Defence Budget - Issue of Modernisation

What is the current situation?

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- Till the mid-1980s, defence pensions were counted as part of the defence budget.
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- Later pensions were taken out to avoid adverse international scrutiny of burgeoning defence expenditure.
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- It was only re-included in the budget last year.
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- The Supreme Court stated that the pensions are deferred wages, and technically this means that these are payments paid for active military service rendered in the past.
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- Since there is no way to estimate the future pension budget of 14.7 lakh armed forces personnel currently in service, including it in the defence budget is a pragmatic way of accounting for the expenditure.
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What are the features in current budget?

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- The total defence budget for Financial Year 2017-18 is therefore around Rs 3,60,000 crore.
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- Pensions apart, the salary bill for the armed forces this year would be around Rs 1,07,000 crore.
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- This **takes up a bulk of the defence budget.**
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- This only partially accounts for the Seventh Pay Commission recommendations, as allowances are yet to be fixed as per the new scale.
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- If the five core demands of the military chiefs on the anomalies of the Pay Commission are conceded by the government, the salary bill will shoot up further.
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- In FY2017-18, Rs 86,488.01 crore has been earmarked for capital expenditure of the defence services; and Rs 1,82,534.42 crore is for revenue expenditure.
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- **Revenue expenditure is for operating expenses of the Defence Ministry while the bulk of the capital expenditure is for procurement of military equipment to modernise the armed forces.**
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- As finance secretary explained to the parliamentary standing committee on defence, the Finance Ministry is not really concerned with this division of expenditure.
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- It only allocates the total money and leaves the revenue and capital allocations to the discretion of the ministry.
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What has been for defence modernisation?

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- Over the years, governments have taken to making budgetary announcements with high allocation for capital acquisition to ward off any criticism about forsaking defence modernisation.
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- **By the time revised estimates are prepared, a portion of that allocation is transferred towards revenue expenses** or returned to the government.
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- E.g In the 2016 budget around Rs 78,ooo crore was allocated for capital expenditure at the budgetary stage, which came down to Rs 71,000 crore at the revised estimates stage.
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- The amount was transferred to revenue expenditure to meet the increased salary bill.
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- In the current defence budget of Rs 3.6 lakh crore — which is 2.14 per cent of India's GDP — only Rs 5,000 crore is left for new defence deals.

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- If these defence deals are assumed to have an upfront payment of 10%, the total cost of equipment that can be bought in the coming financial year is Rs 50,000 crore.
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- But one single deal for 36 Rafale fighters signed last year was alone worth Rs 59,000 crore.
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- Therefore any expectations of greater defence modernisation in the coming year would thus be futile.
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What is the way ahead?

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- The bureaucracy and the armed forces take a lot of flak for stalled defence procurements, but the real constraint is finding resources.
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- In a slowing economy with multiple competing demands, it is always a challenge for the government to find additional resources for defence.
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- The only other option is to rebalance and restructure the armed forces.
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Source: The Indian Express

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