Raising Defence Expenditure

Why in news?

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Demands for increasing the defence expenditure to at least 3% of GDP has come from various quarters.

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What is the current scenario?

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- India’s defence expenditure currently stands at 1.49% of GDP, stated to be at its lowest ever.
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- This is even lower than what it was prior to the disastrous 1962 war with China.
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- But this figure of 1.49% does not include defence pensions and Defence Ministry spending.
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- If both are included, the total defence expenditure rises to 2.16% of GDP.
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- Data for the past decade show that this figure, too, had been falling (2.78% in 2009-10).
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How relevant is GDP a metric?

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- The defence expenditure is currently 16.6% of the central government expenditure (CGE).
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- This has been stable in the range of 16-18% over the past decade.
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- But defence expenditure as a percentage of GDP has been falling.
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- This is because CGE as a percentage of GDP has come down from 16% to 13% over the past decade.
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- This makes GDP, possibly, a misleading metric for fixing defence expenditure.
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What are the constraints in raising the expenditure?

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- **Capital** - Raising the defence budget to 3% of GDP would mean an increased allocation of around 23% of CGE.
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- The increase would necessarily have to be on the capital side of the defence budget.
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- As, salaries, pensions and other operating expenses have full fund allocation, with little scope to absorb extra funds.
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- But defence capital expenditure is 33% of the government's total capital expenditure in 2018-19.
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- Raising the defence capital expenditure to the tune of the proposed 3% would increase this ratio to 85%.
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- This would leave the government with very little money for other capital spending.
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- Notably, it includes that for infrastructure and asset creation, outside of the procurement for the defence services.
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- **Import** - Most defence equipment is procured from foreign countries.
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- So an increased capital budget would increase the defence import bill.
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- This could, in turn, add to the current account deficit.
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- **Tax** - The existing allocation for defence for 2018-19 is 27% of the total tax

revenue.
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- This would shoot up to 38% if the allocation is raised to meet the target of 3% of GDP.
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- This will require either an increase in the current tax rates, or a widening of the tax base.
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- Logically, both of these are difficult to achieve in the short term.
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- It will thus not be feasible to substantially augment government's non-borrowing revenues.
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- **Allocation** - So if revenue collection is not increased, defence expenditure can go up only if allocation to other heads is reduced.
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- But there is already very little for education, health, police and public infrastructure.
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- Notably, India is at a juncture of increasing the socio-economic expenditure manifold.
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What are the concerns?

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- An increasingly large share of resources is going towards human resources costs.
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- This, resultantly, leaves very little for defence modernisation.
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- With One Rank One Pension and the new Pay Commission, defence pensions have risen.
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- This has increased from around 18% of defence spending in 2013-14 to 27% in 2018-19.
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- This stands unfavourably high in comparison with total civilian pension.
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- Overall, the share of manpower costs (pay and allowances, and pensions) in the total defence expenditure has increased.
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- It has gone from 44% to 56% between 2011-12 and 2018-19.
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- This increase has largely come at the cost of capital procurement going down from 26% to 18% of defence expenditure.
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What is to be done?

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- The challenge is to optimise the existing defence allocations, instead of a quantum jump in funds.
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- A solution probably lies in fixing the current imbalance in the defence budget.
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Source: Indian Express

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