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MECHANISM OF FISCAL POLICY AND ECONOMIC GROWTH IN INDIA

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Introduction

The fundamental concept of fiscal policy relates to the aggregate effects of public expenditure and taxation on income, output and employment. Fiscal Policy is a process which relates to, firstly decision making of Government in taxation which influence the magnitude and manner of siphoning of funds from private economy. Secondly, expenditure policy of Government spending involves decision which influences the flow of funds from Government in to the private economy. Thirdly, debt management policy refers to the Government decisions with a stock of government debt. Basically, fiscal policy is nothing but only the flow of funds out of the private spending and savings stream in to the hands of Governments and the flow of funds for Government in to the private economy. Fiscal policy deals directly and immediately influence the consumption and investment expenditure on income, output and employment of the economy. Fiscal policy connotes the use of taxation and public expenditure by the Government for stabilization of growth.

By analyzing the situation when government receives more than its spending it leads a surplus economy in the same way if Government spends more than it receives then it runs a deficit. To cater the additional expenditure it borrows from domestic or foreign sources by drawing its foreign exchange reserves or prints an equal amount of notes. Here the government faces the problems in other variables i.e. excessive printing of notes lead to inflation, borrows too much from abroad leads to debt crisis and excessive domestic borrowing leads to higher interest rate. The domestic private sector unable to access funds resulting 'crowding out' of private investment. Thus fiscal deficit needs to be tackled very carefully due to its double edge sword.

Fiscal policy in India always based on improving the growth performance and ensuring social justice to the people. To achieve this criteria Government adheres to the Modus operandi as enumerated below:
Development by effective mobilization of resources can be achieved by mobilization of financial resources

1. Government imposes direct as well as indirect tax to mobilize resources because important resource mobilization in India is taxation
2. Resources can be mobilized through public savings by reducing government expenditure and increasing surpluses of public sector enterprises.
3. For effective fiscal measures like tax benefits, Government needs to increase resources from private sector and households. Resources can be mobilized by borrowing through treasury bills; insurance of Government bonds and makes loans from domestic and foreign parties to equalize the deficit financing.

Reduce inequalities of income and wealth among different sections of the society. Progressive Income tax (direct tax) is imposed more too rich people than the poor people. Sales taxes (indirect tax) are levied more on luxury and semi luxury items which are particularly consumed by upper middle and elite class people. Government invests more percent of its tax revenue for the betterment of poor people in the society.

Price stability and control is one of the principal objectives of fiscal policy. To control inflation, Government intend to minimize fiscal deficit by reducing tax saving schemes, Productive use of financial resources and so on.

Employment generations can be feasible by the effective fiscal measures. Investment in infrastructure will lead to direct and indirect employment. Imposition of lower taxes to Small Scale Industries (SSI) encourages more investment which is conducive to generate more employment. Rural employment programmers and self employment schemes may generate employment in both rural and urban areas.

Balanced regional development may occur with the establishment of various projects lime dams electricity, schools, roads etc. It mitigates the regional imbalances which becomes feasible through progressive public expenditure.

Reducing the deficit of Balance of Payment only can be possible by boosting up the exports by giving incentives to exporters and by curtailing imports through proper innovation of the items inside the country.

Increasing direct and indirect taxes rates in the country, the alternative approach of reduction in tax rate may encourage people to take interest to deposit the actual tax which creates lower burdens to the tax payer.

Development of infrastructure accelerate the actual economic growth of a country when government spends money for the establishment of railways, schools, dams, electricity, roads etc, Consequently the welfare of the citizens as well as employment generation will be promoted.

Foreign exchange earnings occur when central government gives incentives to the foreign investors to enhance the investment in the home country. This may be possible with exemption from custom duty, concession in excise duty while producing in the domestic markets (Singh-2017).

Objectives and methodology
The objective of the paper is based on four propositions which are mentioned below:

1. To enumerate the nature and extent of fiscal policy adopted by the government of India.
2. To analyses economic development through fiscal policy in the country.
3. To implement the important techniques of fiscal policy adopted in recent years in India.
4. To suggest necessary fiscal policy viable for the development of the country.
5. The methodology here is analytical and descriptive. Secondary data are collected from various sources , assimilated and compiled to deduce the inferences.

Strategies of Fiscal Policy in the Country
To achieve the goal of economic development in the country the Government of India usually emphasizes twopronged strategies:

Firstly, it increases the rate of productive investment on both private and public sector in the country.
Secondly, to enhance the marginal and average rates of saving by mobilizing adequate financial resources, the Government of India invests both in private sector and public sector.

The fiscal policy of India mainly based on four important techniques Viz. taxation policy, public expenditure policy, public debt policy and deficit financing policy.

Deficit financing policy
The concept of Deficit financing was introduced by J.M. Keynes. On the basis of Keynesian theory India has been adopting fiscal deficit in the plans periods since its inceptions. Deficit financing is considered as an important tool for development particularly to the developing and underdeveloped countries like India. The purpose of deficit financing can be pursued for financing developmental activities, financing special projects with long gestation period, financing developmental expenditure, optimum use of resources, provide additional purchasing power etc.

Deficit financing can be analyses in terms of revenue deficit and budgetary deficit. In India large deficit in the capital account occurs mostly due to budgetary deficit. The Deficit financing has been increasing the money supply with public, generating money income and rising prices in the country.

In recent years, fiscal deficit indicates budgetary deficit plus borrowing and other liabilities. Thus fiscal deficit can be clarified as:

Fiscal Deficit = Revenue Receipts (Net tax revenue+non-tax revenue) + Capital receipts (Only recoveries of loan and other recoveries) – Total expenditure (Plan and non-plan expenditure)

Table-1 : Calculation of fiscal and other deficit

SI.No.	Year	Revenue Receipts	Capital Receipts		Total receipts (2+3+4)	Revenue expenditure	Total expenditure (revenue +capital)	Revenue deficit (3-7)	Budgetary deficit (6-8)	Fiscal deficit (3+4-8=10+5)
			Loan recoveries and other receipts	Borrowing and other liabilities						
1	2	3	4	5	6	7	8	9	10	11
1	1990to 1991 (Actual)	54,950	5,710	33,300	93,960	73,510	1,05,310	18,560	11,350	44,650
2	1996-1997 (Actual)	1,26,279	7,005	53,549	1,87,823	1,58,934	2,01,007	32,655	13,184	66,733
3	2014-2015 (PA)	10,99,442	13,438	5,01,880	16,44,761	14,57,748	16,44,761	3,58,306	-	5,01,880
4	2015-2016 (BE)	11,41,576	10,753	5,55,642	17,77,477	15,36,047	17,77,477	3,94,471	-	5,55,648

Source: Dhar P.K.2017

Note GDP at current market prices is estimated to grow at 14% in 1992-1993

From the above table it is constructed that Government resort to fiscal discipline in budgets and reached to zero level in 2015-2016. The fiscal deficit of India increased from Rs.44, 650crore in 1990-1991 to Rs. 5, 55,648 crore in 2015-2016. The total receipts which was Rs .93,960 increased to Rs. 1,87,823 in 1996-97 increased to Rs .16,44,761 crore in 2014-15 and further increased to Rs. 17,77,477 crore in 2015-2016.

The fiscal deficit reduced from 6.6% to 5.6% in 2000-2001 and again increased to 6.3% and subsequently declined to 3.9% in 2015-2016.

The below table shows the important indicators of fiscal deficits like Budget Deficit, Revenue Deficit, Monetized Deficit, Gross Fiscal Deficit and Gross Primary Deficit. In order to bring the economy to right track Government has reduced fiscal deficit in 2000-2001. But due to the global recession the fiscal deficit again increased in 2009-10 but declined in 2015-16.

Table-2: Central government deficit (% of GDP at Current Market Price)

SI. No.	Deficit type	1990-1991	2000-2001	2009-2010	2015-2016
1	2	3	4	5	6
1	Budget deficit	2.1	0.0	0.0	0.0
2	Revenue deficit	3.5	4.1	5.1	3.5
3	Monetized deficit	2.8	NA	NA	NA
4	Gross fiscal deficit	6.6	5.6	6.3	3.9
5	Gross primary deficit (BE)	4.0	0.9	3.1	0.7

Source: Dhar, 2017 PP-

Note- GDP at current market prices is estimated to grow at 14 % in 1992-1993.

Factors responsible for the increase in fiscal deficit in India
Fiscal deficit in the country has been growing in a faster rate in the country since the plan period.. Basically, four important factors are responsible for the increase in the volume of fiscal deficit in India.

1. Steady growth of non-developmental expenditure of the Government held responsible for the increase of fiscal deficit. Total volume of non-developmental expenditure in 1993-1994 was Rs.1, 08,169crorre and increased to Rs. 13, 12,200 crore in 2015-2016.
2. Growing volume of subsidies in fertilizer, food, petroleum, export etc. are significantly increased from Rs. 13,172 crore in 1995-1996 to Rs. 38,923 crore in 2002-2003 and then increased to Rs. 2, 27,388crore in 2015-2016.
3. Exponential growth of defense expenditure is another factor responsible for deficit financing. The total expenditure in defense increased from Rs.25, 964crore in 1994-1995 to Rs. 1, 52,139 crore in 2015-2016.
4. Interest burden on past debt is also a cause for spurt in fiscal deficit. The interest payment increased from Rs. 50,045 crore in 1995-1996 to Rs. 4, 56,145croree in 2015-2016.

Public expenditure policy of Government of India
Public expenditure has an important role for the economic development of all the countries including India. The public expenditure in India has been rising in a galloping rate. It can be classified into two categories i.e. Developmental expenditure like development of infrastructure, industry, health facilities, educational institutions etc. And Non developmental expenditures like, maintenance of law and order, defence administrative services etc. The public expenditure in India has a higher impact on production and distribution. Public expenditure includes the expenditure of all Central, State and Local Governments.

Table-3: Growth of public expenditure of the Central Government (in crore)

SI. No.	Year	Revenue expendure	Capital expenditure	Total expenditure
1	2	3	4	5
1	1970-1971	3,180	1,490	5,570
2	1989-1981	14,540	9,630	24,170
3	1994-1995	1,22,112	38,637	160,739
4	2000-2001	2,77,839	47,253	3,25,592
5	2010-2011	10,40,723	1,56,605	11,97,328
6	2015-2016(RE)	15,47,673	2,37,718	17,85,391
7	2016-2017 (BE)	17,31,037	2,47,023	19,78,060

Source: Dhar, 2017 PP- & Union Budget-2016-2017

The above table reveals that the total expenditure of the central government increased from Rs. 5,570 crore in 1970-1971 to Rs. 160739 crore in 1994-1995 and then it increased to Rs. 17,85,391 (RE) crore in 2015-2016 and also estimated at Rs. 19,78,06 crore (BE) in 2016-2017. It is found that revenue expenditure of the government increased from Rs. 3,180 crore in 1970-1971 to Rs. 17, 31,037crore (BE) in 2016-2017. The volume of expenditure registered significant hike due to more expenditure in defence, general administration, maintenance of democratic institutions and social services. The capital expenditure increased from 2,490 crore in 1970-1971 to Rs. 2, 47,023crore (BE) in 2016-2017.

Generally, population explosion, growth of state functionary, exponential requirement of deface expenditure, higher inflationary price level, and increase in huge administrative expenditure are important factors which are responsible for increasing public expenditure in recent years in India.

Revenue expenditure includes all current expenditure of the Government on defence, law and order, judicial system and other administrative expenditure usually a recurring type of expenditure where as capital expenditure is of production and usually non-recurring type. Expenditures like, multi-purpose projects, or on setting up of iron and steel plants and other industrial projects are included in the category of capital expenditure mentioned in the below table:

Table-4: Categorization of development and non-development expenditure in India

SI. No.	Types of developmental expenditure			Types of non-developmental expenditure
	Social and community services	Economic services	Miscellaneous services	
1	2	3	4	5
1	Education , culture and scientific research etc.	Agriculture, rural development, fishery, animal husbandry, forest development etc.	-	Maintainance of general administration, law and order, internal security etc
2	Health, family welfare, public health, water supply, etc.	Industry and mining	-	Defence expenditure
3	Housing urban development	Irrigation and power	-	Expenditure on collection of taxes, repayment of loan, pension, auditing of accounts, etc.
4	Labour and employment	Development of transportation and communication facilities	-	Extra-ordinary expenditure on natural calamities like flood, drought etc.
5d	Development of back ward area	General economic services	-	-

Source- Various study materials

Taxation policy of India

The constitution of India envisaged a clear cut tax division in between Central and State governments to avoid contradiction in tax administration. Different types of taxes are usually levied by the Union and State governments through a proper distinction as per the constitutional provision.

1. Some of the taxes under the control of Central Government include Income Tax, Corpotation Tax, Death Duties, Expenditure Tax, Gift Tax, Wealth Tax, Capital Gain Tax and Commodity Tax etc.
2. Some of authorization and power of state government to collect the taxes are land revenue, taxes on agriculture income, succession and state duties, taxes on land, building and mineral rights, excise duty on production and manufacturing of alcoholic liquors opium and drugs, consumption and sale electricity, taxes on vehicles animals taxation on goods and passenger carried by road or inland waterways, sale tax news paper, taxes on advertisement, taxes on professional, trades, capitalization tax on luxuries including entertainment, amusement, gambling betting, stamp duties, registration fee etc.

Table - 5: Tax revenue collected by Centre, State Governments and Union Territories, (Rs crore)

SI. No.	Year	Income and corporation tax	Customs	Union Excise Duty	Sale tax	Others	Total Tax revenue
1	2	3	4	5	6	7	8
1	1980-1981	2,817	3,409	6,500	4,018	3,100	19,844
2	1990-1991	10,712	20,644	24,514	18,228	13,625	87,723
3	2000-2001	67,460	47,542	68,526	72,874	48,918	3,05320
4	2010-2011	4,37,790	1,35,813	1,37,701	2,93,256	1,67,105	12,71,665
5	2014-2015 (BE)	7,29,283	2,01,819	2,06,356	5,61,597	5,39,060	22,38,115

Source: Dhar, 2017 P.99 & Economic Survey 2015-2016

The above table depicts that the total tax collected by Centre, State Governments an Union Territories increased from Rs. 19884 crore in 1980-1981 increased to Rs. 87,723 crore in 1990-91 increased to Rs. 3,05,320crore in 2000-01 and Rs. 22,38,115 crore (BE) in 2014-2015.

Background of GST and Declaration of GST Rate Slabs

India's reform in indirect tax started at the time of the then Prime Minister ViswanathPratap Singh period in 1986. He introduced Modified Value Added Tax (MODVAT). AtalBihariBajpayee Government and his Economic Advisory Committee interested to introduce a single common 'Goods and Services Tax (GST). But the Government was defeated in the election. In 2006 the then Finance Minister UPA Government P. Chidambaram continued the work and proposed a GST rollout by 1st April 2010. It was stopped due to miscellaneous problems at that time. In 2014 when the NDA Government headed by Prime Minister Narendra Mode came to power the GST Bill was introduced In May 2016, The LokeSabha passed the Constitution Bill regarding GST. Finally in August 2016 the amendment Bill was passed and PresidentPranabMukharjee gave his consent. The Goods and Services Tax (GST) launched at midnight on 30th June 2017.

Now, imposed GST rate at different slab on different items and a slab of 0 %, 5 %, 12 %,18 % and @28 % imposed on various goods and services, where 18% to soaps, 28 % in washing detergents, 18 % GST for tickets that cost less than Rs.100 and 28 % for above Rs. 100.

Revenue collections from the Goods and Services Tax (GST) exceeded the Government's target in its first month, with as much as Rs. 92,283 crores. Exchequer from 64.4 % of taxpayer are eligible to pay taxes have already filed their returns in july. The total number of taxpayer required to file returns for July is 59.57 lakh out of which 38.38 lakh have filed returns.
The centre targeted Rs. 48,000 crore from CGST collection and the overall target for State Revenues (CGST) was about 43000 crore, The aggregate revenue target was 91000 crores (CGST,SGST and IGST) and the collection exceeded the target.

Public debt policy of India

Due to poor taxable capacity of the people, Government of India is taking recourse to public debt to meet the developmental expenditure since the post independence period, the Government of India regularly raising a good amount of public debt to mobilize its resources for catering the developmental expenditure from external and internal debt.

Internal debt is being maintained through floating the loans by the government within the country. Internal debt can be raised from the open market operations by issuing bonds and cash certificates. It also borrows through treasury bills issued by RBI and from commercial banks.

When internal debt is insufficient then the Government borrows loans from external source i.e. from abroad, in the form of foreign capital, technical knowledge and capital goods. The central government also borrowing from the international agencies likes World Bank, IMF, IDA, IFC, etc.

The volume of public debt registered buoyancy from 1st five years plan i.e. Rs. 204 crore to Rs. 55,87000crore in the second year of twelfth five year plan in 2013-2014.

Table-6: Fiscal expenditure including public debt to GDP

SI. No.	Categories of items of India Govt.	Unit %	Last	Previous	Highest	Lowest
1	2	3	4	5	6	7
1	Government debt to GDP	%	69.50	69.60	84.20	66.00
2	Government Budget	% of GDP	-3.50	-3.90	-2.04	-7.80
3	Governmetn Budget Value	INR Billion	-5250.45	-5048.96	-94.06	-6056.14
4	Government Spending	INR Billion	3910.80	3021.61	3910.80	735.82
5	Government Spending	INR Billion	4254.02	3035.21	14397.87	0.82
6	Fiscal expenditure	INR Billion	9504.47	8084.17	19748.55	136.55
7	Credit Ranking	-	47.56			

Source- website of public debt 2017

Fiscal policy in the Budget of 2017-18

For India's growth strategy, the fiscal policy declared by the Union Finance Minister that is based on cleanse political funding, rejuvenate the agricultural sector with a hope to achieve 4.1 percent growth, attractive tax system i.e. income tax and corporate tax, incentives manufacturing, generate jobs, fair mix of welfare schemes for poor, youth, girl child and promote cashless transaction. The basic strategy of fiscal policy is "Transform, Energies and clean India"

The 2017-2018 proposed a record target of Rs. 10 lakh crore for agriculture loans while irrigation fund spurted to Rs. 40,000 crore of total budget allocation of Rs. 21,47,000 crore. For rural sector a record of Rs.1,87,200crore with a growth of 24 % over the previous year. The rural employment scheme MGNREGA received Rs. 48,000 croreas against Rs.38,500crore. In the previous year Political parties are no longer receiving higher than Rs. 2000 cash towards donations from an individual and proposed of ban cash over Rs. 3 lakh transaction.

Corporate tax was reduced by 5 % for small business man with less than Rs. 50 crore turnover while big business man continue to pay 30 % .in surcharge 10 % tax will be imposed on individual earning above Rs. 50 lakh a year and above Rs. 1 crore will pay 15 % tax.Rural expenditure was proposed to go up by 11.8 % compared with 27.45 rise this year. The budget for education goes up 8.3 % against 9.5% om FY 2017.

The strategy of the Government is to bring the informal economy into the mainstream, MGNREGA, PradhanMantriGraminAwasYojana, PradhanMantri Gram SadakYojana and SwachhBhartAbhiyan are in the top priority sector in the financial year and a 24%. Hike in rural development programmers' to Rs. 1.87 lakh crore in 2017-2018.

The Government is aware of the risks of slippages, but it pledged to keep the fiscal deficit under control at 3.2% of GDP in 2017-2018. Revenue deficit also set up to reduce to 2.1 % .the Government was budgeted to mobilize Rs. 56,500 crore in the current fiscal year. It managed to float only Rs.45500 crore. The Government intent to float Rs. 72,500 crore through disinvestments in various public sector enterprises. (The New Indian Express, Feb 2, 2017)The strategy for development in infrastructure is a big push to rural economy in the budget which can be known by comparing allocation to select important ministries with the previous year.

The fiscal Policy in infrastructural development indicates that priority has been given to Micro Small and Medium Enterprises (MSME), Skill Development and Entrepreneurship (SDE), Drinking Water and Sanitation (DWS), Women and Child Development (WCD), Rural Development (RD) and Agriculture and Farmer Welfare Activities (AEWA). (Kurukhestra-March-2017, p.17).

Conclusion

Fiscal policy leads to capital formation both in its public and private sector. Through taxation and public debt, fiscal policy mobilize considerable amount of resources. In case of Savings, fiscal policy provide various incentives to raise the saving rate both in households and corporate sector. The most important advantage of fiscal policy is to reduce the gap between haves and have-nots in income and wealth. Fiscal policy promotes export. Poverty Alleviation Programmes and employment generation programmes are the sole and basic motto of fiscal policy.

Inspite of various advantages, fiscal policy suffers from the criticism on the ground of instability, defecting tax structure, inflation and negative return of the public sector in the economy.Government intends to bring reforms in reduction of direct tax through a simplification of tax procedure. It brings reform by introducing in GST in indirect tax. Government should reduce the volume of subsidy and volume of Government expenditure. Reduction in fiscal deficit by reducing public debt is a vital reform in recent time. The Government has initiated a reform in disinvestment in public sector.

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