Fiscal Management:

Quality makes a difference… but is missed

Fiscal management (like our previous topic of money management) is not a separate topic but a part of Gangajal Economics. It has been discussed separately to highlight its importance.

Fiscal Management

Fiscal management deals with (a) raising of resources for sovereign functions through taxation and fees, (b) expending the resources on the state functions, (c) resorting to deficit financing to promote infrastructure and growth, and (d) raising of debt to finance the deficit.

Fiscal management is an important part of governance and economy management as only the state can discharge the basic governance functions of defence and law & order, provide social security and build infrastructure. To deliver these, the state needs resources which are collected through taxation. The state also needs to give a push to aggregate demand to ensure growth. This becomes possible through deficit financing. All these factors have to be calibrated in a holistic manner so that there is moderate taxation, adequate infrastructure and delivery of sovereign functions and manageable sovereign debt. Our Governomics model aims to achieve these goals through appropriate policy prescriptions.

Issues in Fiscal Management

Generally, the money that the state collects through taxes is sufficient to make a nation a developed one and sustain it at that level of development. The resource issue is not quantitative but qualitative. The available resources are not being spent right and so the spending doesn't produce the desired effect. Following issues impact fiscal management adversely:

- Not taxing right: Overtaxing the poor and middle class and undertaxing the rich
- Misallocation of resources on various state functions
- Inadequate and inappropriate social security, and
- Not raising the sovereign debt right: The state's debt raising needs a complete overhaul

Deficit Budgeting

Deficit budgets are necessary for growth and infrastructure building. Depending on the stage of development, as a rule of thumb, it could range between 3-5% of GDP. Further, the deficit percentage has to be higher than the inflation rate. Our model suggests the right kind of fiscal deficit level for the given state of economy.

Sovereign Debt Management

Sovereign debt level is also important and differs according to the state of economic development. It should stabilize at a reasonable level. Our model recommends a specific quantum and shows how to control and stabilize it.

Our model has its own unique way of dealing with sovereign debt. It also keeps the cost of debt at the lowest possible level.

Taxation

Our model aims to keep the number of taxes few, the taxation at a moderate level, check that the consumption is not affected much due to the taxation and follows the principle of ability to pay in designing the taxation structure. Following policy guidance is available in this regard:

- Principles of taxation (10 principles)
- Organisational set-up of the tax department

- Taxation sources and revenue estimates, and
- Each tax wise structure, tax rates, exemptions, revenue estimates, organisational issues and tax administration. The following taxes are discussed in our model.

Taxes

- Value Added/ Goods & Services Tax
- Income Tax
- Wealth Tax
- Stamp Duty
- Import and Export Duty
- Sin Tax – Excise Duty
- Motor Vehicle Tax
- Municipal (Property) Tax
- Infrastructure Cess/Fee

Sovereign Spending

This aspect of fiscal management is very crucial and often falters. Our model provides specific guidance to achieve the fiscal goals and derive maximum value for money. The following areas of expenditure management have been covered in our model:

- Principles of expenditure management (10 principles)
- State procurement policy
- Organisational set-up (Various ministries and departments of Government)
- Expenditure design and budget

The budget has been divided into the following areas/functions:

- National Defence
- Law and Order
- Infrastructure including housing
- Social Security
- Healthcare
- Education
- Other State Functions
- Pension
- Interest on Government Debt

Tax Revenue Sharing and Support to States (Provincial Governments)

The deficient resources would be made available normatively according to the allocated functions to the states. Our model provides guidelines in this regard. It keeps the expenditure under control and avoids overstaffing.

Helping a nation to re-orient policies relating to fiscal management

Our model can help assess the existing policies of a nation and take corrective measures so as to regulate the important areas of fiscal management and ensure adequate resources for discharge of basic functions, social security and infrastructure building while keeping the taxation at a moderate level.