

MA Econ, Sem-III,

IMPACT OF GLOBALISATION ON UNION PUBLIC

FINANCE

By

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Globalisation and its impact on state finances :

With the adoption of privatisation, liberalisation and globalisation measures, a new market friendly economic environment characterised by a general fiscal retreat by the government and more space for the private sector would emerge. Given Bihar as one of the poorest States, and having weak and fragile public finances, globalisation forces raise many public finance issues requiring an immediate attention by the State.

1. During the last 10 years, the general fiscal retreat by the government has also led to a decline in total net resources transferred to states from 8.1 percent of GDP to 6.1 percent. It in

general has adversely affected the quality of expenditure across all the States. In the case of Bihar, fiscal transfers (constituting Tax shares, grants and loans) as percentage of NSDP though has marginally increased from 14.5 percent to 15.1 percent during 2004 - 05 to 2018 - 19, show a significant decline if they are taken as a percentage of revenue expenditure plus capital disbursements. It has led to a phenomenal fall in capital outlays. Capital outlay as a proportion of capital disbursements have come down from about 6 percent to 3.6 percent during 2004 - 05 to 2018 - 19. This adversely affects the supply of infrastructure facilities. Thus, the State needs additional resources to offset the decline in Central fiscal transfers including the central public sector investment; and (b) the expected probable loss of its own-revenue resources, once the State undertakes tax rationalisation measures in interstate context, implements VAT (Value Added Tax) and vacates certain areas to the private sector.

2. With fiscal transfers, being declining in the future the per capita plan outlay (which is already low almost one-tenth of Goa in the Eighth Plan) would be adversely affected. It would have serious implications for productive investments. For instance, plan

realisation with reference to project outlay was lowest in Bihar by 36 percent. The most important reason is the percentage share of State's own funds, which were projected to be at 5 percent become negative by-74 percent.

3. The State has to redesign its economic policies in a more market-oriented and competitive environment. This requires the State to improve its quality of fiscal governance and general administration, so that private investment through institutional finance and banking investment along with an entrepreneurial class are attracted. This is going to be one of the biggest challenge for the State in the near future given the past track record of the investment reflected in combined Industrial Entrepreneur Memorandum (IEMs) and Letter of Intent (LOIs).

4. Many states may indulge in "races to the bottom" by diluting their tax levels and granting fiscal concessions and incentives to attract national and international investments. The State of Bihar would find it difficult to extend such incentive schemes given its weak resource base. Given the weak resource position particularly with fiscal transfers not forthcoming at the required rate,, the State may not find it easy even to maintain the supply of the

existing levels of infrastructural facilities essentially required to sustain even the rate of growth the State is currently recording.

5. With globalisation the need for decentralisation through strengthening the local self government Institutions also assumed importance. It is unfortunate that the State has disregarded the constitutional provision requiring it to devolve resources to local bodies. The State instead of strengthening their resource position has steadily weakened them as seen through the 'reverse flow of resources from local bodies'. For instance transfers from the State to local bodies were assumed Rs. 6.9 crore on 2004 - 05, which turned out to be Rs. 18.5 crore in 2018 - 19.

Thus, with State's own resource-base not improving and given the lack of adequate investment by the State, uncertain fiscal flows from AIFI, declining investment in CPSUs located in Bihar and shrinking Central fiscal transfers, the State is required to design a development strategy not only to fall in line with market-oriented environment, but to save itself for not being further pushed behind in the rate of economic growth and development. This is going to be the biggest possible challenge in the near future ever faced by the State.

