FISCAL POLICY

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Meaning

The term ‘fisc’ is derived from Latin language meaning treasury i.e. the place or mechanism of public fund collection and disbursement.

It refers to the policy of govt. regarding taxation, public expenditure, public borrowing for securing economic stabilization and development

Definitions

Musgrave- Fiscal policy is concerned with those aspects of economic policy which arise in the operation of public budget.

Paul Samuelson- Fiscal policy means public expenditure and tax policy.

Ursula Hicks- Fiscal policy is concerned with the manner in which all the different elements of public finance may collectively carry forward the aims of public expenditure and tax policy.

Vinny Satija- Fiscal policy is those policy measures which are related to public revenue and public expenditure made by the government.

Objectives

1. Acceleration of Economic Growth

2. To Achieve full Employment

3. To establish economic stability

4. To promote capital formation

5. To remove inequalities and poverty

6. Demand Management

Components of fiscal policy

1. Budgetary Policy

- taxation, debt and deficit financing
- Controls receipts and expenditure
- Used to combat recession and depression

2. Taxation Policy

- influences economic activities
- Change in disposable income & AD
- raised during boom & reduced during depression

3. Public expenditure

- Spending of govt. authorities
- Increases supply of goods & services
- Instrument against depression and unemployment
- inflationary

4. Public debt

- to meet increased expenditure
- by issuing bonds
- Involves interest payment
- Weapon against inflation and deflation
- Debt management is important

5. Deficit financing

- financing expenditure

- Mobilises additional resources

- Inflationary in nature

- Used mainly by UDCs and developing countries

Role in Developing Countries

1. Economic Stability

- Control of trade cycle
- Maintaining high rate of growth
- Encourages private investment
- Adoption of activity for over long period

2. Mobilization of resources

- through taxation and borrowing
- tax concession and subsidies
- Diversion of resources

3. Increases the rate of growth

- Increasing the rate of investment

- Positive and dynamic role

- Increasing NI and PCI

4. Investment in socially desirable channels

-Unproductive investments are checked

-Diverts resources

-raise productivity and widens market

5. Inducement to investment

- initial investment in SOC

- external economies to induce investment

- widens market, reduces cost

- increases socio marginal productivity,

6. Modify pattern of investment

- increases socio marginal productivity
- resources to high socio marginal productivity projects

7. Price Stability

- removal of bottleneck and structural rigidities
- Planned development
- Physical controls of essential goods

8. Inflation and fiscal policy

- To check rising price

- Public debt and taxation play crucial role

9. Fiscal policy and distribution

- Equitable distribution of raising NI
- Redistributive taxation and expenditure policy