

A ROLE OF FISCAL POLICY IMPACT ON INDIAN ECONOMY: A OVERVIEW WITH CASE STUDY

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ABSTRACT

The economy of India is that the seventh-largest-economy in the world measured by nominal Gross Domestic Product & the third largest by purchasing power parity(PPP) and therefore the outlook for short term growth is additionally good as per the International monetary fund, the Indian economy is the “bright spot” within the global landscape. India additionally topped the world Bank growth outlook for 2015-2016 for the first time with the economy growth 7.6% (expected grown is 8.0+in 2016-2017). “Fiscal policy is that a part of government policy that is concerned with Raising Revenue through Taxation”. It is directly affects the monetary resources power within the hands of the general public. In economics and political science, fiscal policy is the use of government revenue collection (mainly taxes) & expenditure (spending) to influence the economy. Once the government changes the amount of taxation & government disbursement, it influences aggregate demand of economic activity. The fiscal policy will be accustomed stabilize the economy over the course of the fluctuation. Tax policy, expenditure policy, investment or disinvestment methods and debt or surplus management is that the core basis of the fiscal policy. In underdeveloped countries the importance of economic policy is extremely high. The state is loaded with responsibility in order to play active role for allocating the revenue and expenditure properly. Secondary sources of literature have been consulted for the purpose of research. In this paper an attempt was made to suggest the measures on how to increase revenue, decrease public expenditure and cut back taxes which can facilitate to strengthen the economy.

Keywords: Fiscal policy, Tax policy, monetary policy, Revenue, Investment.

INTRODUCTION

The economic policy is bothered with the raising of government revenue and incurring of government expenditure. To generate revenue and to incur expenditure, the government frames a policy known as budgetary policy or fiscal policy. So, the fiscal policy is concerned with government expenditure and government income. Fiscal policy must pick the size and pattern of flow of expenditure from the government to the economy and from the economy back to the government. So, in broad term economic policy refers to "that section of national economic policy that is primarily involved with the receipts and expenditure of central government." In alternative words, economic policy refers to the policy of the government with respect to taxation, public expenditure and public borrowings. The importance of economic policy is high in underdeveloped countries. The state must play active and necessary role. In a very democratic society direct strategies don't seem to be approved. So, the government must rely upon indirect methods of laws. during this method, fiscal policy could be a powerful weapon within the hands of state by means of which it can do the objectives of development. In economics and political science, fiscal policy is the use of government revenue collection (mainly taxes) and expenditure (spending) to influence the economy.

According to economist economics, once the government changes the degree of taxation and government disbursement, it influences aggregate demand and also the level of economic activity. fiscal policy usually tries to stabilize the economy over the course of the variation. Changes within the level and composition of taxation and government disbursement will have an effect on the following economic science variables, amongst others, in an economy:

1. aggregate demand and also the level of economic activity;
2. Savings and investment within the economy;
3. income distribution.

Fiscal policy are often distinguished from monetary policy, in this fiscal policy deals with taxation and government disbursement and is commonly administered by an government under laws of a legislature, whereas monetary policy deals with the money supply, lending

rates and interest rates and is commonly administered by a central bank. Fiscal policy deals with the taxation and expenditure selections of the government. Monetary policy, deals with the supply of cash within the economy and also the rate of interest. These are the main policy approaches utilized by economic managers to steer the broad aspects of the economy. In most modern economies, the government deals with fiscal policy whereas the central bank is answerable for monetary policy. Fiscal policy consists of several components. These include, tax policy, expenditure policy, investment or withdrawal ways and debt or surplus management. Economic policy is a vital constituent of the economic framework of a country and is thus intimately connected with its general economic policy strategy. Fiscal policy additionally feeds into economic trends and influences monetary policy. Once the government receives more than it spends, it has a surplus. If the government spends more than it receives it runs a deficit. To satisfy the extra expenditures, it needs to borrow from domestic or foreign sources, draw upon its exchange reserves or print an equivalent quantity of cash. This tends to influence alternative economic variables.

On a broad generalization, excessive printing of cash ends up in inflation. If the government borrows an excessive amount of from abroad it ends up in a debt crisis. If it attracts down on its foreign exchange reserves, a balance of payments crisis might rise. Excessive domestic borrowing by the government might result in higher real interest rates and also the domestic personal sector being unable to access funds leading to the „crowding out“ of private investment. Typically a mix of these will occur. In any case, the impact of an oversized deficit on long-term growth and economic well-being is negative. Therefore, there's broad agreement that it's not prudent for a government to run an unduly massive deficit. However, just in case of developing countries, wherever the necessity for infrastructure and social investments might be substantial, it typically argued that running surpluses at the price of semi permanent growth may also not be wise (Fischer and Easterly, 1990). The challenge then for most developing country governments is to meet infrastructure and social needs while managing the government's finances in a way that the deficit or the accumulating debt burden is not too great.

The aim of the study is to study the Role of Fiscal Policy in developing of Indian Economy and also analyze the impact of fiscal policy in Indian Economy.

RESEARCH METHODOLOGY

This is a Doctrinal study based on the Secondary data source. The Sources of the Secondary Data for the Study were the reports of The Role of Fiscal Policy in developing of Indian Economy in addition to those books, articles & journals, blogs etc.

HYPOTHESIS

The fiscal policy of India has influenced the economic growth of the country.

OBJECTIVES AND ROLE OF FISCAL POLICY DEVELOPMENT OF INDIA

1. Development by effective Mobilization of Resources

The principal objective of fiscal policy is to confirm fast economic process and development. This objective of economic growth and development is achieved by Mobilisation of economic Resources.

2. Efficient allocation of Financial Resources

The central and state governments have tried to create economical allocation of financial resources. These resources are allotted for Development Activities which has expenditure on railways, infrastructure, etc. whereas Non-development Activities includes expenditure on defence, interest payments, subsidies, etc.

3. Reduction in inequalities of Income and Wealth

Fiscal policy aims at achieving equity or social justice by reducing financial gain inequalities among totally different sections of the society. The direct taxes like income tax are charged additional on the wealthy individuals as compared to lower financial gain groups. Indirect taxes are additional within the case of semi-luxury and luxury things, that are largely consumed by the higher middle class and also the upper class.

4. Price Stability and Control of Inflation

One of the main objective of economic policy is to manage inflation and stabilize value. Therefore, the government perpetually aims to manage the inflation by Reducing fiscal deficits, introducing tax savings schemes, Productive use of economic resources, etc

5. Employment Generation

The government is creating every potential effort to extend employment within the country through effective business enterprise measure. Investment in infrastructure has resulted in direct and indirect employment. Lower taxes and duties on small-scale industrial (SSI) units encourage additional investment and consequently generates additional employment..

6. Balanced Regional Development

Another main objective of the economic policy is to achieve a balanced regional development. There are numerous incentives from the government for fixing projects in backward areas like money subsidy, Concession in taxes and duties within the form of tax holidays, Finance at concessional interest rates, etc.

7. Reducing the Deficit in the Balance of Payment

Fiscal policy tries to encourage additional exports by manner of financial measures like Exemption of taxation on export earnings, Exemption of central excise duties and customs, Exemption of nuisance tax and tariff, etc. The exchange is additionally preserved by Providing financial advantages to import substitute industries, Imposing customs duties on imports, etc.

8. Capital Formation

The objective of economic policy in India is additionally to extend the speed of capital formation therefore as to accelerate the speed of economic growth. an underdeveloped country is trapped in vicious (danger) circle of poorness primarily on account of capital deficiency. so as to extend the speed of capital formation, the economic policy should be with efficiency designed to encourage savings and discourage and cut back disbursement

9. Increasing National Income

The economic policy aims to extend the value of a country. this is often as a result of fiscal policy facilitates the capital formation. This ends up in economic growth, that successively will increase the gross domestic product, per capita financial gain and value of the country.

10. Development of Infrastructure

Government has placed stress on the infrastructure development for the aim of achieving economic growth. The fiscal policy measure equivalent to taxation generates revenue to the government. a section of the government's revenue is invested with within the infrastructure development. because of this, all sectors of the economy get a lift.

11. Foreign Exchange Earnings

These policy tries to add extra exports by manner of financial Measures like, exemption of taxation on export earnings, exemption of excise tax and octopi, etc. exchange provides business enterprise advantages to import substitute industries. The exchange achieved by means of exports and saved by way of import substitutes helps to solve the balance of payments problem.

Role On Development In Country

The various tools of economic policy like budget, taxation, public expenditure, structure and debt can go an extended means for maintaining full employment while not inflationary and deflationary forces in underdeveloped economies. Obviously, taxation and public expenditure may be a powerful instrument within the hands of public authority that greatly have an effect on the changes in disposal financial gain, consumption and investment.

A tax program will increase income of the individual, promotes consumption and investment. this may finally end in increase in disbursement activities that successively, increase effective demand of the people. On the contrary, throughout inflation, anti-inflationary policy measures facilitate to plug the inflationary gap. during inflation, such measures are adopted that facilitate to wipe off the excessive buying power and consumer demand.

Tax burden is raised in such a manner because it might not retard new investment. Keeping in sight all facts in mind, it's expressed that fiscal policy plays very important role for promoting economic development and stability of under developed countries. it's illustrated within the on top of mentioned points.

IMPACT OF FISCAL POLICY IN INDIAN ECONOMY

In economics, fiscal policy is the use of the government. revenue and expenditure collection to influence the economic. fiscal policy will be contact with other main kind of small policy monetary policy.

- ❖ The main impact of fiscal policy or govt. expenditure and taxation changes in a level and consumption of taxation and govt. expenditure variable in the economy.
- ❖ The main impact of Aggregate demand and level of activity.
- ❖ The pattern of resource allocation
- ❖ The distribution of income.

Mobilize Resources:

The foremost aim of economic policy in underdeveloped countries is to mobilize resources within the non-public and public sectors. Generally, the {national financial gain|value} and per capita income is extremely low because of low rate of savings. Therefore, the governments of such countries through compulsory investments push the bar of investment and capital formation that increases the speed of economic growth. It conjointly undertakes the policy of planned investment within the public sector. Private investments have the result of increasing investment, the curtailment of usage and investment in unuseful channels will help to understand the inflationary trend within the country. Moreover, these countries face the matter of foreign capital. so the solution is in increasing the saving ratio, the marginal inclination to avoid worsening through public finance, taxation and restricted loans. To some extent, progressive taxation, heavy duty on luxury imports, ban on the manufacture of luxury and semiluxury merchandise are alternative measures that facilitate to mobilize the resources, Therefore, progressive taxation on windfall gains, on honorary incomes on capital gains, on expenditure and real estates etc. can go a long means in equitable distribution of wealth.

Provide more Employment Opportunities:

Since in less developed countries, population grows at a really quick rate, the aim of economic policy in such countries is to form high doses of expenditures that are useful to lift employment opportunities. typically below developed economies suffer from state. The unemployment is of 2 types:

- (I) Cyclical unemployment and
- (II) Disguised unemployment.

Cyclical unemployment and monetary Policy: cyclical unemployment is caused by external factors in underdeveloped countries. These countries largely export their raw materials. once demand for these raw materials falls because of alternate depression, then below developed countries even have to face the matter of state within the primary industries. so as to get rid of this sort of unemployment, the government might increase public expenditure.

Thus, expenditure on imports fails to get employment within the country. Expenditure on conspicuous consumption can cause rise in costs rather than increasing output and employment. it is as a result of production capability in under-developed countries is

restricted. it's ineffective of meeting rising demand. Thus, the target of economic policy ought to be to modernize and diversify the economy. It implies that public investment ought to be directed towards the setting up of recent industries, promoting the growth of private industries and developing agriculture. Besides, Govt. ought to offer tax concessions, tax holidays, bonus and subsidies etc. this may facilitate to cut back the matter of unemployment.

Promotion of Economic Stability

Still another role played by the economic policy in developing countries is of maintaining affordable internal and external economic stability. Generally, a developing country is vulnerable to the efforts of international cyclic fluctuations. Such countries primarily export primary merchandise and import manufactured and capital goods. However, so as to reduce the results of international cyclic fluctuations, economic policy ought to be viewed from an extended perspective. It should aim at the diversification of all sectors of the economy. For transportation balanced growth and reducing the results of cyclic fluctuations, a contra-cyclical economic policy of deficit budgeting in depression and surplus budgeting in inflation are most fitted measures. during a recession, construction programme through deficit funding brings fruitful results. No doubt, injection of further buying power would tend to inflationary pressures which might be controlled with preventive measures. On the contrary, such a policy ought to be supplemented by acceptable financial measures.

Subsidies in Consumption and Production

Fiscal instruments also are employed in below developed economies to supply subsidized food and production inputs to the poor individuals. Government programmes like public distribution system, subsidy policy, procurance of food grains, promoting facilities to the producers, input offer schemes, etc. square measure all directed to assist the poorer sections to modify them to be more productive so the financial gain level is raised. for instance, in India, several of poverty alleviation programmes like IRDP, NREP, RLEGP etc. are directed to enhance the position of the poorer sections and to form permanent community assets so as that the national and per capita financial gain will grow with the passage of your time

To Encourage Socially Optimal Investment

In underdeveloped countries, economic policy encourages the investment into those productive channels that are thought of socially and economically desirable. this suggests optimum investment that promotes economic development and avoids wasteful and

unproductive investment. In short, aim of the fiscal policy ought to be to form investment on social and economic overheads resembling transportation, communication, technical coaching, education, health and conservation. they have a tendency to lift productivity and widen the market to fancy external economies. At a similar time, unproductive investment is checked and diverted towards productive and socially desirable channels.

Inducement to Investment and Capital Formation

Fiscal policy plays fundamental role in underdeveloped countries by generating investment in planned industries and services of service on one aspect and persuades investment in private sector by providing help to innovative industries and presents modern techniques of production. Thus, investment in the social and economic expenses are beneficial in growing the social marginal efficiency and so raising the marginal productivity of personal investment and capital development. Here, optimum pattern of investment also can go an extended way to yield fruitful results of economic development. Economic development may be a most dynamic method that involves changes within the size and quality of population, tastes, knowledge and social establishments. Keeping all factors in mind, if social marginal productivity in socially desirable projects is low, economic policy ought to be framed to boost social marginal productivity and to divert resources to it productive channels wherever the social marginal productivity is that the highest.

FINDINGS

1. Economic policy play very important role in Indian Economy. due to it's useful using the resources in optimum approach ,Reducing difference, utilize the value in correct Distribution and also providing commercial enterprise incentives to the non-public sector and by fixing industries within the public sector in these geographical areas, the government are able to do balanced development of the country.
2. Government disbursal is totally funded by revenue and overall the budget outcome incorporates a neutral impact on the amount of economic activity. associate expansionary stance of economic policy involves government spending extraordinary tax revenue. A contractionary economic policy happens once government spending is less than revenue.

SUGGESTION

1. one of the vital goals of economic policy developed by the government of India is to achieve fast economic development of the country. to achieve such economic development within the country, the economic policy of the country has adopted following 2 objectives:

- ❖ To raise the speed of productive investment of each public and personal sector of the country.
- ❖ To enhance the marginal and average rates of savings for mobilizing adequate monetary resources for creating .investment publicly and personal sectors of the economy.

2. optimum utilization of resources which will replicate the positive impact on Indian economy.

CONCLUSION

Based on this paper fiscal policy corresponding to economic development, worth stability, social justice, etc. is achieved given that the tools of policy like Public Expenditure, Taxation, Borrowing and deficit financing are effectively used. although there are gaps in India's economic policy, there's additionally an urgent would like for creating India's economic policy a rationalized and growth oriented one. The success of economic policy depends upon taking timely measures and their effective administration throughout implementation.

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