UNIT V
FISCAL POLICY

MEANING OF FISCAL POLICY

Fiscal policy is policy under which the government uses its expenditure and revenue programmes to produce desirable effects and avoid undesirable effects on the national income, production and employment.

DEFINITION OF FISCAL POLICY

It defined as the policy of the government to achieve and maintain the objectives of stability, full employment and growth. The fiscal agents are taxes, government expenditure, public debt, payments of loans, and subsidies etc. It operates though both taxation and expenditure programmes of the government.

CLASSICAL CONCEPT OF FISCAL POLICY

A. Laissez-fair.
B. Balanced budget.
C. Sound finance.
D. Transfer of resources from private sector to public sector.

MODERN CONCEPT OF FISCAL POLICY

A. Full employment.
B. Functional finance.
C. Reduction on money wages.
D. Joint effective demand.

OBECTIVES OF FISCAL POLICY.

A. Full employment and economic stability.
B. Price stability.
C. Mobilisation of resources.
D. To accelerate the rate of economic growth.
E. To encourage investment into socially desirable channels.
F. Pattern of investment.
G. Distribution.
H. Removal of business cycle.

INSTRUMENTS OF FISCAL POLICY.

Three are three important fiscal means by which resources can be raised for the public exchequer.

a. Taxation.
b. Public expenditure.
c. Public debt.

ROLE OF FISCAL POLICY IN DEVELOPING COUNTRY.

The role of fiscal policy is to accelerate the rate of capital formation and investment, so that productive capacity of the economy developed and economic growth become possible.

OBJECTIVES OF FISCAL POLICY IN DEVLOPING COUNTRY.

The role of fiscal policy as an instrument of economic development. They have four important objectives are:

a. To promote and accelerate the growth of productive investment in the economy in the public and private sector.
b. To mobilise the maximum volume of real and financial resources.
c. To promote the maintenance of a reasonable measure of monetary stability.
d. To redistribute the growing national output.

ROLE OF FISCAL POLICY IN DEVELOPING COUNTRY.

A. Collection of finance and other instruments for development activities.
B. Increasing rate of growth of economic development.
C. Increasing investment for socially needed department.
D. Promotion of investment.
E. Investment System.
F. Price stability.
G. Changes in revenue and distribution.

LIMITATIONS OF FISCAL POLICY.

A. No changes in organsation system.
B. Level of financial activity.
C. Multiplier effect.
D. Balance of payment.
E. Negative result of private investment.

FEDERAL FINACE.

The term federation may be defined as a form of political association in which two or more states constitute a political unity with a common government.

DEFINITION OF FEDERAL FINANCE

According to Encyclopaedia Britannica federation, "is a form of government in which the essential principles is that there is union of two or more states under the central body for certain permanent objectives".

CHARACTERISTICS OF FEDERAL FINACE

i. In the federal finance, the sources of income and heads of expenditure are distributed between the central and state governments according to the Constitution. Their jurisdiction and rights are clearly defined in the Constitution.

ii. In the federal finance, the sources of income and heads of expenditure of the central and state governments are different. The states are also financially aided by the centre.

iii. Although the state governments have administered autonomy, yet they remain subordinate to the centre. No state is free to fall apart from central government on its own.

iv. In case of any financial dispute arising between the central and the state governments, the solution thereof is sought according to the constitutional provisions. India with a federal form of Government has a federal finance system.

PROBLEMS OF FEDERAL FINANCE.

A. Problem of financial arrangements between federal government and states.
B. Inequality between the states.
C. System of taxation.
D. Problem of classification of function between central and state government.

PRINCIPLES OF FEDERAL FINANCE

A. Independence and Responsibility.
B. Adequacy and Elasticity.
C. Administrative Economy.
D. Equity.
E. Uniformity.
F. Integration.
G. Fiscal access.
H. Accountability.
I. Transference.

METHODS OF CORRECTING UNBALANCED FEDERAL FINANCE.

The most important methods for correcting unbalanced federal finance are as follows:

a. Redistribution of tax revenue.
b. Surcharges of taxes.
c. Subsidies.
d. Subvention.
e. Reallocation of functions.
f. Grants-in-aid.

CENTRE - STATE FINANCIAL RELATIONSHIP.

The constitution of India which became operative on 26th January 1950 was founded on the structure the then existing. It was adopted the salient features of the 1935 Act.

ORIGIN OF CENTRE- STATE FINANCIAL RELATIONSIP.

A. (1883 – 1903)
    a. 1833 – Governor General of India.
    b. 1860-61 – Centralization – James Wilson.
    c. 1871 – Lord Mayo.
    d. 1882 – Lord Ripon.
    e. 1904 – 1919 – Lord Corzon.
    f. 1912 – Decentralisation Commission.
    g. 1919 – Montagu Chemsfrord Report - Government of India Act.
    h. 1920 – Financial Relation Committee – Lord Menston.
    i. 1935- 1950 – Provincial Autonomy.
    j. 1931 – Sir Walter Layton - PEEL Committee.
    k. 1932 – Percy Committee.
    l. 1933 – White paper – Joint Parliamentary Committee.
    m. 1935- Niemeyer Award – Distribution revenue between central and state government.
    n. 1947- Deshmuk Award – Finance Commission.

CENTRAL- STATE FINANCIAL RELATION UNDEER THE CONSTITUTION.

Under the constitution there is three fold distribution of legislative powers between the union and the states viz., Union list, State List and Concurrent List.

The parliament has exclusive power to make law in List I. (Union List).

The State have exclusive power to make law in List II. (States List).

The parliament and any state specified in List III. (Concurrent List).

DISTRIBUTION OF FUNCTION

a. The function of union government include 97 subjects.
b. The function of State government include 66 item.

c. The concurrent include 47 subjects.

DISTRIBUTION OF REVENUE.

a. State sources of revenue -19.
b. Central sources of revenue – 12.
c. Tax levied and allocated by the Union but assigned to states – 6.
d. Taxed levied by the union but collected and appropriated by the states 3.

RECENT FINANCE COMMISSION

The constitution of article 280 says the president shall, within two years from commencement of the constitution and thereafter at the expiration of every fifth year as the president considers necessary, by the order constitute a Finance Commission which consists of a chairman and four other members to be appointed by the President.

FUNCTIONS OF THE FINANCE COMMISSION.

a. The distribution between the union and the states of the net proceeds of taxes.
b. Consolidated Funds – Grants–in-aid.
c. Modification pf the term any agreement.
d. Any other mater referred to the commission by the president.

FINANCE COMMISSION.

First Finance Commission - K.C.Neogy - 1951 - 1952
Second Finance Commission – K.Santhanam - 1956 - 1957.
Third Finance Commission – A.K.Chanda – 1961 – 1962.
Fourth Finance Commission – P.V.Rajamnnar – 1964 – 1965.
Fifth Finance Commission – Mahavir Tyagi 1968 – 1969.
Sixth Finance Commission – K.Brahmanand Reddy – 1972 – 1973.
Seventh Finance Commission - Justice J.M.Shelet – 1977 – 1978.
Eight Finance Commission – Y.P. Shavan – 1982 – 1982.
Ninth Finance Commission – N.K.P.Salve – 1987 – 1988.
Tenth Finance Commission - K.C.Pant – 1992.
Eleventh Finance Commission – A.M.Khuszo – 1998.
Twelfth Finance Commission – Dr. C. Rangarajan – 2002.
Thirteenth Finance Commission – Dr. Vijay Kelkar - 2007.
Fourteenth Finance Commission – Y.V Reddy – 2013.
Fifteenth Finance Commission – N.K. Singh – 2017.
