, allowance & pension came down.**

6th CPC & Union Government Finances

1. In 2007-08 RBI estimated 0.4% of GDP increase due to 6th CPC implementation.
2. Pay & Allowances (including Defence) of Govt more than doubled between 2007-08 and 2011-12.
3. From Rs.74,647 crore to 1,66,792 crore.
4. In terms of GDP from 0.9% in 2007-08 to 1.2% in 2008-09 and 1.4% in 2009-10.
5. In case of Pension from 0.5% in 2007-08 to 0.9% in 2009-10 and 0.6% in 2014-15(BE)

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6th CPC & Union Government Finances *…..Continued*

6. Affected fiscal flows in 2008-09 & 09-10.
7. Pay & Allowance raised from Rs.452.75 billion to Rs.880.73 billion.
8. Committed liability from Rs.596.66 billion to Rs.1087.41 billion.
9. First year of 6th CPC - 40.9% growth.
10. Second Year of 6th CPC - 29.4% growth.
11. Fiscal Responsibility & Budget Management (FRBM) Act already implemented.
12. Budgetary situation is good & with low Fiscal defecit at 2.54% of GDP.

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6th CPC & Union Government Finances *…..Continued*

13. Govt. had fiscal space to carry out pay revision.
14. Revenue expenditure grew at rates greater than rise in committed liability.
15. Less capital expenditure - soften the impact on FD.
16. Increase in non-tax revenue is due to Spectrum sale.

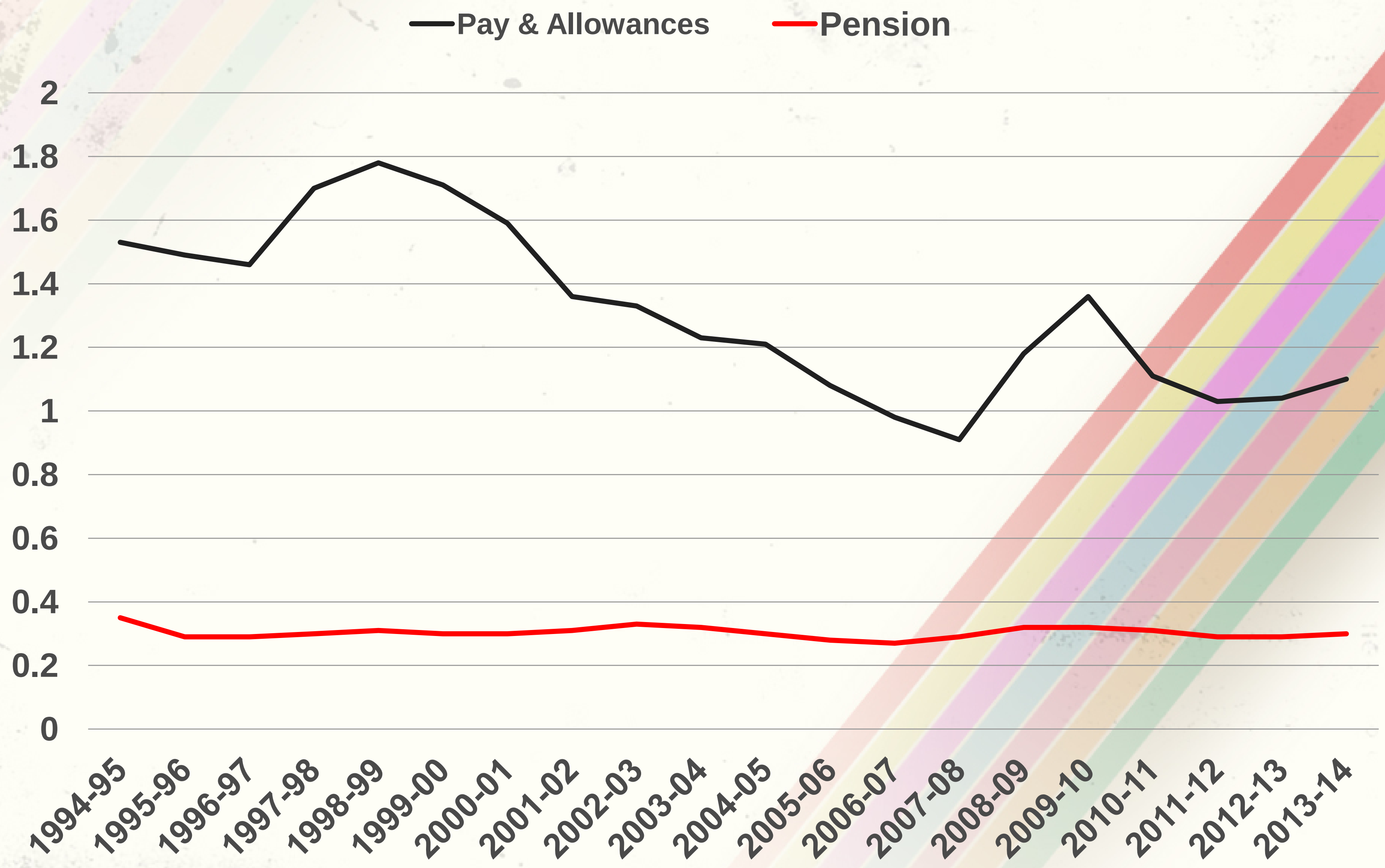
Union Government Finances in the decade of 6th CPC

Central Govt. Pay & Allowances, Pension & Deficit					
Year	Pay & Allowances	Pension	Committed liability	Gross Fiscal Deficit	Revenue Deficit
2005-06	1.08	0.28	1.35	3.96	2.50
2008-09	1.18	0.32	1.49	5.99	4.50
2009-10	1.36	0.32	1.68	6.46	5.23
2010-11	1.11	0.31	1.42	4.80	3.24
2011-12	1.03	0.29	1.33	5.73	4.38
2012-13	1.04	0.29	1.34	4.85	3.60
2013-14	1.10	0.30	1.39	4.62	3.26
Source Reserve Bank of India					

ONE SIDED PRE-DETERMINED STUDY REPORT

- Study team of IIM Calcutta tried to project higher financial stress by correlating the increase in Pay, Allowances & Pension in terms of Financial and revenue deficit.
- There are many factors attribute to GFD & RD.
- Tax evasion, tax concession etc contributes more to deficit.
- To have a fair comparison, expert group should have studied the aspect of tax concession & evasion, which are having adverse impact on economy.

Pay & Allowances and Pension in percentage of GDP – Reducing Trend



CONCLUSION

NO FINANCIAL STRESS AS CLAMIED

1. GDP is the right term to measure the Pay & Allowances and Pension.
2. Pay & Allowances and Pension in terms of GDP has come down during these two decades of 5^{th} & 6^{th} CPC.
3. It has shown a upward trend during the first two years of 5^{th} & 6^{th} CPCs mainly due to payment of arrears due to late implementation of CPC.
4. Pay & allowances in terms of GDP has come down from 1.53% in 1994-95 to 1.10% in 2013-14.
5. During this period pension also come down from 0.35% to 0.30% in terms of GDP.

What is real rise given by 7th CPC

1. After 6th CPC Pay & Allowances increased by 30.8% on average for four years from 2007-08 and 2011-12.
2. 7th CPC recommended 23.55% increase including for pension.
3. On Pay and DA (excluding other allowances) expected increase is16%.
4. At present, without implementing 7thCPC report, Year on year increase in the expenditure in both pay and pension has averaged about 11%.
5. Real increase on account of Pay & DA will be only 5% (16% - 11% = 5%).
6. **Real increase on account of increase in pay, allowances & pension will be only 12.55% (23.55% – 11% = 12.55%).**

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What is real rise given by 7th CPC *…Continued*

7. Government will take back into its treasury Rs. 6500 crores from increased monthly contribution towards CGEGIS.
8. Rs.2500 crores towards employees' contribution for NPS from 11 lakh employees appointed after 1.1.2004.
9. Thus Rs.9000 crore will be taken back from employees.
10. This will neutralize 3.7% of expected hike.
11. **Thus real increase on account of increase in pay, allowances & pension will be further reduced to 8.85% (23.55% – 11% - 3.7% = 8.85%).**

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What is real rise given by 7^{th} CPC *...Continued*

12. After implementation of 7^{th} CPC pay, Govt is expected to get back atleast 5% of increase in the form of increased Income tax from employees.
13. **Thus real increase on account of increase in pay, allowances & pension will be further reduced to 3.85% (23.55% – 11% - 3.7% - 5% = 12.55%).**
14. **Above all Rs.28,450 crores ie. 27.8% of raise due to implementation of 7^{th} CPC has to bearded by Railways – Not by General Budget.**

- **There is a misconceived hype about the increase in Pay, Allowances & Pension.**
- **7th CPC and expert committee only tried to show that Government employees are taking away lion's share, which is not true.**
- **Whatever the increase in pay & allowances given through CPCs are being compensated by reduction in staff strength, more than the value of hike.**
- **Employees & their representatives have every reason to get agitated.**

Thank You

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