

Studies in Indian Public Finance by M. Govinda Rao, 272 pp, Oxford University Press (2022), £97

Public finance is fundamental to the development of any economy, particularly an emerging and developing economy like India. Acknowledging this centrality, the book by M. Govinda Rao titled “Studies in Indian Public Finance” traces the evolution of public finance in India’s macroeconomic discourse and management based on both theoretical and empirical insights, and thereby fills an undeniable gap in the public finance literature relating to India. The book is divided into nine chapters, which cover wide ranging topics, including public expenditure, tax policy and reforms, fiscal deficit, debt, fiscal federalism, intergovernmental transfers, and public finance during the pandemic.

The first chapter discusses the need for State intervention through the lens of opportunity costs, market failures, and public service delivery. Public goods need to be financed *via* revenues from taxation. Rao argues that the low revenue productivity in India has resulted in governments resorting to borrowing for provisioning of public goods. This has raised the issues of debt sustainability and stability. The federal structure in India brings to the fore differential revenue-raising avenues and expenditure responsibilities of the States. In comparison, the Centre has jurisdiction over several broad-based taxes, including the goods and services tax (GST) due to its comparative advantage in collection. Notwithstanding the advantage enjoyed by the Centre in collection of the taxes, the allocation function, which relates to the provision of public services while catering to the diversified preferences of population, rests with the States. And hence, intergovernmental transfers become an inevitable part of the scheme of public finance in India.

The second chapter compares the role of the State and market, while analysing the need for State intervention. State intervention is needed to ensure an efficient allocation of resources whenever there is market failure due to asymmetric information or due to presence of missing markets. This becomes particularly relevant in cases of essential public goods. In lieu of

subsidies which can cause market distortions, cash transfers can accomplish the desired resource allocation with minimum disruptions.

The third chapter delves deeper into the issue of allocation of public expenditure while improving its productivity. This chapter notes the trade-offs between expanding the size of expenditure and reallocating it. The tax-to-GDP ratio in India has been nearly stagnant in recent years, posing obvious challenges to financing India's increasing expenditure needs. This has resulted in a high reliance on government borrowings, leading to the possibility of crowding out of private investments. The author argues that productivity of public expenditure can be improved by reprioritising spending decisions, better usage of technology, and ensuring greater accountability and incentives for public service delivery.

The fourth chapter examines India's tax policies and associated reforms. The major challenge for India has been raising adequate tax revenues without causing distortions. And yet, there is significant scope for improvement in India's tax policies according to the author. A major scope for improvement emanates from reducing the fragmentation in the existing tax system. To illustrate, the Centre is allowed to tax only the non-agricultural income. A comprehensive income tax system warrants the inclusion of agricultural income. Specifically, corporations involved in farm activities need to be brought under the tax ambit. Furthermore, simplification of the tax system while broadening the tax base, and strengthening the use of information technology offer other ways of improving tax collection.

The fifth chapter discusses GST, which the author regards as the greatest experiment in cooperative federalism. At the time of its introduction in 2017, it was defined as 'one country-one tax'. As is well-known, this is a destination-based tax involving the input tax credit mechanism. The tax was envisaged to usher in a simpler, revenue-productive, and less distortionary collection system. The author argues that there have been numerous gains since the inception of GST like free movement of goods across States, reduced time and costs in transportation of goods, and minimised distortion from cascading effects. The future course of action includes reducing the number of items under exemption list to avoid tax evasion, consolidation of multiple GST rates, and application of additional excise duties for demerit goods like tobacco.

The sixth chapter examines the macroeconomics of Indian public finance. In theory, higher debt and deficits result in higher interest payments which further increase debt levels and deficits. In case of India, the inception of Fiscal Responsibility and Budget Management Act (FRBMA) in 2003 provided a roadmap ensuing fiscal consolidation. There have been revisions in the timeframe to achieve the proposed fiscal deficit targets in light of the changing dynamics of a growing economy and black swan events like the pandemic. In line with the literature, the author recommends the creation of an Independent Fiscal Council (IFC) for maintaining the credibility of Union Budgets by helping in better compliance of fiscal targets.

The subject matter of the seventh chapter is the changing landscape of Indian fiscal federalism in line with the changing political and economic discourse in the country. It is characterised by decentralisation of public services catering to the diversified needs of India's population while binding them together. Fiscal federalism is imperative to reap the benefits of economies of scale. Among the various events that have dotted the changing landscape of Indian fiscal federalism are the economic reforms of 1991, and disbandment of the Planning Commission in 2014. The author recommends creating an environment in which the *Niti Aayog* can ensure harmonious intergovernmental relations, establishing an institution for intergovernmental transfers, and fostering competence of the local governments. To further strengthen the federal setup, efficiency in public service delivery, spirit of cooperation between Centre and States, and efficiency gains through intergovernmental competition can be enhanced.

The eighth chapter is about central transfers to States. While most expenditure functions are the responsibility of the States, the broad-based tax collection rests with the Centre, leading to a vertical imbalance. There is also horizontal imbalance as the revenue efficiency of all the States is not the same. Therefore, general purpose and specific transfers are given by the Centre to offset the fiscal disabilities of the States and to ensure minimum standard of public services, respectively. The chapter notes that the general purpose transfers are more equalising than the specific purpose transfers but the former only partially offset the revenue disabilities of the low income States which can widen horizontal inequality. The issue with specific purpose transfers is that they are given for numerous schemes having multiple objectives. Moreover,

the schemes are not linked to service level outcomes which could be revealed from the observation that States with highest shortfall in services from the prescribed levels are not the one receiving maximum grants. According to the author, there is a need to rationalise the number of such schemes for optimal usage of funds.

In the final chapter, the author discusses the situation of public finance during the COVID-19 pandemic, marked by a slowdown in economic activity. The author argues that pandemic provided a good opportunity for reforms, particularly in the area of public finance. The specific areas of reforms include banking sector reforms to ensure credit allocation to productive sectors, judicial reforms to enforce the contracts, protect the property rights, and enhancing the ease of doing business. This will help India to improve its productivity of revenues by realising a higher growth potential which will help in attaining sustainable debt and deficit levels.

In sum, the book under review stands out for its ability to mix the theoretical and practical aspects to offer credible solutions to reform various aspects of public finance in India. It would have benefitted from a more detailed discussion about the significance of the Finance Commission in the Indian tax system. Additionally, the treatment of the FRBMA and direct taxes in the book could have been made more detailed. Having said that, the book covers considerable ground to provide the readers an overall understanding of the evolution and current state of public finance in India with future course of possible reforms.

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