

DEBATING INDIA'S DEFENCE EXPENDITURE: PROBLEMS AND PROSPECTS

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India's debate over defence expenditure is unending and is rather going in the wrong direction. Every year, when the Union Finance Minister reads his budget speech, the debate over defence expenditure resurfaces. As usual, there are always two sides to the debate. While many experts are critical of the low level hikes in defence budget, others make a Leviathan of it. The year 2012 was no different. The (then) Finance Minister's announcement of budgetary hikes for defence over the last year's figure was interpreted on expected lines. In analysing the defence budget allocations, both sides in the debate duck the important issues associated with India's defence expenditure and are quite content with a superficial analyses of budgetary figures. The narrow contours of the debate over India's defence expenditure are not without consequences. *First*, it pushes the entire correlation between defence and development under the carpet. *Second*, the debate is often coloured with a fair degree of emotionalism. *Third*, crucial questions that could have helped attain 'value for money' are being overlooked.

This paper will, therefore, discuss some of the issues that do not get adequate

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Development economists in India by and large remain shy from interfering in budgetary debates

space in the off-and-on debate on India's defence expenditure. The paper is built upon the hypothesis that unless the Indian debate on defence expenditure is expanded to include the new issues, management of India's defence expenditure will remain a futile exercise and would not serve the national security objectives.

INDIA'S RECURRING DEBATE ON DEFENCE EXPENDITURE

The Indian debate on defence expenditure has some unique attributes. *First*, it is still under-developed. Available literature on defence budget has largely ignored the 'defence – development debate.'¹ There are very few writings that correlate the defence-development linkage in the Indian context without coming to a uniform conclusion.² *Second*, the debate surfaces only during the budget time, perhaps to influence the budget or criticise it post-facto. The surfeit of articles in February and March is followed by a total lack of interest for rest of the year, despite the fact that budget management (in defence as well as other sectors) is a round-the-year exercise. *Third*, the participation is largely one sided, coming mainly from the defence experts. Development economists in India by and large remain shy from interfering in budgetary debates. As a result, vital issues such as management of defence expenditure, the impact of higher defence allocations on social sector, and above all, the utility of defence budget in pushing up the defence modernisation are never discussed.

A glance at the defence budget for the year 2012-13 would testify this.

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1. See, Jasjit Singh, *India's Defence Spending: Assessing Future Needs* (New Delhi: Knowledge World, 2001); Amiya Kumar Ghosh, *India's Defence Budget and Expenditure Management in a Wider Context* (New Delhi: Knowledge World, 1996); Amiya Kumar Ghosh, *Defence Budgeting and Planning in India: the Way Forward* (New Delhi: Knowledge World, 2006).
 2. Jean Dreze and Amartya Sen, *India: Development and Participation* (New Delhi: Oxford University Press, 2002); Na Hou, *Arms Race, Military Expenditure and Economic Growth in India*, Unpublished PhD thesis, submitted to Department of Economics, Business School, University of Birmingham (October 2009); Aviral Kumar Tiwari and A P Tiwari, 'Defence expenditure and economic growth: evidence from India', *Journal of Cambridge Studies* (Cambridge: September 2010), Vol. 5, No. 2-3, pp. 117-131.

The current budgetary outlay is for Rs. 1, 93,408 crore (\$ 39 billion) which is 13.15% more than last year's revised figures of Rs 1, 70,937 crore. The revenue share has been pegged at Rs. 1.13,829 crore and the capital budget stands at Rs. 79,579 crore. The current budget constitutes 1.9% of the GDP and 13.15% of the Central Government expenditure. The Ministry of Defence (MoD) seemed to be 'satisfied' with the defence budget as was evident from its responses. While the Defence Minister A K Antony did announce in the Parliament that he would seek hike in the proposed budgetary allocations citing twin threats from China and Pakistan and the new modernisation plans of the services³, his ministry (subsequently) decided against it in the wake of slow economic growth⁴. However, very few write ups appeared in the post-budget debates that did not speak 'against' the budgetary allocations.

The 'excessive' assessment came from neighbouring countries like Pakistan. *The Dawn*, a leading Pakistan newspaper, sounded alarmed when it flashed India's military hike as 'an attempt to counter China's military build-up and traditional rival Pakistan's'.⁵ According to an editorial in a Pakistan newspaper, India's announcement of 17% raise in its defence expenditure was indeed a 'substantial raise'. The paper concluded that India's huge military preparations are meant to contain China and intimidate Pakistan, besides extending sphere of influence to the Middle East, Central Asia and beyond⁶. Surprisingly, the reactions from the Chinese media was less vocal than it had been in past.⁷

On the other side of the spectrum, many find the defence budget as too modest or inadequate. Ajay Shukla, noted strategic columnist, is of the view that 'after cost inflation, this year's (budget) allocation will buy

3. 'Antony to seek hike in defence outlay to counter twin threats from Pakistan, China', *The Times of India* (New Delhi), 9th May 2012.

4. 'Defence Ministry wont ask for more', *The Indian Express* (New Delhi), 1st July 2012.

5. Published via internet edition on www.dawn.com accessed on 16 March 2012.

6. Khalid Iqbal, 'India triggers an arms race', available at www.nation.com.pk, accessed 26 March 2012.

7. 'India raises fiscal 2012/13 defense budget to 42 bln USD' at http://news.xinhuanet.com/english/world/2012-03/16/c_131471632.htm accessed on 17 March 2012.

Until recently, there was hardly any linkage between defence expenditure and developmental expenditure in the Indian circumstances

significantly less than (procurements made) last year'⁸. According to another expert, while India's defence budget may not be 'unreasonable', but it is 'well below China's corresponding figure of \$100 billion'⁹.

CONTEXTUALISING INDIA'S DEFENCE EXPENDITURE WITHIN DEFENCE – DEVELOPMENT STRATEGY

Until recently, there was hardly any linkage between defence expenditure and developmental expenditure in the Indian circumstances. The primary reason, among others, has been that defence is treated as non-plan expenditure and, therefore, does not come within the purview of the Planning Commission¹⁰. Defence and development were, therefore, treated as two different constructs and budgetary allocation to defence was autonomous. The defence budget, therefore, was hovering over 3% in late eighties and slowly it settled down to an average of 2.5% for much of the decade of nineties and early twenty-first century. This trend was in synergy with the global trends in defence expenditure where most countries have been spending between 2.5 to 3%, with the exception being the militarised states.

However, if one looks into the defence budget in the last couple of years, the trend has been a further downward slide as part of the total Governmental expenditure. This does not mean that defence is being neglected; rather this has more to do with India's new quest for linking defence with developmental needs. Under the leadership of Prime Minister Dr Manmohan Singh, the

8. Ajay Shukla, 'Army modernisation slow, Navy and Air Force push ahead', available at www.business-standard.com accessed on 18 March 2012.

9. C Uday Bhaskar, 'India's defence budget: singular lack of strategic vision', available at <http://southasiamonitor.org/detail.php?type=sl&nid=1665> accessed on 17 March 2012.

10. In fact, defence constitutes the largest constituent of non – plan expenditure of the Central Government after interest payment and debt servicing (Rs 267986.17 crore in 2011-12).

UPA Government has been emphasising on 'inclusive growth'¹¹ and has significantly scaled up the flow of resources to rural areas to give a more inclusive thrust to the development process¹². Simultaneously, both the Planning Commission¹³ as well as the 13th Finance Commission were encouraged to design the development blueprint for the country highlighting a strong bondage between defence and development requirements of the country. The 13th Finance Commission in its report has recommended trimming of non-plan expenditure over a period for better fiscal management. These include interest payment, pension and interestingly police expenditure apart from defence expenditure. Also, the proportion of defence expenditure has been sought to be brought down to 1.76% of the GDP by 2014-15¹⁴. The present budgetary allocations on defence have to be contextualised in this framework and should not be seen as a random allocation.

Further, it is worth mentioning that for defence expenditure, the Ministry of Finance has projected a growth rate of 7% per annum for defence revenue expenditure. Capital expenditure is projected to grow at 10% per annum. The 13th Finance Commission broadly agreed with the contentions of Ministry of Finance and recommended an overall annual growth rate of defence expenditure of 8.33%¹⁵. Also, the approach paper for the 12th Five year plan by the Planning Commission assumes a maximum of 10% annual growth for defence¹⁶. Thus, a review of defence budget allocations in last couple of years (revenue, capital and overall) would go to suggest that the Government has largely adhered to the parameters set by the various agencies of the Government.

11. The concept of 'inclusive growth' is not new in economic literature; however, its acceptance has been quite recent. See, Alfredo Saad-Filho, 'Growth, poverty and inequality: from Washington Consensus to inclusive growth', DESA Working Paper No 100 (November 2010), available at http://www.un.org/esa/desa/papers/2010/wp100_2010.pdf

12. And yet, the allocation for India's rural development ministry is only half of defence budget.

13. Planning Commission, 'Eleventh Five Year Plan: 2007-12', Chapter 1 Inclusive Growth, pp.1-24 is of particular importance available at www.planningcommission.gov.in.

14. 13th Finance Commission, 'Report of the Thirteenth Finance Commission: 2010-2015', Vol I, p.380 available at <http://fincomindia.nic.in>

15. Ibid. p. 83.

16. 'Approach paper to the 12th Five year Plan 2012-17', available at www.planningcommission.nic.in

The Government's commitment to the concept of 'inclusive growth' is further established by the enhanced budgetary allocations for the social sector in last couple of years. Apparently, the Prime Minister wants to trigger a 'development process which ensures broad based improvement in the quality of life of the people, especially the poor, SCs/STs, other backward castes (OBCs), minorities and women....(thus) a growth process which yields broad-based benefits and ensures quality of opportunity for all'¹⁷. This is in no way a distraction or dilution of defence priorities for the country. As the Prime Minister himself asserted on his Independence Day speech in 2012, 'time has now come to view the issues which affect our development processes as matters of national security'. To quote him further, 'if we do not increase the pace of the country's economic growth, take steps to encourage new investment in the economy, improve the management of Government finances and work for the livelihood security of the common man and energy security of the country, then it most certainly affects our national security'¹⁸.

GLOBAL TRENDS ON DEFENCE – DEVELOPMENT LINKAGES

The academic literature or policy studies on the correlation between defence and development do not lead to a uniform conclusion since many other issues come into picture in developing the linkages between them¹⁹. Nevertheless, in exploring a correlation between defence and development components under the umbrella package of 'inclusive growth', the Indian Government, it must be emphasised, is not experimenting something new. Rather, it is a project that is partly based on the successful experiences of India's own neighbour, China. When China initiated the 'four modernisations' in

17. Planning Commission, 'Eleventh Five Year Plan: 2007-12', available at www.planningcommission.gov.in p. 2.

18. 'Prime Minister's Independence Day speech – 15th August 2012' available at <http://www.thehindu.com/news/national/article3774546.ece>.

19. 11th EADI General Conference, Insecurity and Development: Regional Issues and Policies for an Interdependent World (2005), available at http://eadi.org/gc2005/report_GB.pdf ; Necla Tschirgi, Michael S Lund and Francesco Mancini, 'The security – development nexus', in Necla Tschirgi, Michael S Lund and Francesco Mancini, *Security and Development: Searching for Critical Connections* (Boulder, Colorado: Lynne Rienner Publishers; 2010), pp.1-16; World Bank, *World Development Report 2011: Conflict, Security and Development* (Washington DC: World Bank, 2011).

the late seventies, defence modernisation was placed at the fourth place. All resources were directed to modernising the agriculture, industry and science and technology sector – the first three components of the ‘four modernisations’. The defence budget remained static for a decade during 1978-88 and indeed there were many cuts in the numbers and privileges of the Chinese PLA. The PLA was encouraged to explore for alternative sources for resource generation. By constantly harping on ‘peace and development’ as a thematic proposition in international relations, China convinced its PLA cadres to support the resource transfers to developmental initiatives and secure higher rates of economic growth. It was only since mid-nineties that Chinese PLA started getting double digit annual hikes in its defence budget since the Chinese economy was doing well.²⁰

The contemporary trends in global military expenditure also indicate that some of the Western countries that were spending a huge sum are on defensive. In recent times, there have been cuts in the defence budgets of US, UK and France. In US, for example, after rising skepticism over the capability to sustain defence budget couple of years ago,²¹ there were talks of ‘moving towards a sustainable US defence budgets’²². The Obama Administration requested for \$676 billion for FY 2012, less than \$717 billion requested in the FY 2011 defence budget. For the year 2013, the figures have further come down to \$647 billion.²³ Such retrenchment in defence expenditure does not mean that the US is undergoing a ‘graceful decline’ as a superpower;²⁴ rather, it only substantiates what the then Secretary of Defense Robert Gates underlined that; ‘America’s civilian institutions of diplomacy and development have been chronically undermanned and

20. See, Bhartendu Kumar Singh, ‘The political economy of China’s defence modernisation’, *Strategic Analysis*, Vol 29, Oct-Dec 2005, pp. 680 – 705.

21. Bruce Held and James T Quinlivan, ‘Reality check for defense spending’, Rand Review (Summer 2008), available at www.rand.org.

22. K Jack Riley, ‘Moving towards a sustainable US defense budget’, Speech given on June 15, 2010 at the S Rajaratnam School of International Studies, Nanyang Technological University, Singapore. The speech is available at www.rand.org/contents/dam/rand/pubs/corporate

23. US Department of Defense, ‘National defense budget estimates for FY 2013’, available at http://comptroller.defense.gov/defbudget/fy2013/FY13_Green_Book.pdf.

24. Paul K MacDonald and Joseph M Parent, ‘Graceful decline? The surprising success of great power retrenchment’, *International Security*, Vol 35, No 4 9Spring 2011), pp. 7-44.

under funded for far too long'²⁵. Similarly, in UK, the Strategic Defence and Security Review (SDSR) published in 2010 recommended a better balance in defence plans, commitments and resources. Accordingly, cuts have been announced in the defence budget that reached a pinnacle of 38.95 billion in 2010.²⁶ The French Defence Ministry has proposed to slash spending by €3.5 billion between 2011 and 2013.²⁷

Most European nations have followed the lead of US, UK and France in trimming down their defence budgets. It should be noted, however, that these cuts are not voluntary; rather a crisis-driven since the western economies have been quite sluggish in recent times. According to the Military Balance 2012 published by the London – based IISS, real-terms reductions in defence spending have between 2008–10 occurred in at least 16 European NATO member states and, in a significant proportion, these real-terms declines exceeded 10%. On the other hand, defence spending in Asia has increased by a relatively substantial 3.15% in real terms over the last year, despite rising inflation. China, Japan, India, South Korea and Australia accounted for more than 80% of the total regional spend. On the whole, the Military Balance concludes that Asia's defence spending is set to exceed Europe's this year.²⁸

WHAT COULD BE A HEALTHY DEFENCE BUDGET FOR INDIA?

The intention of this paper is not to suggest a similar cut for the defence budget since the Indian economy is doing reasonably well (assuming the present slump as a temporary phase) like the Chinese economy. At the same time, one cannot agree with the emotional plank that the budgetary allocations are 'too less in terms of percentage of GDP or Central Government expenditures' and that India fails miserably on other internationally acceptable indicators of a country's defence expenditure such as per capita

25. Quoted in Michael O'Hanlon, *Budgeting for Hard Power: Defense and Security under Barack Obama* (Brookings Institution Press, 2009), p. 1.

26. 'UK defence budget cut by eight percent' available at <http://www.defencetalk.com/uk> accessed on 22 October 2010.

27. 'Defence spending plans of major European nations', available at <http://eurodefenceuk.blogspot.com> accessed on 22 February 2011.

28. IISS, *The Military Balance 2012*, summary available at www.iiss.org

expenditure (less than \$10) or soldier-to-citizen ratio (1.22 / 1,000 citizens).²⁹ Though the Departmentally Related Standing Committee (DRSC) of the Parliament on Defence has strongly recommended a 3% share of GDP as a healthy figure of defence budget but empirical literature does not favour putting defence budget as being captive to percentage factor. 'Such arguments are common', as one US defence analyst has put it, 'usually among those with a pre-determined agenda of either making the defence budget seem high or low'.³⁰

Similarly, the oft-quoted examples of Pakistan and China having higher defence budgets in terms of percentage of GDP / Government expenditure should also be avoided. Pakistan not only has to contend with a sibling rivalry with India that is quite asymmetrical on all indices of power matrix, but the state is itself highly militarised where the Army wields enormous powers in all aspects of decision making. Thus, Pakistan's defence budgets are pre-ordained figures decided in Rawalpindi. In case of China, the PLA is an important pressure group that extracts a large sum in national defenses in the name of building 'comprehensive national power'. This involves creating both internal and external power. Internally, PLA wants to facilitate economic prosperity, domestic cohesion and the social influence of the Chinese Communist Party (CCP). Separatist struggles in Tibet and Xinjiang provinces pose significant challenges to the central government, and some of China's military budget goes towards policing these regions. Externally, greater ambitions in terms of power projection, diplomatic influence and international prestige influence the regime's largesse to the PLA.³¹

The Ministry of Defence, in its recent annual reports, has been quite candid about China's defence modernisation and its enhancement of border infrastructure along India.³² This fact has also been corroborated by the Departmentally Related Standing Committee (DRSC) of Parliament

29. Gurmeet Kanwal, 'Why India needs to spend more on its defence?' www.rediff.com 22nd March 2011.

30. Michael O'Hanlon, 'Defense budgets and American power', Policy Paper No 24, available at www.brookings.edu December 2010, p.2.

31. Sean Chen and John Feffer, 'China's military spending: soft rise or hard threat', *Asian Perspectives*, Vol 33, No 4 (2009), pp.47-67.

32. Ministry of Defence, Government of India, 'Annual Report of Ministry of Defence: 2010-2011', available at www.mod.nic.in.

There exist considerable scope to improve the quality and efficiency of defence expenditure through increased private sector engagement, import substitution and indigenisation, improvements in procedures and practices and better projects management, within the parameters of Government of India policy

on Defence. Many experts have read this development as a looming Chinese threat that could assume a monstrous proportion if Pakistan decides to join the former and pose a 'two-front war' challenge to India. Such hypothetical scenarios have been interpreted quite alarmingly by some defence experts, which they feel, could be met only by budgetary enhancement for armed forces³³. However, national security cannot be quantified and mere enhancement of defence budgets may not ward off a probable 'two-front war' challenge.

A healthy defence budget for the country should not be quantified and linked to the country's GDP or Central Government expenditure. This will always generate polemics without seeking the national security objectives³⁴. Rather, it should seek a harmonious balance in the defence – development debate and focus on optimising the value of money. It is worth to consider the recommendation of the 13th Finance Commission here for improving the quality and efficiency of defence expenditure:

"We (the 13th Finance Commission) are of the view that there exist considerable scope to improve the quality and efficiency of defence expenditure through increased private sector engagement, import substitution and indigenisation, improvements in procedures and practices and better projects management, within the parameters of Government of

33. Gurmeet Kanwal, 'Rising challenges, declining resources', Article No. 1774, available at www.claws.in accessed on 13 March 2011.

34. As was apparent recently when India's rural development minister Jairam Ramesh commented that more than 1000 villages in the country can be freed of the scourage of open defecation at the cost of less than a Rafale fighter jet.

India policy. Efforts in this direction will further expand the fiscal space available for defence spending.³⁵

EXPANDING THE DEBATE ON INDIA'S DEFENCE EXPENDITURE

As mentioned earlier in this paper, a lot of issues do not get adequate space in the off-and-on debate on India's defence expenditure. Such issues need to be debated so as to enhance their impact on India's defence expenditure management. Perhaps the first area that needs to

be discussed is the non-utilisation of allotted defence budget. While defence funds have been fully utilised and even excess appropriations made in some years, this has been rather an exception than a norm. The magnitude of the funds being surrendered has been rather huge and this takes the sheen away from the 'demands for more allocations to defence'. Also, the reasons for budgetary lapses are never discussed nor subjected to public scrutiny. The Ministry of Finance circulars on various aspects of budget management has put a curb on budgetary lapses in recent times. However, there are many reasons why budgets have been surrendered on several occasions in Ministry of Defence. *First*, a major portion of the budgetary lapse is because of procedural delays in executing 'capital purchases'. These involve big tickets purchase mostly through imports from foreign vendors. The formation of a defence acquisition council supplemented by defence procurement procedure (that has been revised many times, the most recent one being in 2011) have been noble steps on part of the MoD but more needs to be done to ensure that capital purchases are made in time. *Second*, the projections of the three services have been consistently on a higher side and even after pruning by the Ministry of Finance, the allotted amounts are not spent within the fiscal year. Various suggestions have been mooted from

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35. 13th Finance Commission, 'Report of the Thirteenth Finance Commission: 2010-2015', Vol I, p. 83 available at <http://fincomindia.nic.in>.

time to time to ensure full budget utilisation. In 2004-05, the then Finance Minister had proposed a non-lapsable defence modernisation fund of Rs 25,000 cr but it could not pass the constitutional validation and hence died a pre-mature death. A more appropriate mechanism would be to encourage the services to adopt realistic budgetary allocations based on sound costing and inflation factors. Further, there is a need to create and consolidate a fiscal management information system (FMIS) that would provide real time information on budgetary usage.³⁶

Another area that deserves wider appreciation and consideration in the defence debate is the introduction of outcome budgets³⁷. The Appropriation Accounts for the Defence Services Estimates, being published every year by the Controller General of Defence Accounts (CGDA) does throw, apart from highlighting the usage of defence budget, a detailed light on the performance of two organisations: the military farms and the military engineering services (MES). However, their share in the entire defence budget is miniscule and hence the basket of performance assessment has to be expanded to more organisations. Realising this, the Departmentally Related Standing Committee (DRSC) of the Parliament has been insisting that the Ministry of Defence come out with outcome budgets for more organisations on the lines of 'guidelines for outcome budget' issued by the Ministry of Finance every year. While the Ministry of Defence has agreed to this proposal and in fact even selected the organisations,³⁸ not enough progress has been made on the ground. Either way, the intrinsic value of outcome budget in defence sector needs to be discussed and debated more amongst strategic experts and defence economist in order to maximise the value of money being put in defence budget.³⁹

36. For a preliminary idea, see, Pravin Kumar, 'Designing an appropriate MIS for efficient resource management', *Journal of Defence Studies* (April 2009), pp. 111-125.

37. See, P R Sivasubramanian, 'Defence budget: towards and outcome and programme based system', *Strategic Analyses* (Oct – Dec 2006), pp. 708-723; S C Pandey, 'Assessing the scope of outcome budgeting in defence', *Journal of Defence Studies* (April 2009), pp. 28-46.

38. These are married accommodation projects (MAP), NCC and naval dockyards.

39. See, P R Sivasubramanian, 'Defence budget: towards and outcome and programme based system', *Strategic Analyses*, Vol 30, No 4 9Oct – Dec 2006), pp. 708-723; S C Pandey, 'Assessing the scope of outcome budgeting in defence', *Journal of Defence Studies*, Vol 3, No 2 (April 2009), pp. 28-46.

Another area that deserves discussion is the present mismatch between budgeting and defence planning. Under the present system, the budgetary allocations are based on annual projections by the Ministry of Defence rather than allocating resources to defence five year plans and long term perspective plans (LTTP). Such mismatch has two negative consequences: *first*, it leads to higher level projections by each arm of the defence forces since there is a competition for (scarce) resources; and *second*, it leads to budgetary lapses since the same money is not spent in the most judicious manner within the fiscal year. There is, therefore, a need to link budget with defence planning in India, both in the short term and long term apart from passing it on time.⁴⁰ At least two purposes would be served by such approach: *first*, it would ensure a sustained (rather than an ad hoc) flow of funds commitment to defence modernisation; and *second*, it would also ensure optimisation of available resources through flexibility in intra-service flow of resources. It is in this context that the proposal of the former Army Chief Gen V K Singh's advocacy of a defence planning commission needs to be discussed and debated.⁴¹

Troop reduction is another area that can help release funds for military modernisation through investments in capital acquisition and technology. Most cases of military modernisation in contemporary world have started with troop reduction and we have a glaring success story in our own neighbourhood, i.e. China. Unfortunately, in the Indian discourse on military modernisation, troop reduction does not figure as a component, partly because it will do away with the dominant position of the army vis-à-vis the other two services, and partly, because the army has committed a huge number to counter – insurgency operations in Jammu and Kashmir, North East and Naxal affected parts of Central hinterland. 'The air force and the navy do not have the same problem, as Stephen P Cohen and Sunil Dasgupta have argued, 'but the army's overwhelming size affects them as

40. The DRSC has indeed strongly recommended early finalisation of both the five year plans as well as LTIPP so that there are no post-inauguration resource problems.

41. 'Army Chief General V K Singh advocates for defence planning commission', available at www.dnaindia.com accessed on 1 May 2011.

Internal resource generation by the defence forces is another area that has not received the requisite attention in the defence budget

well: they too cannot grow beyond a point unless the army can retrench'⁴² Though some bold proposals on manpower reduction as well as reducing the overall cost of the manpower have been made⁴³, these need to be discussed and debated from the defence economics perspective so as to provide correct and comprehensive feedback to the Ministry of Defence that has been mulling over for quite some time over issues related to various aspects of

defence manpower with the objective of improving the capital expenditure vis-à-vis revenue expenditure in progressive defence budgets, as suggested by the 13th Finance Commission.

Internal resource generation by the defence forces is another area that has not received the requisite attention in the defence budget discussion, although Mr. Krishna Menon tried to introduce the concept in the late 1950s.⁴⁴ When Deng Xiaoping froze the budgetary allocations to PLA between late seventies and late eighties in China, the PLA was encouraged to find out ways and means to fund its activities. The PLA did achieve the mission through conversion of defence technology for civilian use and resorting to commercial production of many consumable items also, forcing the regime to call for a full stop in mid nineties. No such attempts have been made by India so far. The ordnance factories that could have been a source for profit have not been able to do so and indeed resorted to deficit financing by the Government, as revealed in the annual defence budgets. The Defence Research and Development Organisation (DRDO), consuming six percent of defence budget has not been able to generate any internal revenue since it doesn't have salable technology and patents in its name. These two organisations should be encouraged to look for ways and means to fund their own activities on commercial pattern. Simultaneously, the defence

42. Stephen P Cohen and Sunil Dasgupta, *Arming without Aiming: India's Military Modernization* (New Delhi: Penguin Group, 2010), p. 150.

43. Gurmeet Kanwal, 'Salient issues affecting defence manpower in India', *Journal of Defence Studies* (New Delhi), Vol 4, No 4, October 2010, pp. 31-48.

44. I am thankful to Air Commodore (Retd) Jasjit Singh for this input.

forces should be encouraged to identify their assets that are non-sensitive and could be used to generate revenue. In this context, it is worth mentioning here that the Government Accounting Standards Advisory Board (GASAB), working under the auspices of the Comptroller and Auditor General (C&AG) of India, has worked out a road-map under which the Government will convert to accrual accounting in the next 10-12 years. This means that all Government departments / organisations / agencies would have to work out their assets and liabilities and help the Government in reducing fiscal deficit through generation of internal revenue. Given the gargantuan size of resources under the Ministry of Defence (e.g. defence land), this conversion will be a significant achievement. However, while that is a distant objective, the defence debate could make itself more meaningful by pondering over assets that can be fruitfully used without compromising the security and secrecy factors.

The defence budget can be given a more developmental orientation by creating a strong link with indigenous MIC

Finally, any defence budget must be based on certain philosophical premises. A substantial portion of the defence budget goes in funding India's weapons procurement that constitutes seventy percent of its total weapons requirement. It is rather embarrassing that India has emerged as the largest arms importer in the world during the period 2005-2009. The import projections for the future are again embarrassing since India intends to import arms worth between \$80-100 billion in the coming decade. Apart from reviving sick military industrial complexes (MICs) abroad, it also leads to huge outgo of valuable foreign exchange reserves, not to mention the perpetual dependence of India on other countries for its military modernisation. The defence budget can be given a more developmental orientation by creating a strong link with indigenous MIC. In recent times, the Government has come out with certain initiatives to boost the domestic MIC through offset policies and a liberalised FDI policy. It has also come up with a defence production policy for the first time in January 2011 that should go a long way in strengthening domestic MIC. However, these

policy initiatives apart, the country needs a healthy debate on expanding the policy basket that would help the precious penny within the country and create jobs in the domestic market than abroad.

RECOMMENDATIONS OF THE DEFENCE EXPENDITURE REVIEW COMMITTEE (DERC)

Meanwhile, the Government set up a Defence Expenditure Review Committee (DERC) under Mr. V K Misra, former Secretary (Defence Finance) that has been mandated to look into all possible ways and means to optimize the valuable budgetary allocations to defence. In particular, the committee was asked to recommend, among others, following measures that would bring about:

- Optimal efficiency in the system, with greater focus on information and communication technology (ICT);
- Greater efficiency and economy in supply through services through outsourcing and reorganization;
- Greater transparency and accountability in regard to management of defence expenditure; and
- Outcome orientation in defence spending;⁴⁵

Apparently, the Committee has indeed come out with comprehensive recommendations on many issues concerning curbing of wasteful expenditure in defence and submitted the same to the Government sometime in January 2010. Though an authoritative version of these recommendations are yet to be published, some of them have been informally been made available to media. It is understood that various officers in the Ministry of Defence (MoD) have been further assigned the responsibility of looking into the recommendations of the Committee for further action on the same. In order to have a wider impact, the full report of the Committee needs to be made public so as to solicit opinion on the pros and cons of the recommendations.

45. 'Defence expenditure review', available at www.pib.nic.in accessed on 15 November 2010.

CONCLUSION

India needs to have a defence budget that is affordable, sustainable and capable of funding the defence preparedness of the country. One thing is clear – even though the future defence budgets would be shaped within the parameters of the 13th Finance Commission recommendations, the actual amount is only going to rise further in the same proportion along with the healthy growth of the economy, as indicated by the Government from time to time.⁴⁶ But that should not stop all the stakeholders from thinking on ways and means about making the best of defence budget. The issues mentioned in this paper are not comprehensive; rather, they are representative of the entire gamut of issues that can make the present debate on defence budget more meaningful. The debate can be conducted as part of the whole gamut of defence reforms proposal since there has been demands for an active and informed debate on major issues concerning defence reforms.⁴⁷ With the story of India's rapid economic growth likely to continue in foreseeable future, what India needs is efficient conversion of resources into military power. However, as has been succinctly argued, this depends on the organisation of state, the military, the relationship between them, and between these institutions and people.⁴⁸

It would be prudent to conclude that every suggestion aimed at maximizing the output from defence expenditure must be discussed and debated. There have been suggestions for setting up a strategic planning division in MoD to undertake the task of long term defence planning in a coherent manner that commits the requisite resources after examining alternative choices of policy and their costs. Further, the National Security Advisor (NSA), as has been suggested, can provide another institutional platform where defence economist could coordinate a harmonious

46. 'Defence expenditure in proportion to India's growth: Antony', *Indian Express* (New Delhi), 15th February 2010.

47. Anit Mukherjee, 'Failing to deliver: post-crises defence reforms in India, 1998-2010', IDSA Occasional Paper No 18 (March 2011), available at www.idsa.in.

48. Sunil Dasgupta and Stephen Philip Cohen, 'Military modernization in India', *Seminar* (July 2010) available at www.india-seminar.com.

commitment of resources to defence and development.⁴⁹ The institutions of MoD and NSA must rise to the occasion and institutionalize these suggestions that will further implement vital inputs received from a wider debate on defence budget and defence expenditure.

49. Sushant K Singh and Mukul Asher, 'Making defence expenditure more effective: the urgent need to professionalise long term defence planning and budgeting', *Pragati: The Indian National Interest Review* (February 2010), pp. 19-22.