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FISCAL POLICY AND GROWTH WITH DEVELOPMENT IN INDIA: AN ANALYSIS

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ABSTRACT

Economic growth is one of the most important indicators of a healthy economy and contribute to improve the standards of living and decrease poverty. These improvements are with economic development. The impact of long-term growth of a country is that, it has a positive impact on national income and the level of employment. As the country's Gross Domestic Product (GDP) is increasing, it becomes productive which leads to more people being employed. This increases the wealth of the country. Higher economic growth also leads to extra tax income for Government expenditure, which the Government can use to develop the economy. Fiscal policy refers to the use of the Government budget to influence economic activity. The level of aggregate economic activity in the economy can be affected by varying the size of balanced budget, the stabilization effect of the fiscal policy depends largely on the size of surplus or deficit in the budget. The Government expenditures on different items in any society will be determined by the prevailing social values. Fiscal policy involves in important decision related to goal of full employment, determining the social priorities. The focus of this article remains on analysis of impact of fiscal policy on growth and development of economy.

Key Words: Expenditure, Revenue, spending, Wealth, Welfare.

INTRODUCTION

Economic development is the development of economic wealth of countries, regions or communities for the well-being of their people. Economic development can be defined as efforts that seek to improve the economic well-being and quality of life for a community by creating and/or retaining jobs and supporting or growing incomes and the tax base from a policy perspective. Fiscal policy in India is like a driven force as Government decide how much money have to spend to support the economic activity, and the revenue must earn from the system for growth and development in economy. The importance of fiscal policy has been increasing to achieve economic growth swiftly, both in India and across the world. Attaining rapid economic growth is one of the key goals of fiscal policy desired by the Government of India. The Government of a country controls the flow of tax revenues and public expenditure to navigate the economy. If the Government receives more revenue than it spends, it runs a surplus, while if it spends more than the tax and non-tax receipts, it runs a deficit. To meet additional expenditures, the government needs to borrow domestically or from overseas. Alternatively, the government may also choose to draw upon its foreign exchange reserves or print additional money.

Objectives

(i)**Economic growth**: Fiscal policy helps to maintain the economy's growth rate.

(ii)**Price stability**: It controls the price level of the country so that when the inflation is too high, prices can be regulated.

(iii)**Full employment**: It aims to achieve full employment, or near full employment, as a tool to recover from low economic activity.

(iv) **Social Justice**: Equal distribution of Income

IMPORTANCE OF FISCAL POLICY IN INDIA

(i)The fiscal policy, the government deals with taxation and spending by the Centre.

(ii) In a country like India, fiscal policy plays a key role in elevating the rate of capital formation both in the public and private sectors.

(iii)Through taxation, the fiscal policy helps to mobilize considerable amount of resources for financing its numerous projects.

(iv)Fiscal policy also helps in increasing the savings rate.

(v)The fiscal policy gives adequate incentives to the private sector to expand its activities.

(vi)Fiscal policy aims to minimize the imbalance in the dispersal of income and wealth.

Benefits:

Fiscal Policy in India, a source of revenue to invest in economy for the welfare for the people.

(i) The use of government revenue collection (taxation) and expenditure (spending) to influence the economy.

(ii) These changes can affect the following macroeconomic variables in an economy :(a) Aggregate demand and the level of economic activity, (b)The distribution of income, (c) The pattern of resource allocation within the Government sector and relative to the private sector.

INSTRUMENTS OF FISCAL POLICY

(a) Composition of Taxation, (b) Public Finance, (c) Government Spending on various Sector

EFFECT OF FISCAL POLICY

(a)Fiscal policy refers to the use of the Government budget to influence economic activity.

(b)The level of aggregate economic activity in the economy can be affected by varying the size of balanced budget, the stabilizing effect of the fiscal policy depends largely on the size of surplus or deficit in the budget.

(c)Fiscal policy involves in important decision related to goal of full employment, determining the social priorities.

(d)The main concern is promotion of economic growth with stability and reduction in the economic inequalities.

(e)The Government expenditures on different items in any society will be determined by the prevailing social values.

FISCAL POLICY AND ECONOMIC GROWTH

(a)The full employment and stable prices level in the economy shows the development and the increasing importance of Government spending and taxation in National Income.

(b)This policy through its tax instruments should encourage investment and discourage consumption so that production may increase.

(c)The problem of instability in a free society is essentially a problem of broad faces affecting the overall magnitudes of the economy.

(d)The advantage of monetary with fiscal policy helps in market process and Government decisions.

ECONOMIC GROWTH WITH ECONOMIC DEVELOPMENT

(i)The experience of the developing countries during the 1960s and 1970s showed that whereas target rates of economic growth were in fact achieved trickle-down effect in the form of creation of more employment opportunities, rise in wages and improvement in income distribution did not operate.

(ii)The problems of poverty, unemployment and income inequality further worsened instead of getting reduced during the process of growth in the 1950s and 1960s in the developing countries

(iv)The traditional strategies of development in solving the problems of poverty, unemployment and inequality, it was realized in the seventies that the concept of development should be broadened so that it should signify that well-being of the people has increased.

(v)This led to the view that economic development should not be judged on the basis of growth in GNP alone. The Poverty and unemployment are decreasing and increases in gross national product or national income.

(vi) When there is increase in GNP, employment will also increase. The use of more capital-intensive technique while production may be increasing at a rapid rate, employment may be falling instead of rising.

IMPACT OF FISCAL POLICY

(a). It typically refers to improvements in a variety of indicators such as literacy rates, life expectancy, and poverty rates.

(b). GDP is a specific measure of economic welfare that does not take into account important aspects such as leisure time, environmental quality, freedom, or social justice.

(c). Economic development, the process whereby simple, low-income national economies are transformed into modern industrial economies.

(d). Economic growth describes a change in a country's economy involving qualitative as well as quantitative improvements. For example, during an economic downturn, the government may decide to spend more on building projects, welfare schemes, providing business incentives, etc.

(e). The aim is to help make more of productive money available to the people, free up some cash with the people so that they can spend it elsewhere, and encourage businesses to make investments.

(f). Government may also decide to tax businesses and people a little less, thereby earning lesser revenue itself.

Reasons

a) **Low level of national income**: The root cause of capital deficiency in under-developed countries is low level of real national and per capita income which limits to the motives of savings and investments.

b) **Low rate of capital formation**: Another cause of low rate of capital formation in under-developed countries in lack of demand of capital.

c) **Lack of supply of capital**: Like demand of capital, lack of supply of capital is responsible for low capital formation. However, due to lack of necessary supply of capital in under-developed countries, the process of capital formation is not boosted up.

d) **Small size of market**: Due to small size of domestic market, investment is not encouraged in poor countries. It does not expand the work of economic development and modern machines cannot be used as extra quantity produced has no market access.

e) **Immobility of savings**: Immobility of saving also causes low rate of capital formation. Due to lack of banking and other credit institutions, poor countries have limited financial activities.

CONTEMPORARY STATUS IN ECONOMY AND EFFECT OF FISCAL POLICY

Government spending refers to money spent by the public sector on the acquisition of goods and provision of services such as education, healthcare, social protection, and defense.

(i)In national income accounting, when the government acquires goods and services for current use to directly satisfy the individual or collective needs and requirements of the community, it is classified as government final consumption spending.

(ii)When the government acquires goods and services for future use, it is classified as government investment. This includes public consumption and public investment, and transfer payments consisting of income transfers.

SOURCES OF GOVERNMENT EXPENDITURE

Government spending is financed primarily through two sources:

1. **Tax collections by the Government-**(i)Direct taxes , (ii)Indirect taxes

2. **Government borrowing-**(i)Borrowing money from its own citizens, (ii)Borrowing money from Foreigners

PUBLIC SPENDING

(a)Public spending enables Governments to produce goods and services or purchase goods and services that are needed to fulfill the Government's social and economic objectives . The significant changes in the role and size of Governments around the world.

(b)Public spending increased in the 20th century, when governments started spending more funds on Education, Healthcare, and Social protection. Now, the governments of Developed countries spend more as a percentage of Gross Domestic Product (GDP) than the Governments of developing countries.

(c)Governments around the world rely upon the private sector to produce and manage a country's goods and services and utilize public-private partnerships to finance, design, build, and operate infrastructure projects.

(d)In the 2005-10 period alone, the total value of public-private partnerships, designed to increase the spending on public infrastructure projects in low and middle-income countries, more than doubled.

Objective

(a)To supply goods and services that are not supplied by the private sector, such as defense, roads, and bridges; merit goods such as hospitals and schools, and welfare payments and benefits including unemployment and disability benefits.

(b)To achieve improvements in the supply-side of the macro-economy, such as spending on education and training to improve labor productivity.

(c)To provide subsidies to industries that may need financial support for either their operation or expansion. The private sector is not able to meet such financial requirements and, hence, the public sector plays a crucial part in

lending necessary support. For example, transport infrastructure projects do not attract private finance unless the government provides expenditures for the industry.

(d)To help redistribute income and promote social welfare.

TYPES OF EXPENDITURE

(a) Current Expenditure-They are for the short term and include expenditure on wages and raw materials.

(b) Capital Spending-They are for the long term and do not need to be renewed every year, called social capital, they include expenditure on physical assets like roads, bridges, hospital buildings, and equipment.

(c)Government Borrowings-The Government funds its spending on the economy through tax revenues it earns. When revenue is insufficient to pay for expenditures, it resorts to borrowing. Borrowing can be short-term/long-term and involves selling Government bonds/bills. Treasury bills are also issued into the money markets to help raise short-term cash.

(d)Other Resources- (a)Balance of Payments,(b)Capital Account,(c)Fiscal Policy,(d)Market Economy

CURRENT STATUS OF INDIAN ECONOMY

(a)Population grows to 1.21 billion and 181 million people added during 2001-11, There are 623.7 million males and 586.5 million females, India accounts for 17.5% of the world's population, China 19.4%. Child sex ratio — 914 females against 1,000 males — lowest since independence, Overall sex ratio rises by seven points — 940 females per 1,000 males, Growth declines to 17.64% from 21.15% during 1991-2001

(b) Literacy rate goes up from 64.83% to 74.04% ,74% people aged seven and above are literate,82.14% male literacy, 65.46% female literacy. In 2001, male literacy was 75.26%, female literacy was 53.67%

(c)Delhi (11,297 people per square km) has the highest population density, followed by Chandigarh (9,252), Uttar Pradesh is the most populous state with 199 million people while Lakshadweep is the least populated at 64,429

TYPES OF GOVERNMENT BUDGETS

A budget's classification depends on whether the estimated spending by the government over the year is equal to, lower than or higher than the receipts anticipated.

(a). **Balanced Budget**: In order for a Budget to be balanced, the estimated expenditure must be equal to the expected income in a particular financial year. The classical economists explain, type of budget is based on the idea that the Government's expenditure should not exceed its revenue. Most economists believe that while it is simple to balance the estimated expenditure and expected revenues when it comes to actual implementation, this balance is tough to achieve. A balanced budget does not guarantee financial stability at times of economic

depression or deflation as there is no room. The biggest advantage of this type of budget is that it curbs wasteful expenditure. The drawbacks are that it can hamper the process of economic growth and limit the scope of the Government's welfare activities at the same time.

(b). **Surplus Budget**: A budget is said to be a surplus budget if the expected income is more than the estimated expenditure in a financial year. This type of Budget signifies that the Government's earnings from taxes are more than the money the Government spent on public welfare. As per experts, at times of inflation, this type of budget can be implemented to order to cut down aggregate demand. However, in situations when there are deflation, slowdown and recession, a surplus budget will never be the appropriate option for a government. Also, a surplus indicates that the Government has extra money which means that these funds can be allocated to pay dues, which slashes the interest payable and helps the economy in the long-run.

(c**). Deficit Budget**: A deficit budget is when the estimated expenditure higher compared to the expected revenue in a particular financial year. The implication of such a Budget is that the Government's revenue is less than its expenditure. According to analysts, a deficit budget suits developing economies, such as India and at times of recession, in particular, this type of Budget helps generates extra demand and spur the rate of economic growth.

UNION BUDGET, 2021

On February 1, Finance Minister Nirmala Sitharaman present the Union Budget in Parliament. A Government budget is an annual financial statement, outlines the estimated expenditure and expected receipts or revenues for the forthcoming fiscal year. The budget also reflects the government's balance sheet and, it helps people know about the current state of the country's economy. Finance Minister Nirmala Sitharaman present the Narendra Modi-led Government's budget on February 1. Expectations are high that the finance minister announced some big-bang structural reforms in the Budget 2021-22 to jump-start the slowing economy which is struggling amid the pandemic. The prevailing economic situation has increased the difficulty of crafting an effective budget.

TAX AND REVENUE

The Income Tax Department is the Central Government's largest revenue generator; total tax revenue increased from ₹1,392.26 billion (US$20 billion) in 1997–98 to ₹5,889.09 billion (US$83 billion) in 2007–08. In 2018–19, direct tax collections reported by the CBDT were about ₹11.17 lakh crore (₹1,117 trillion), 1,47,991 crores for April 2021 comprising Rs. 1,30,811 crore Tax Revenue (Net to Centre), Rs. 16,808 crores of Non-Tax Revenue and Rs. 372 crores of Non-Debt Capital Receipts and helps to spend by Government on welfare of masses in economy.

Factors

(a) **Defense expenditure-** Due to modernization of defense equipment by the Navy, Army and Air Force to prepare the country for war or for prevention causes-for-growth-of-public-expenditure.

(b). **Population growth –** It increases with the increase in population, more of investment is required to be done by government on law and order, education, infrastructure, etc. investment in different fields depending on the different age group is required.

(c**). Welfare activities** – Welfare, mid-day meals, pension provisions etc.

(i). Provision **of public and utility services** – Provision of basic public goods given by government (their maintenance and installation) such as transportation.

(ii). Accelerating **economic growth** – In order to raise the standard of living of the people.

(iii). **Price rise-**Higher price level compels the government to spend an increased amount on purchase of goods and services.

(iv). **Increase in public revenue** – With the rise in public revenue government is bound to increase the public expenditure.

(v). **International obligation** – Maintenance of socio-economic obligation, cultural exchange etc. (these are indirect expenses of Government)

d) **Wars and social crises** – Fighting amongst people and communities, and prolonged drought or unemployment, earthquake, hurricanes or tornadoes may lead to an increase in public expenditure of a country. This is because it will involve governments to re-plan and allocate resources to finance the reconstruction.

e) **Creation of Super National Organizations** – As the United Nations, NATO, European community and other multinational organizations that are responsible for the provision of public goods and services on an international basis, have to be financed out of funds subscribed by member states, thereby adding to their public expenditure.

f) **Foreign-aid** – Acceptance by the richer industrialized countries of their responsibility to help the poor developing countries has channeled some of the increased public expenditure of the donor country into foreign aid programmes.

g**) Inflation** – This is the general rise in the price level of goods and services. It increases the cost of all activities of the public sector and thus a major factor in growth in money terms of public expenditure.

Public expenditure can be divided into COFOG (Classification of the Functions of Government) categories. Those categories are,

(i). **Social protection** – Pensions, subsidies for family and children, unemployment subsidies, R&D (Research and Development) on social protection.

(ii). **Health** - Public health services, medical products, appliances and equipment, hospital services, R&D on healthcare.

(iii). **General Public Services** - Executive and legislative organs, financial and fiscal affairs, external affairs, foreign economic aid, public debt transactions, R&D related to general public services

(iv). **Education** - Pre-primary, primary, secondary, tertiary education, R&D on education etc.

(v). **Economic Affairs** - General economic, agriculture, fuel and energy, commercial and labor affairs, forestry, fishing and hunting, mining, manufacturing, transport, communication etc.

(vi). **Public order and safety** - Police, fire-protection services, law courts, prisons etc.

(vii). **Defense** - Military defense, civil defense, foreign military aid.

(viii). **Recreation, culture and religion** – Recreational and sporting services, cultural services, broadcasting and publishing services, religious services etc.

(ix). **Environmental protection** -Waste management, pollution abatement, protection of biodiversity and landscape etc.

(x). **Housing and community services** -Housing development, community development, water supply, street lighting etc.

FISCAL ANALYSIS

Rules or principles that govern the expenditure policy of the Government are called canons of public expenditure.

(a.) **Canon of Benefit** – Public spending must be done in a manner that it brings greatest social benefits.

(b). **Canon of Economy** – It says that economy does not mean miserliness. Public expenditure must be made productively and efficiently.

(c). **Canon of Sanction** – Public spending should not be made without sanction to, an appropriate authority.

(d). **Canon of Surplus** – Public expenditure should be done in a way avoiding deficit. Government must prepare budget to create a surplus.

CONCLUSION

As the country's income is increasing, it is more productive which leads to more people being employed. This increases the wealth of the country and skilled, efficient human resources. Higher economic growth also leads to extra tax income for government spending, which the Government can use to develop the economy. This expansion can also be used to reduce the budget deficit. The Government incurs the extra expenditure in

order to improve the employment rate and this, in turn, helps a surge in demand for goods and services which helps in reviving the economy at times of slowdown and recession. As the population of a country grows, it requires the growth to keep up its standard of living and wealth. Economic growth alone cannot eliminate poverty on its own. Economic growth also helps to improve the standards of living and reduce poverty, but these improvements cannot occur without economic development through good literacy, good health and developed infrastructure in economy.

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