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INDIAN FISCAL POLICY: ARE THEY RELEVANT?

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ABSTRACT

Fiscal policy in India is the taxation policy through which government generates funds for public expenditure. Development requires change process, which comes through effective governance. Fiscal policy aims in growth, equity and stability factor of the country. Present article argues whether prevailing system of fiscal measure in the country are adequate for development. The paper also suggests valuable measures to the government for making fiscal measures of the country more efficient and effective, for growth and development.

Keywords: Fiscal policy

INTRODUCTION

Success stories of nations are well defined in terms of good governance. Goods governance comes from effective allocation of resources i.e. income and expenditure. Good governance gives rise to growth and development; on the other hand, the opposite paralyses the country's economic system and acts as a hurdle for development. Development cannot take place in isolation. Further it is not a single factor in determining economic stability. Development is the aggregation of a number of factors which operates in a given situation or environment. Change is an inevitable factor for any system. Since environmental or situational factors are variable in nature it keeps on changing from time to time. Therefore it won't be incorrect to say that development needs change process which can be brought by the means good governance. Fiscal policy is an economic measure to bring good governance in the system. For a country like India, it becomes even more important since it is democratic where people use to exercise their own power in framing the government. But after 63 years of Indian Independence there are still many questions in the mind of individuals which are left unanswered. Can we articulate that we have enough for survival? Have we achieved the real growth? Do we have the financial freedom? Can we plan our future with the existing resources? These questions often come to the mind of Individual Indian when he moves towards his future. Although the country have achieved a literacy rate of 74% which is significant, if we compare the past statistics, but the real sense of knowledge implementation is yet to be seen by the people of India.

What is Fiscal Policy

Fiscal Policy is an economic measure through which government collects revenue from the public and mobilises it in form of expenditure to achieve economic growth and stability. In other words it is the taxation policy through which government generates revenue from the public in general and spends it for the welfare of the same. Thus, there is flow of financial resources from the public to the government and back to the public again. Therefore, all the government resources spend for the public welfare belong to the public defined in terms of public property. Reserve Bank of India (RBI) monitors these collection and allocation of funds through monetary policy. Thus it acts as a bank to the government. Monetary policy acts as a check to the fiscal policy measures.

Objectives of Fiscal Policy

Fiscal policy in India primarily aims in fulfilling three specific objectives

1. Growth of the country's economy- Growth can be stated in terms of aggregate demand. Aggregate demand can be defined as total level of demand for desired goods and services (at any time by all groups within a national economy) that makes up the gross domestic product (GDP). Aggregate demand is the sum of consumption, expenditure, investment expenditure, government expenditure, and net exports. If the basic demand of the public is fulfilled, a country can move towards the growth.

2. Equity Factor- Equity refers to equal distribution of income. The difference in terms of financial resources creates different class of people in the society. The aim of the policy is to mobilise the resources from higher income groups to lower groups so that differences can be eliminated and equal opportunity is provided to all sections of the society.

3. Stability- If a country satisfies the above two criteria, planning to stabilise the economy can be done.

Fiscal Policy and Aggregate Demand

Fiscal policy influences the level of aggregate demand in the country. It aims in fulfilling three economic objectives i.e. price stability, full employment and economic growth. Fulfilment of aggregate demand raises the real income of the public, thereby increases the level of savings and investment. Investment in the economy generates productivity and provides employment to the public at large. Availability of goods and services, planned expenditure by the government creates price stability in the market. All these factors significantly contribute towards economic growth of the country.

In India, there are multiplicities of political union fight for their own interest rather than public. Moreover formation of government with collaboration with other parties without supreme majority, demands for fulfilment of personal objective of different political parties under collaboration. Mismanagement and improper governance results in mismatch between aggregate demand and supply in the economy, thereby creating price instability or inflation in the market. Thus, the general public spend their savings to buy utility goods at higher prices. Low productivity, industrial sickness results in loss of employment and creates threat to potential future employment. Decreasing quality of education, adds more burden to the said factor. Present scenario witnesses all these factors in Indian economy as a hurdle to economic growth and development.

Fiscal Policy and Equity Factor

Equity refers to equal distribution of income. When it comes to comparison in equity, India lies far behind to some of the developed countries in the world. India is characterised by three segments of people on the basis of resource availability. First, the rich class people and the bureaucrat who have abundant resources to meet their future requirements. This segment constitutes the minority percentage of the total of Indian population. Second, the middle class people who strive hard to maintain their existing standard of living. This class comprises majority of service oriented employees performing manual job. Third is the poor class person who continuously strives for hunger and struggle for their existence. They form the majority of total in Indian population.

In order to eliminate differences between these classes, government have a wide range of plans and policies. Some of the policies are Rojgar gurantee yojana, food security bill, BPL plan, Sarva-siksha abhiyan, Old age and retirement plan etc. Now the question arises are they enough? Will it bring equality in society? Will it eradicate poverty? No doubt all these plans can kill hunger, but it will not do any good to the status of the poor class people. Moreover it can give rise to exception to law of supply in terms of manpower. According to the exception of law of supply "A significant raise of money wages will decrease the supply of manpower in the Industry". A sudden raise in money wages with cheap rate food facilities can make the labour class or poor people lethargic, deep seated and prone to work sickness. Striving for hunger can act as a motivating factor for the poor class to work for. As rightly stated by Mc. George X theory which assumes human to be indolent in the absence of motivators. Motivating factors can be induced in poor people by the means of knowledge or education. But again Indian education policy is more quantitative oriented which is, confined to degrees rather than knowledge. It will cause more of adverse effect on middle class people. Majority of middle class farmers and households are directly or indirectly dependent on the poor class labourers for their income activities. With the rise in the factors like labour cost, inflation, increase in market competition, unwillingness of labourers to work etc. will significantly contribute to the decrease in middle class income. Surprisingly, government does not have significant policy measures for the revival of middle class people.

Fiscal Policy and Stability

Stability refers to maintaining growth and equity factor. Stability in fiscal measures paves the way for economy to become developed. But it is only possible if the country has attended growth and equity.

Stability factor therefore is far away from India. Indian economy has to travel miles to strive for stability factor.

Measures to effective Fiscal Policy

Government can take hand full of initiatives in order to make fiscal policy an effective one. Following under given points can bring sound fiscal policy in India

1. Formation of strict amendments to check corruption- Corruption is the basic and major cause of hindrance in development process. Corruption in the form of black money decreases the sources of fund available for expenditure. Corruption is widely prevailed from top to bottom in governmental hierarchal channel of work. Formation

of strict rules and regulation by means of strict penalties and punishment can ensure reduction in corruption level.

2. Strengthening of RTI (Right to information act)-Reinforcement of strict right to information in all areas of governmental work by the public, will make the same realise their rights and duties. Thereby, public interest will develop more in government welfare work and will act as a tool to check unfair practice of policies.
3. Transparency in governance- Government should maintain precision in their activities. All developmental activities should be only aimed at public welfare without individual interest. Decisions taken should be based on well being of the nation in the knowing of public.
4. Curtail in Government expenditure- Wastage of resources by the government should be minimised. This can be done by reducing government expenditure, in unproductive areas.
5. More emphasis to middle class people- Middle class people are the backbone of Indian economy. Majority of tax payers belong to this class, therefore more emphasis should be given to these classes of people. This can be done by launching different plans and policies for the benefit of the segment.
6. Provision of financial incentives rather than quota- Poor people should be given with more of financial incentives, rather than providing them with quota. Quota system brings inefficiency by recruitment of incompetent people in the key areas of job. Therefore, to improve productivity it should be strictly abolished.
7. Qualitative education system- Indian education system should be more informative, rather than degree oriented. Transformation of education would make people pragmatic and skilful.
8. Political reforms- Political systems need change. Appropriate restructuring can bring peaceful environment for growth and development.

CONCLUSION

Indian governance is at cross road, where policies and practices are not clearly defined and implemented. Fiscal policy is a basic tool which can bring stability in governance. But it can all be possible with the joint effort of public and government. Corruption free politics, rise in interest and educational level of the general public, dedication to nation, transparent governance, appropriate policy measures for both lower and middle segment of people, reductions in government expenditure and bringing political reforms are some of the measures to strengthen fiscal policy in the country.

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