through tax revenues, the necessary adjustment has to come from a reduction in expenditure.

3. The actual deficits may exceed the targets specified only on grounds of national security or natural calamity or such other exceptional grounds as the central government may specify.
4. The central government shall not borrow from the Reserve Bank of India except by way of advances to meet temporary excess of cash disbursements over cash receipts.
5. The Reserve Bank of India must not subscribe to the primary issues of central government securities from the year 2006-07.
6. Measures to be taken to ensure greater transparency in fiscal operations.
7. The central government to lay before both Houses of Parliament three statements – Medium-term Fiscal Policy Statement, The Fiscal Policy Strategy Statement, The Macroeconomic Framework Statement along with the Annual Financial Statement.
8. Quarterly review of the trends in receipts and expenditure in relation to the budget be placed before both Houses of Parliament.

The act applies to the central government. However, 26 states have already enacted fiscal responsibility legislations which have made the rule based fiscal reform programme of the government more broad based. Although the government has emphasised that the FRBMA is an important instituional mechanism to ensure fiscal prudence and support macro economic balance there have been fears that welfare expenditure may get reduced to meet the targets mandated by the Act.

FRBM Review Committee

In the last thirteen years since the FRBM act was enacted, the Indian economy has graduated to a middle income country. At the time of enactment of the FRBM, there was a general thinking that fiscal rules were better than discretion. However, since then the advanced countries have moved away from this but in India, the government has affirmed its faith in the fiscal policy principles set out in the FRBM. Therefore, there is support for retaining the basic operational framework designed in 2003 but to revamp it to incorporate the changing scenario in India and also with an eye for the future path of growth – the task that has been handed to the FRBM Review Committee.

Box 5.3: GST: One Nation, One Tax, One Market

Goods and Service Tax (GST) is the single comprehensive indirect tax, operational from 1 July 2017, on supply of goods and services, right from the manufacturer/ service provider to the consumer. It is a destination based consumption tax with facility of Input Tax Credit in the supply chain. It is applicable throughout the country with one rate for one type of goods/service. It has amalgamated a large number of Central and State taxes and cesses. It has replaced large number of taxes on goods and services levied on production/ sale of goods or provision of service.

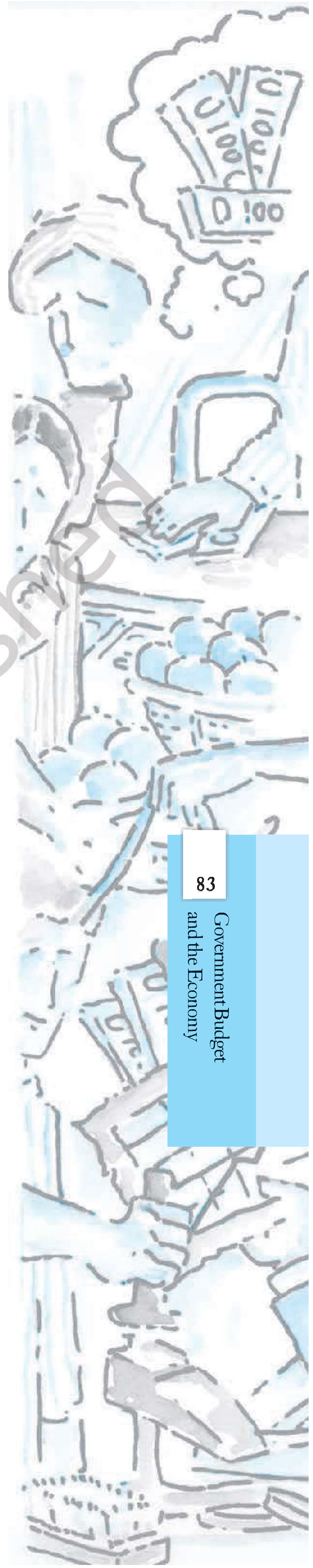
As there have been a number of intermediate goods/services, which were manufactured/provided in the economy, the pre GST tax regime imposed taxes not on the value added at each stage but on the total value of the commodity/service with minimal facility of utilisation of Input Tax

Credit (ITC). The total value included taxes paid on intermediate goods/services. This amounted to cascading of tax. Under GST, the tax is discharged at every stage of supply and the credit of tax paid at the previous stage is available for set off at the next stage of supply of goods and/or services. It is thus effectively a tax on value addition at each stage of supply. In view of our large and fast growing economy, it addresses to establish parity in taxation across the country, and extend principles of 'value- added taxation' to all goods and services.

It has replaced various types of taxes/cesses, levied by the Central and State/UT Governments. Some of the major taxes that were levied by Centre were Central Excise Duty, Service Tax, Central Sales Tax, Cesses like KKC and SBC. The major State taxes were VAT/Sales Tax, Entry Tax, Luxury Tax, Octroi, Entertainment Tax, Taxes on Advertisements, Taxes on Lottery /Betting/ Gambling, State Cesses on goods etc. These have been subsumed in GST.

Five petroleum products have been kept out of GST for the time being but with passage of time, they will get subsumed in GST. State Governments will continue to levy VAT on alcoholic liquor for human consumption. Tobacco and tobacco products will attract both GST and Central Excise Duty. Under GST, there are 6 (six) standard rates applied i.e. 0%, 3%,5%, 12%,18% and 28% on supply of all goods and/or services across the country.

GST is the biggest tax reform in the country since independence and was rolled out on the mid-night of 30 June/1 July, 2017 during a special midnight session of the Parliament. The 101th Constitution Amendment Act received assent of the President of India on 8 September, 2016. The amendment introduced Article 246A in the Constitution cross empowering Parliament and Legislatures of States to make laws with reference to Goods and Service Tax imposed by the Union and the States. Thereafter CGST Act, UTGST Act and SGST Acts were enacted for GST. GST has simplified the multiplicity of taxes on goods and services. The laws, procedures and rates of taxes across the country are standardised. It has facilitated the freedom of movement of goods and services and created a common market in the country. It is aimed at reducing the cost of business operations and cascading effect of various taxes on consumers. It has also reduced the overall cost of production, which will make Indian products/services more competitive in the domestic and international markets. It will also result into higher economic growth as GDP is expected to rise by about 2%. Compliance will also be easier as all tax payment related services like registration, returns, payments are available online through a common portal www.gst.gov.in. It has expanded the tax base, introduced higher transparency in the taxation system, reduced human interface between Taxpayer and Government and is furthering ease of doing business.



Exercises

1. Explain why public goods must be provided by the government.
2. Distinguish between revenue expenditure and capital expenditure.
3. 'The fiscal deficit gives the borrowing requirement of the government'. Elucidate.
4. Give the relationship between the revenue deficit and the fiscal deficit.
5. Suppose that for a particular economy, investment is equal to 200, government purchases are 150, net taxes (that is lump-sum taxes minus transfers) is 100 and consumption is given by $C = 100 + 0.75Y$ (a) What