MA Econ, Sem-III,

POLICY OPTIONS OF UNION PUBLIC FINANCE

By

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Policy options :-The following policy options are open for the state:

1. The State of India, no doubt, is facing the fiscal constraints. Its fiscal woes are more than serious. The fiscal mismanagement practices undertaken by every government, particularly since the mid eighties had been along with the declining central fiscal transfers and implementing the Fifth & Sixth Pay Commissions Reports have accentuated State's fiscal problems. The State finds herself in budgetary inflexibility, with deficits
becoming chronic and debt having reached to unprecedented heights.

2. On the revenue side, tax-GDP ratio has stopped growing and non-tax revenue has become almost stagnant. On the

expenditure side, periodic upward pay revision and pension of government employees at State and local levels and their convergence parity with Central salary structure, burgeoning explicit and implicit subsidies out of competitive populism and consequently rising interest liability emerging out of increased reliance on market borrowings and on public account borrowings, have made expenditure trends unsustainable.

3. The increased resource gap is being financed by borrowings obtained at high interest rates, which in turn contributes to higher interest payments. This further adds to the higher revenue expenditure growth and revenue deficit which increases its percentage in fiscal deficit. The existing budgetary operations towards checking fiscal imbalances can not be sustained, as seen through (a) the magnitude of debt; (b) the composition and terms of borrowings; (c) The manner the borrowed funds are being utillised; and (d) the revenue efforts of the State to enhance its own revenue resources.

4. Correcting fiscal imbalances has become quite difficult over the period due to the following reasons :

(i) Committed items of expenditure such as salaries, pension payments and interest payments constitute a significant proportion. In fact, the implementation of pay revisions by the State for its employees has further reduced the maneuverability of the State.

(ii) The quality of fiscal deficit has undergone a change with revenue deficit constituting an important proportion of the fiscal deficit.

(iii) The manner in which fiscal deficit is being financed pushes the State into the vicious circle of 'debt trap'. That is, deficit is being increasingly financed by the Central loans and market borrowings mobilised at a higher rate, and small saving loans and PFs, which add to the debt-servicing liability of the State in the near future. As a result outstanding debt liabilities has reached unprecedented heights and net available resources left behind are meager.

5. The State must realise the following implications of its bifurcation on its public finances :

(i) The revenue loss at the moment is definite and substantial.

(ii) The decline in revenue resources is steady and may continue for about 5 years as observed from the behaviour of the budgetary variables of the last 3 years,

(iii) The State's revenue is likely to be settled down at least 40 percent of the previous level after taking into account the downfall in own revenue receipts (own-tax and non-tax revenues) and decline in the weight of non-tax revenues, and also allowing for expected increase in GDP, and some expected revenue efforts to be made by the State,

(iv) The State would continue to have an adverse effect on its finances in the medium term as its expenditures continue to be high and have not come down by the proportion the population and geographical area to be governed have fallen,

(v) Since the impact of bifurcation is serious and the State should come out with an action-plan not only to check the revenue loss but to enhance its earning levels.

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