



Department of Economics

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FRBM Act, 2003

- by Finance Minister Yashwanth Sinha


- From 5th July 2004



Need

- Deficit cut targets



Objectives



- ▶ Transparent fiscal management
 - ▶ Equitable & manageable distribution of debt
 - ▶ Fiscal stability
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- ▶ Inter-generational equity
 - ▶ Fiscal discipline
 - ▶ Flexibility to RBI



Targets

- Elimination of revenue deficit
- Adequate revenue surplus
- Reduction of fiscal deficit no more than 3 % of GDP

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- Reduce GFD
 - Total debt to reduce to 9% of GDP
 - Purchase of Govt. bonds by RBI must cease



Features

- ▶ Medium term fiscal policy statement
- ▶ Fiscal policy strategy statement
- ▶ Macro economic framework statement




Amendments

- 2004- bring down GFD
- 2013- effective revenue deficit
- 2015- to reduce effective revenue deficit
- 2018-19- bring down fiscal deficit





Criticisms

- Target regarding GFD very stringent
 - Neglect of equity & growth
 - Non-coverage of state governments
 - Neglect of social sector
 - Assumptions
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Public Finance and Private Finance

- Approach to adjustment of income and expenditure
- Compulsory character
- Coercive methods
- Impact on society
- Motive

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- Nature of budget
 - Nature of resources
 - Pattern of expenditure
 - Time duration
 - Secrecy



Public Good and Private Good

Public Good	Private Good
Non- Rivalry	Rivalry
Non Excludable	Excludable



Test of evaluating Principal of Maximum Social Advantage

- ▶ Protection of the community
- ▶ Increase employment
- ▶ Reduction in economic inequalities
- ▶ Stability
- ▶ Provision for future generations



Welfare State

A concept of govt. in which state or well established network of social institution plays a key role in the protection & promotion of economic & social well-being of citizens.

State plays a key role in the protection & promotion of economic & social wellbeing of its citizens.

Laissez-faire Policy

- Derived from French word meaning “let you do”, “leave alone”
- It is the policy of minimum governmental interference in economic affairs of individuals and society.
- Classical economists advocated this policy
- philosophy of free market capitalism

Distributive Justice

- Addresses the ownership of goods in a society.
- Assumes a large amount of fairness in the distribution of goods.
- Equal work should provide an individual with an equal outcome in terms of goods acquired or the ability to acquire goods



Merit goods

- ▶ In 1998 by Richard Musgrave
- ▶ A good which would be under-consumed and under-produced in the free market economy. Reasons are:
 - It creates positive externalities
 - Under-consumed



Marginal cost of Public good

- ▶ The cost of supplying one or more users is zero.
- ▶ Because of Non-rivalry & non-excludability feature



GST

- ▶ Indirect tax on the supply of goods and services.
- ▶ A comprehensive, multistage, destination-based tax levied on every value addition
- ▶ replaced many indirect taxes.
- ▶ Passed on 29th March 2017
- ▶ Came into effect on 1st July 2017



Principle of Exclusion

In economics, the exclusion principle states that, “the owner of a private good may exclude others from use unless they pay . It excludes those who are unwilling or unable to pay for the private good, but does not apply to public goods.

Public finance- A Normative Science

The study of public finance offers suggestions regarding revenue & expenditure of the government.

It analyses the effects of fiscal operations on the overall level of economic activity. It is also asses to what extent they are good or bad.