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A study on Financial Management of public interprise India

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Abstract
The proper role of government provides a starting point for the analysis of public finance. In theory, under certain circumstances, private markets will allocate goods and services among individuals efficiently (in the sense that no waste occurs and that individual tastes are matching with the economy's productive abilities). If private markets were able to provide efficient outcomes and if the distribution of income were socially acceptable, then there would be little or no scope for government. In many cases, however, conditions for private market efficiency are violated. For example, if many people can enjoy the same good (the moment that good was produced and sold, it starts to give its utility to every one for free) at the same time (non-rival, non-excludable consumption), then private markets may supply too little of that good. National defense is one example of non-rival consumption, or of a public good. Market failure" occurs when private markets do not allocate goods or services efficiently. The existence of market failure provides an efficiency-based rationale for collective or governmental provision of goods and services. Externalities, public goods, informational advantages, strong economies of scale, and network effects can cause market failures. Public provision via a government or a voluntary association, however, is subject to other inefficiencies, termed "government failure."
Keywords*: public finance, government failure, National services efficiently,*

I. Introduction

Under broad assumptions, government decisions about the efficient scope and level of activities can be efficiently separated from decisions about the design of taxation systems (Diamond-Mirrlees separation). In this view, public sector programs should be designed to maximize social benefits minus costs (cost-benefit analysis), and then revenues needed to pay for those expenditures should be raised through a taxation system that creates the fewest efficiency losses caused by distortion of economic activity as possible. In practice, government budgeting or public budgeting is substantially more complicated and often results in inefficient practices.

Government can pay for spending by borrowing (for example, with government bonds), although borrowing is a method of distributing tax burdens through time rather than a replacement for taxes. A deficit is the difference between government spending and revenues. The accumulation of deficits over time is the total public debt. Deficit finance allows governments to smooth tax burdens over time and gives governments an important fiscal policy tool. Deficits can also narrow the options of successor governments. There is also a difference between public and private finance, in public finance the source of income is indirect for ex:various taxes(specific taxes,value added taxes), but in private finance sources of income is direct.

The **public sector** (also called the **state sector**) is the part of the economy composed of both public services and public enterprises.

Public sectors include public goods and governmental services such as the military, law enforcement, infrastructure (public roads, bridges, tunnels, water supply, sewers, electrical grids, telecommunications, etc.), public transit, public education, along with health care and those working for the government itself, such as elected officials. The public sector might provide services that a non-payer cannot be excluded from (such as street lighting), services which benefit all of society rather than just the individual who uses the service Public enterprises, or state-owned enterprises, are self-financing commercial enterprises that are under public ownership which provide various private goods and services for sale and usually operate on a commercial basis.

Organizations that are not part of the public sector are either a part of the private sector or voluntary sector. The private sector is composed of the economic sectors that are intended to earn a profit for the owners of the enterprise. The voluntary, civic or social sector concerns a diverse array of non-profit organizations emphasizing civil society.

Civil society can be understood as the "third sector" of society, distinct from government and business, and including the family and the private sphere By other authors, *civil society* is used in the sense of 1) the aggregate of non-governmental organizations and institutions that manifest interests and will of citizens or 2) individuals and organizations in a society which are independent of the government

Sometimes the term *civil society* is used in the more general sense of "the elements such as freedom of speech, an independent judiciary, etc, that make up a democratic society" (*Collins English Dictionary*). Especially in the discussions among thinkers of Eastern and Central Europe, civil society is seen also as a normative concept of civic values.

Normative generally means relating to an evaluative standard. **Normativity** is the phenomenon in human societies of designating some actions or outcomes as good or desirable or permissible and others as bad or undesirable or impermissible. A norm in this normative sense means a standard for evaluating or making judgments about behavior or outcomes. Normative is sometimes also used, somewhat confusingly, to mean relating to a descriptive standard: doing what is normally done or what most others are expected to do in practice. In this sense a norm is not evaluative, a basis for judging behavior or outcomes; it is simply a fact or observation about behavior or outcomes, without judgment. Many researchers in this field try to restrict the use of the term normative to the evaluative sense and refer to the description of behavior and outcomes as positive, descriptive, predictive, or empirical.

Normative has specialised meanings in different academic disciplines such as philosophy, social sciences, and law. In most contexts, normative means 'relating to an evaluation or value judgment.' Normative propositions tend to evaluate some object or some course of action. Normative content differs from descriptive content

One of the major developments in analytic philosophy has seen the reach of normativity spread to virtually all corners of the field, from ethics and the philosophy of action, to epistemology, metaphysics, and the philosophy of science. Saul Kripke famously showed that rules (including mathematical rules, such as the repetition of a decimal pattern) are normative in an important respect.

Though philosophers disagree about how normativity should be understood, it has become increasingly common to understand normative claims as claims about reasons. As Derek Parfit explains:

We can have reasons to believe something, to do something, to have some desire or aim, and to have many other attitudes and emotions, such as fear, regret, and hope. Reasons are given by facts, such as the fact that someone's finger-prints are on some gun, or that calling an ambulance would save someone's life. It is hard to explain the *concept* of a reason, or what the phrase 'a reason' means. Facts give us reasons, we might say, when they count in favour of our having some attitude, or our acting in some way. But 'counts in favour of' means roughly 'gives a reason for'. The concept of a reason is best explained by example. One example is the thought that we always have a reason to want to avoid being in agony

II. Materials And Methods

Public finance through state enterprise

Public finance in centrally planned economies has differed in fundamental ways from that in market economies. Some state-owned enterprises generated profits that helped finance government activities. The government entities that operate for profit are usually manufacturing and financial institutions, services such as nationalized healthcare do not operate for a profit to keep costs low for consumers. The Soviet Union relied heavily on turnover taxes on retail sales. Sale of natural resources, and especially petroleum products, were an important source of revenue for the Soviet Union.

In market-oriented economies with substantial state enterprise, such as in Venezuela, the state-run oil company PSDVA provides revenue for the government to fund its operations and programs that would otherwise be profit for private owners. In various mixed economies, the revenue generated by state-run or state-owned enterprises is used for various state endeavors; typically the revenue generated by state and government agencies goes into a sovereign wealth fund. Examples of this are the Alaska Permanent Fund and Singapore's Temasek Holdings.

Various market socialist systems or proposals utilize revenue generated by state-run enterprises to fund social dividends, eliminating the need for taxation altogether.

Government finance statistics and methodology

Macroeconomic data to support public finance economics are generally referred to as fiscal or government finance statistics (GFS). *The Government Finance Statistics Manual 2001 (GFSM 2001)* is the internationally accepted methodology for compiling fiscal data. It is consistent with regionally accepted methodologies such as the *European System of Accounts 1995* and consistent with the methodology of the *System of National Accounts (SNA1993)* and broadly in line with its most recent update, the *SNA2008*.

Measuring the public sector

The size of governments, their institutional composition and complexity, their ability to carry out large and sophisticated operations, and their impact on the other sectors of the economy warrant a well-articulated system to measure government economic operations.

The *GFSM 2001* addresses the institutional complexity of government by defining various levels of government. The main focus of the *GFSM 2001* is the general government sector defined as the group of entities capable of implementing public policy through the provision of primarily non market goods and services and the redistribution of income and wealth, with both activities supported mainly by compulsory levies on other sectors. The *GFSM 2001* disaggregates the general government into subsectors: central government, state government, and local government. The concept of general government does not include public corporations. The general government plus the public corporations comprise the public sector

The general government sector of a nation includes all non-private sector institutions, organisations and activities. The general government sector, by convention, includes all the public corporations that are not able to cover at least 50% of their costs by sales, and, therefore, are considered non-market producers.

In the European System of Accounts, the sector “general government” has been defined as containing:

- “All institutional units which are other non-market producers whose output is intended for individual and collective consumption, and mainly financed by compulsory payments made by units belonging to other sectors, and/or all institutional units principally engaged in the redistribution of national income and wealth”.

Therefore, the main functions of general government units are :

- to organize or redirect the flows of money, goods and services, or other assets among corporations, among households, and between corporations and households; in the purpose of social justice, increased efficiency or other aims legitimized by the citizens -- examples are the redistribution of national income and wealth, the corporate income tax paid by companies to finance unemployment benefits, the social contributions paid by employees to finance the pension systems;
- to produce goods and services to satisfy households' needs (e.g., state health care) or to collectively meet the needs of the whole community (e.g. defense, public order, and safety).

The general government sector, in the European System of Accounts, has four sub-sectors:

1. central government
2. state government
3. local government
4. social security funds

"Central government" consists of all administrative departments of the state and other central agencies whose responsibilities cover the whole economic territory of a country, except for the administration of social security funds.

"State government" is defined as the separate institutional units that exercise some government functions below those units at central government level and above those units at local government level, excluding the administration of social security funds.

"Local government" consists of all types of public administration whose responsibility covers only a local part of the economic territory, apart from local agencies of social security funds.

"Social security fund" is a central, state or local institutional unit whose main activity is to provide social benefits. It fulfils the two following criteria:

- by law or regulation (except those about government employees), certain population groups must take part in the scheme and have to pay contributions;
- general government is responsible for the management of the institutional unit, for the payment or approval of the level of the contributions and of the benefits, independent of its role as a supervisory body or employer.

The *GFSM 2001* framework is similar to the financial accounting of businesses. For example, it recommends that governments produce a full set of financial statements including the statement of government operations (akin to the income statement), the balance sheet, and a cash flow statement. Two other similarities between the GFSM 2001 and business financial accounting are the recommended use of accrual accounting as the basis of recording and the presentations of stocks of assets and liabilities at market value. It is an improvement on the prior methodology – *Government Finance Statistics Manual 1986* – based on cash flows and without a balance sheet statement.

Users of GFS

The *GFSM 2001* recommends standard tables including standard fiscal indicators that meet a broad group of users including policy makers, researchers, and investors in sovereign debt. Government finance statistics should offer data for topics such as the fiscal architecture, the measurement of the efficiency and effectiveness of government expenditures, the economics of taxation, and the structure of public financing.

The *GFSM 2001* provides a blueprint for the compilation, recording, and presentation of revenues, expenditures, stocks of assets, and stocks of liabilities. The *GFSM 2001* also defines some indicators of effectiveness in government's expenditures, for example the compensation of employees as a percentage of expense. The *GFSM 2001* includes a functional classification of expense as defined by the Classification of Functions of Government (COFOG) .

This functional classification allows policy makers to analyze expenditures on categories such as health, education, social protection, and environmental protection. The financial statements can provide investors with the necessary information to assess the capacity of a government to service and repay its debt, a key element determining sovereign risk, and risk premia. Like the risk of default of a private corporation, sovereign risk is a function of the level of debt, its ratio to liquid assets, revenues and expenditures, the expected growth and volatility of these revenues and expenditures, and the cost of servicing the debt. The government's financial statements contain the relevant information for this analysis.

The government's balance sheet presents the level of the debt; that is the government's liabilities. The memorandum items of the balance sheet provide additional information on the debt including its maturity and whether it is owed to domestic or external residents. The balance sheet also presents a disaggregated classification of financial and non-financial assets.

These data help estimate the resources a government can potentially access to repay its debt. The statement of operations (“income statement”) contains the revenue and expense accounts of the government. The revenue accounts are divided into subaccounts, including the different types of taxes, social contributions, dividends from the public sector, and royalties from natural resources. Finally, the interest expense account is one of the necessary inputs to estimate the cost of servicing the debt.

Fiscal data using the *GFSM 2001* methodology

GFS can be accessible through several sources. The International Monetary Fund publishes GFS in two publications: *International Financial Statistics* and the *Government Finance Statistics Yearbook*. The World Bank gathers information on external debt. On a regional level, the Organization for Economic Co-operation and Development (Dibidami) compiles general government account data for its members, and Eurostat, following a methodology compatible with the GFSM 2001, compiles GFS for the members of the European Union.

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