Budget 2017 - Defense Expenditure & Reforms

Why in news?

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For defence expenditure excluding pensions, the budget has provided a sum of Rs.2,74,114 crore including Rs.86,488 crore for defence capital.

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What are the implications for defence expenditure?

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- The budget estimate of defence pensions this year is Rs.86,000 crore i.e 1.6% of GDP - a drop from last year's low of 1.74% of GDP.
- When the defence pensions is included, the overall defence budget amounts to Rs.3.59 trillion, or 2.1% of gross domestic product (GDP).
- There is a nominal increase of 10% in the capital acquisitions.
- But this is a net reduction in capital spending once you account for inflation and slashed expenditures in the revised estimate.
- Around 90% of the expenditure is allocated to paying off instalments of money for past purchases of Sukhoi fighter craft, aircraft carrier Vikramaditya, transport planes like the C130J Super Hercules and more.
- The available budget for future acquisitions will only be about Rs10,000 crore.
- Outside of the budget, the government has done a fine job in liberalizing foreign direct investment (FDI) in defence, allowing up to 100% foreign ownership, with any **FDI up to 49% foreign ownership under the automatic route.**
- This move was long overdue and a necessary step in providing competition to a moribund public defence production sector and avoiding

an excessively high defence import bill.
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- But with barely Rs10,000 crore allocated towards new capital acquisitions, Make-in-India-Defence might remain a slogan and nothing more.
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What reforms can be done?

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- The Indian Armed Forces (especially the Indian Army) is too person-heavy and needs some **force rationalization**.
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- Even China decided to reduce its troop size by 300,000 people in 2015.
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- Apart from this, the defence ministry needs **to urgently follow the railway ministry in adopting accrual accounting.**
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- It is evident that the true pension liabilities of the Indian Armed Forces are unknown.
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- Therefore the Armed Forces need a good calculation of their assets and liabilities to be prepared for future conflict.
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Source: Live Mint

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