

MA Econ, Sem-III,

MEASURES OF REFORMS IN UNION PUBLIC

FINANCE

By

Dr. Mrinalini,
Asst. Professor (Guest Faculty),
Dept of Economics, Magadh Mahila College,
Patna University, Patna
Mob: 7366994103,
Mail id: mmayank531@gmail.com

Some Important Reforms Measures are given below:

1. Tax Related Measures : The country has made some efforts in the recent past, but they are not adequate. The Country needs to move on the following fronts: (i) to enlarge its tax-base by curtailing its large scale exemptions and extending to new areas like-service sector to include construction, media, hotels, communications, transport etc. The Country should impress on the Centre to allow it to impose tax on services; (ii) to raise the revenue productivity of the existing tax base through (a) simplifying the tax system, (b) strengthening administrative machinery and

making it more disciplined and accountable so that arrears amounting to a huge amount in the preceding years could be recovered, tax evasion be checked and deterrent penalties for tax-evaders be designed; (c) getting more serious on enforcing the tax-laws, (d) increasing cooperation between the different tax related departments; and (e) increasing tax receipts on certain heads like electricity, land revenue, specially from middle size holdings.

2. VAT related measures : Reform of the tax system at the micro level also pertain to substitute the prevailing sales tax with the VAT as soon as possible. VAT has the potential of enhancing the revenue productivity, but the danger of tax resources getting further eroded is equally serious. The important conceptual and operational issues have yet to be sorted

out. For instance, issue relating to intercountry sales and purchases, declared goods, additional excise duty items, heterogeneous tax structure further compounded by additional sales tax, surcharge, turnover taxes, etc. are important and remain unresolved. It also requires

administrative and operational readiness, an elaborate database, making available information about assessment systems and procedures to the tax payers, etc. On all these counts, the Country has to undertake the necessary ground work. In addition to enhancing intercountry coordination in terms of agreeing at the minimum tax rates in order to avoid races to the bottom.

3. Non-Tax revenue related measures --The Country has to move fast on improving the productivity of non-tax revenue resources. This may be done by increasing the user charges to undertake cost-recovery in respect of commercial services and ensuring appropriate rate of return on investments, including in PSUs. Out of a large number of PSUs, the Country has got many non-working companies, some of the companies had accumulated loss of unbelievable amount which had far exceeded their paid up capital. These PSUs need a thorough examination.

The non-tax revenue side is inextricably intertwined particularly with power and road sector reforms. The Country has to undertake serious measures to improve physical

productivity of power units, rationalise tariff structure, reduce transmission and distribution losses, reduce the abnormal difference between incoming and outgoing energy which can save a great amount. Introducing a wider range of user fees, better compliance with respect to registration of motor vehicles and transfer of immovable properties etc. are other reform areas.

4. Expenditure side reforms :-Expenditure compression is another areas in which the Country is required to take an expeditious action. The efficacy of the expenditure of the Bihar Government can be judged by the efficacy of the public services and the scale of positive externalities generated by them on the one hand, and the investment volumes attracted by them on the other. The government expenditure as reflected in public finances turn out to be extremely inefficient. One important reasons for this inefficiency is the pervasive proliferation of expenditure and cut down the capital expenditures but unfortunately entails more and mom deficits (through their financing pattern) in the future. The government, should make all efforts to

control expenditure incurred on general and administrative services, and fiscal organs, more so, because with reduction in the population to be served and the geographical area reduced for governance, the Country government does not need now as large the bureaucracy as it had in the past.

Fiscal Efficiency Unit : The Country should set up an autonomous Fiscal Efficiency Unit within the Finance division. It should be an implementing body having members drawn from different ministries and also experts from outside the Country having sound knowledge of the political economy of Bihar to work out an action plan to suggest weeding out departments which are not required, restructuring of the public sector units, bringing down the level of public expenditure and cutting down of the un-productive expenditures. The expenditure efficiency can considerably be improved by deploying the borrowed funds into productive areas rather than using them for financing revenue expenditure and not utilising them for lack of matching funds.

5. Checking Debt Accumulation :-The Country, in order to address to the problem of indebtedness adequately must work on (a) establishing of a sinking fund to retire internal debts, (b) creating a provision for depreciation and amortisation funds in respect of government's own assets, (c) designing a self imposed limit on borrowings and gurantees given by them, and also on borrowing from public accounts, (d) not using the debt to finance unproductive investments undertaken by departmental and non-departmental services, and (e) restricting itself absolutely from financing its revenue expenditure.

The Country instead of repaying old debts from fresh borrowings, should mobilise areas of revenue through restructuring of the PSUs.

In this context the following points are worth noting :

(i) The Fiscal Efficiency Unit need to take serious steps to restructure some PSUs having potential for improvement and gradually phasing out the loss-making commercial units and simulataneously deploying those receipts into providing quality economic infrastructure and retiring high -cost debts,

(ii) Measures are also needed towards closure, mergers and disinvestment in terms of selling of the worst and chronically loss making enterprises,

(iii) Structural reforms meant to introduce, autonomy, deregulation, accountability and professionalism for the profit making public enterprises is another important step,

(iv) To start with, disinvestment target be kept at about 20 percent of the equity investment in promotional enterprises of the state and proceeds be utilised only for retiring the high cost loan?. In line with the Finance Commission recommendations, the Country should claim incentives. Unfortunately, the Country government has not done anything on disinvestment issue so far.

Institutional Measures ' needs to be stressed that sharply deteriorating public finances to a very large extent are explainable in terms of the underlying; institutional framework. It includes the legal and administrative system and the political environment and also the framework of inter-government relations.

Budgetary outcomes are affected by (a) the legal barriers of not including the service sector into the ambit of tax-base and bringing the tax offenders to book; (b) the volume of generous concessions to some sectors out of political populism; (c) the inadequate autonomy and accountability to the PSUs due to lack of poor economic foresightedness; (d) non-compliance and non-enforcement to the overall framework of budgeting and public expenditure management systems leading to misutilisation and diversion of funds reflects poor quality of governance, (e) the non-utilisation of Central funds and non-compliance to Central norms are attributed to the certain inherent deficiencies in the structure of intergovernmental fiscal transfers and (f) the large scale corruption, indiscipline, administrative apathy and misuse of power reflect the systemic failure.