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MANAGEMENT OF PUBLIC FINANCE

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ABSTRACT

The role of the government across the world is to figure for the welfare of the people whom they rule. This defined role of any government is due to ideology, political reasons or mandated by law. One in all the ways, through which any government can turn the fortunes of an economy, is by managing public finances. Public finance is the branch of economics that examines the role of the govt. in an economy. It mainly explains the revenue generation and expenditure occurrence process of any government. The discipline of public finance describes and analyses government services, subsidies, welfare payments and therefore the methods by which the expenditure to those ends are coveted through taxation, borrowings, economic aid and therefore the creation of recent money. In other words public finance explores the economic policy of the state and the way they'll be best wont to meet the goals of public policy. Public financial management is nothing but the creation of budgeting, spending and managing public earnings. As we all know that central government owns the most important a part of revenue collection within the kind of indirect taxes and therewith also possess the allegations of biasness in tax incidence. As per the critics of public finance management, the burden of indirect taxes is levied on urban poor rather than rural rich and thus distorts the inducement of achieving efficiency goal from relocation of sources. The foremost problem identified within the Indian public finance system is in tax administration system, where multiplicity of taxes, biasness in incidence of taxes and dominance of indirect taxes makes it difficult to focus on wealthy population. This can be quite obvious as union, state and native government maintains different tax structures that makes chaos and harasses tax payers eventually. This article is highlighting the sources of this biasness and recommends necessary changes within the tax structure maintained under union government framework. This article will also reveal the complications I public finance reforms and suggest ways for effective public finance management study. The Above article also proposes to look at the issues of management of public finance in India from different perspectives including sources of revenue, utilization of funds, debts and financial control et al.

Keywords: *Finance, Management, Revenue, Economic analysis, Revenue, Gross Domestic Production*.

Introduction

One of the essential functions of state is to gather revenues/taxes from public and judiciously spend it for their protection and welfare. The revenue expenditure process of state i.e. taxing and spending, therefore, has been recognized essential for realizing the target of the state. The word 'public' publically finance represents government and 'finance' simply means income and expenditure. Thus, public finance could be a science of acquiring resources and their adequate expenditure in financially sustainable way. It's mainly a process or principle underlying the appraisal and expenditure of funds by government for various public services. It's a combination of normative and positive science. Positive science phrase is employed as this study thinks about with what are sources of public revenues, items of public expenditure, constituents of the budget and formal moreover as effective incidence of fiscal operations. Normative nature is due to the actual fact that government must lay down some norms to guage the adequate values while fixing the rates of taxation and expenditure. Public Finance, involves be called the science of income and expenditure of presidency, strives to realize the goals of state.

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In ancient India, treasury was considered because the source of all powers and hence it had been the duty of the king to stay his treasury fully. The government spending was mainly confined to police, defence and protection of sovereign. It absolutely was the King's nobility to expend and not his duty. The medieval feudal public finance wasn't concerned with the welfare of the general public, rather it had been tax driven. For, the medieval feudal lords use to take advantage of dependent peasants and craftsman without contributing anything back to them. After maintaining adequate amount within the treasury, the king use to spend a sizeable portion of revenue on police, justice and arms formed major heads of expenditure in India. However, little money was spent on other activities. Thus, in earlier periods the degree of revenue determined the quantum of expenditure, contrary to the modem practice where expenditure determines the scale of the revenue. The modem idea works on the straight forward principle that first gets the scale of the coat and so goes for the material while ancient practice was to create the coat in line with the material since revenue is decided by the dimensions of public expenditure. Hence, the management of public finance wasn't considered important by the kings.

Scope and Importance of Public Finance

The scope of public finance is to handle income and expenditure of public authorities. It not only concentrates on the finances of the central government but also considers finances of state governments likewise as local governments. The study of public finance covers public revenue, public expenditure, debt, certain problems of the fiscal system as an entire like fiscal administration and financial policy. It's important to develop infrastructure for state. Roads, railways, bridges, flyovers, government health care centres and lots of other projects are to be built for the event of country. No private enterprise will do the work voluntarily as they're not visiting get payments from individuals. So, government needs to manage the finances to take a position during this work. Public finances help government tackle these externalities. Like pollution is considered collectively of the worst side effects of commercial growth. Government can introduce various programs and initiatives to diminish the effect of pollution. Public finance is that the study of public finances that government gets to understand the way to acquire and spend money. It helps in redistribution of resources. For example, taxes collected from economically stronger sections will be invested for the expansion of weaker sections. It also helps government to moderate and control the earnings of made and poor. Thus, government can launch various programs that enhance welfare and social insurance. Governments are evolving from police states to welfare states. This has enhanced the requirement of public finances in system. Government is getting more and more involved in economic activities thus widening the scope of public finance even further. The problems associated with economy like employment generation, maintaining economic balance, handle economic depression and boom etc are all to be studied thoroughly under public finances.

Public Finance System and Mechanisms in India

Public finance in India is developed supported federal structure governing financial relationships between the union government and also the regime. Thus, the distribution of powers among centre and states has been directed by Constitution of India. The Indian Constitution comprises of union list, state list and concurrent list as threefold distributions of legislative powers between the centre and therefore the states. As per the seventh schedule of the Indian Constitution, the union list contains 100 items for revenue collection under central government. State list contains 61 items retained by government and concurrent list contains 52 items which aren't laid out in above mentioned two lists. Further, the Constitution of India also provides the norms for founded the Finance Commission by the President of India on five yearly bases to review the distribution of tax revenues between centre and states government. India includes a long history of its public finance system. As even under t he preview of British Rule, public expenditure was used on civil administration and defence of the country. However, after independence, ministry of finance was established for determining the long course of action plan. The ministry of finance started allocating heavy expenditure on various economic activities to strengthen on the premise of capitalization and employment opportunities. However, within the wake of continuous ups and downs, either in terms of political unrest or periodic crisis, India has did not produce surplus and currently counted as among top emerging economies funded with tremendous amount of foreign debts. Therefore, but its traditional functions, public finance system in India springs by the objectives of national consumption, reallocation of resources towards public needs for development and funding government business. As India features a complex tax structure and vast expenditure lines, the authorities have observed that there's a way over expenditure as compared to revenue. Till 1991, there was a pointy increase in government expenditure and even deficit financing become cumbersome and thus fiscal consolidation was introduced. Jena (2013) highlighted that the general public budgets in India is guided by number of policies, world nation's scenarios, growth processes, and financial needs of the country.

Growth of Public Expenditure and its Implications

The scope clearly highlights that public revenue and public expenditure are dominant components of public finance or economic policy. However, economic theorists of the 18th and 19th century were fascinated in raising revenues by taxation instead of by spending of public money. They paid lesser attention to public expenditure and that's why they received far less economic analysis. The philosophy of free market was the most important culprit behind neglection in expenditure for public services because it called it a waste exercise. J. S. Mill (1932) supported this philosophy and stated that "the business of life is healthier performed when people who have a direct interest in it are left to require their own decision associated with cost, uncontrolled either by mandate of law or the meddling of any public functionary". Another factor to blame for the negligence was, 'the feeling that the extent and structure of expenditure were determined politically and were thus beyond the scope of economist. Thus till 19th century, the subject of public expenditure remained neglected both by the academia and economists. However, certain events in 20th century like the worldwide depression, the globe wars, the emergence of independent nations, etc. have led to radical changes within the concept of the general public finance and expenditure. In course of your time, many governments looked as if it would have transformed from, being direct providers to arrangers of resources. This new role of presidency propelled its activities altogether directions like large sums of public outlay. Being an erstwhile colonial state, things in India was also not different; the governments, here, had to figure as an entrepreneur for promoting economic process. It had to require creative steps in observing the deteriorating economy by investing in social and overhead capitals. Of these developmental challenges took the extent of the state activities to towering heights. As a result, public expenditure increased in size and complexity. These complexities assumed new dimensions and placed neglected topic of public expenditure at the guts of public finance.

Management of Public Finance

In a dynamic environment, every government is in constant pressure of managing its central expenditure to decrease their fiscal deficit and increase its global visibility. In an attempt to try the same, different political parties who formed government within the last twenty years introduced several reforms and undergone various phases of fiscal consolidation to commensurate the degree of revenue and expenditure. The ability associated with financial management of central government is vested in ministry of finance in India. Even the delegation of monetary power of central government to different sub-ordinate authorities is completed via ministry of finance. The final system of economic management outlays the principles and procedures governing all the authorities about the gathering and utilization of economic resources of state. The most duties of the finance ministry are formulation of budget, inventory management, grant management, grant in-aid and loans, budgeting and accounting for externally aided projects, government guarantees and other miscellaneous subjects. The finance ministry operates and maintains the account of central government with the main focus towards incomes and expenses recorded to different sources under sub-ordinate authorities. There are several sub divisions like department of revenue and its sub divisions, central board of direct and indirect taxes, department of expenditures that overviews all the expenditure and revenues related policies and programs executed by central government. Thus, we are able to say that government follows a really de-centralized system at centre. The central government of India generates and disburses revenue in several sectors. For this purpose, the centre must have an organizational structure, with finance departments because the main engine. In simpler terms, the financial administration of India is answerable for management of public finance. The financial administration is additionally chargeable for analyzing financial working and disbursement of public funds inside the lawful suit. The chief level financial administration control and manages the financial position of the central government. No expenditure or revenue may be distributed without the approval or recommendation of executive body. Due to this, the manager level, designs the budget and gauge the necessities of funds. The legislative agencies examine every kind of revenues additionally because the necessary expenditures. Additionally, the legislative agency is additionally to blame for the enforcement of economic accountability across various sectors. The ministry of finance with the assistance of those departments explores new avenues of extracting income and manages proper use of public funds. They're not only in control of designing budget but they also hold expertise in every financial matter concerning to different departments of the central government. Ministry of finance consults all the opposite ministries and takes rounds of debate for designing the budget. Further, the administration also ensures the suitable allocation and usage the number spent on different programs and reforms of central government. Lastly, Auditing department is liable for checking all the income and expenses done by the various ministries of central government. The auditing of public accounts is completed through independent statutory authority that's Comptroller and Auditor Genera (CAG). The audit powers are served as a link between executive and parliament, because it interprets the actions of executive to parliament. This was a just a short introduction of the organizational structure of economic administration in our country.

Conclusion

Public expenditure or more specifically, expenditure by central government is the prominent indicator of growth of Indian economy. While many recent studies have put forwards various role of public expenditure, most of them concluded with effecting its total influence on the GDP of country. During a slight divergent, the current study undertook a unique approach of explaining central government expenditure, through analyzing its trends across various sectors of the expenditure. The compression in cost against revenue expenditure raises many questions and clearly indicates government's long-term strategies. The compression in cost is because of the brunt need of fiscal correction as per the FRBM legislation. One more reason for diminishing size of cost could be a belief that this doesn't increase the investment level in economy. Central government is using treasury bills, market loans and little savings options to get over the deficits surmounting at the time of paying. The centre's preference towards these three components is critical for its impact towards overall economy. However dealings of treasury bills have necessary bearing altogether upon the full liquidity of the economy. The central government is using small deposits option for its smaller interest payment liabilities. The funds from small savings have seen a greater usability in recent years and therefore the same has been put forth because the viable choice to reduce the burden of interest payments. The financial control on central government of India lies within the hand of agency called ministry of finance. The ministry of finance and its various departments plays a key role in examining the entire expenditure and total revenue of central government. The monitoring and execution of revenue collection by central government is finished by the department of revenue. Department of revenue through its two main arms, Central Board of Direct Taxes (CBDT) and Central Board of Indirect Taxes and Customs (CBIC) that's chargeable for executing the flow of tax collections from direct and indirect taxes. The department of expenditure is to blame for monitoring of expenditure at central level. Lastly, the final word unit for the supervision of payments and accounting of all the departments are distributed by office of Chief Controller of Accounts. This division is itself part of Ministry of Finance which supervises the working of department of economic affairs, department of expenditure, department of revenue, and department of investment and public Asset management and department of economic services.

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