Fiscal Policy

Fiscal policy means the use of taxation and public expenditure by the government for stabilization or growth. According to **Culbarston**, "By fiscal policy we refer to government actions affecting its receipts and expenditures which we ordinarily taken as measured by the government's receipts, its surplus or deficit." The government may offset undesirable variations in private consumption and investment by compensatory variations of public expenditures and taxes.

Objective of Fiscal Policy

The fiscal policy is designed to achieve certain objectives as follows:

1. Development by effective Mobilization of Resources: The principal objective of fiscal policy is to ensure rapid economic growth and development. This objective of economic growth and development can be achieved by Mobilization of Financial Resources. The central and state governments in India have used fiscal policy to mobilize resources.

2. Reduction in Economic Inequality: In democratic countries, economic inequalities are sought to be removed through appropriate fiscal measures. To achieve this objective, progressive direct taxes, like income tax, wealth tax, death duty, etc. are levied. The incidence of these taxes is more on the rich. The tax proceeds so collected are spent in providing more and more facilities to the weaker sections of the society. As such, the standard of living of the latter begins to improve.

3. Price Stability and Control of Inflation: Another short run objective of fiscal policy is the attainment of the goal of price stability. Instability in price level, i.e., either inflation or deflation, produces some undesirable consequences. That is why the government prepares its budget in such a way that both inflation and deflation are controlled.

4. Employment Generation: The government is making every possible effort to increase employment in the country through effective fiscal measures. Investment in infrastructure has resulted in direct and indirect employment. Lower taxes and duties on **small-scale industrial (SSI)** units encourage more investment and consequently generate more employment. Various rural employment programmes have been undertaken by the Government of India to solve problems in rural areas. Similarly, self employment scheme is taken to provide employment to technically qualified persons in the urban areas.

5. Balanced Regional Development: There are various projects like building up dams on rivers, electricity, schools, roads, industrial projects etc run by the government to mitigate the regional imbalances in the country. This is done with the help of public expenditure.

6. Reducing the Deficit in the Balance of Payment: Fiscal policy attempts to encourage more exports by way of fiscal measures like Exemption of income tax on export earnings, exemption of central excise duties and customs, Exemption of sales tax and octroi, etc. The foreign exchange is also conserved by providing fiscal benefits to import substitute industries, imposing customs duties on imports, etc. The foreign exchange earned by way of exports and saved by way of import substitutes helps to solve balance of payments problem. In this way adverse balance of payment can be corrected either by imposing duties on imports or by giving subsidies to export.

7. Increases National Income: It's the strength of the fiscal policy that is brings out the desired results in the economy. When the government wants to increase the income of the country then it increases the direct and indirect taxes rates in the country. There are some other measures like: reduction in tax rate so that more peoples get motivated to deposit actual tax.

8. Development of Infrastructure: When the government of the concerned country spends money on the projects like railways, schools, dams, electricity, roads etc to increase the welfare of the citizens, it improves the infrastructure of the country. An improved infrastructure is the key to further speed up the economic growth of the country.

9. Foreign Exchange Earnings: When the central government of the country gives incentives like, exemption in custom duty, concession in excise duty while producing things in the domestic markets, it motivates the foreign investors to increase the investment in the domestic country.

Mobilization of Resources