Fiscal Policy | Important PYQ Topics

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INTRODUCTION

- According to **Article 112 of the Indian Constitution**, the **Union Budget** of a year is referred to as the **Annual Financial Statement (AFS).**
- Fiscal Policy refers to the **use of government spending and tax policies to affect macroeconomic conditions,** particularly employment, inflation, and macroeconomic variables such as aggregate demand for goods and services.
- Budgetary policy relates to **two important issues.** These are:
  - The items on which the government should spend.
  - How should the government raise resources to finance its expenditure?
- **Three Components:**
  - **Government Receipts: government's income**, which has been achieved through the **collection of taxes, interest**, and the revenue produced by investments, cess, and other forms of revenue the nation has generated.
  - **Government Expenditure: money spent by the public sector** on the acquisition of goods and provision of services such as **education, healthcare, social protection, and defence.**
  - **Public Debt:** this money doesn't belong to the government; instead, they **must be returned to their original owners at some point**. Consequently, the Parliament is not required to authorise spending from the public account.
- **Types:**
  - **Fiscal Neutral Policy:** Government Spending = Taxation
  - **Expansionary Fiscal Policy:** Government Spending > Taxation
  - **Contractionary Fiscal Policy:** Government Spending < Taxation

OBJECTIVES

- **To promote economic growth:** Government promotes economic growth by s**etting up basic and heavy industries** like steel, chemicals, fertilisers, machine tools, etc. It also **builds infrastructure** like roads, canals, railways, airports, education and health services, water and electricity supply, telecommunications, etc.
- **To reduce income and wealth inequalities:** Government reduces inequalities in income and wealth by **taxing the rich more** and **spending more on the poor.**
- **To provide employment opportunities:** Jobs are created when it **sets up public sector enterprises.** Provides **subsidies and other incentives** It also e**ncourages setting up of small scale, cottage and village industries.**
- **To ensure stability in prices:** Government ensures stability of prices of essential goods and services by **regulating their supplies. Subsidised** cooking gas, electricity,

water and essential services like transport and maintains their prices at low level affordable to the common man.

- **To correct balance of payments deficit:** the government **discourages imports** by increasing taxes on them and **encourages exports** by increasing subsidies.
- **To provide for effective administration:** Government incurs expenditures on police, defence, legislatures, judiciary, etc.

FISCAL RESPONSIBILITY AND BUDGET MANAGEMENT (FRBM) ACT

- Passed in Parliament in **2003** with an **aim of ensuring financial discipline, efficient management of public funds, improved fiscal prudence, and reduced fiscal deficits.**
- **Amendments to FRBM Act:** Amended in **2012** that **mandated the Central Government** to lay before the Houses of Parliament, Macro-Economic Framework Statement, Medium Term Fiscal Policy Statement and Fiscal Policy Strategy Statement along with the Annual Financial Statement and Demands for Grants.
- **The NK Singh committee,** set up in **2016 to review the FRBM Act,** recommended that the government must **target a fiscal deficit** of 3% of the GDP in the years up to March 31, 2020, subsequently cut it to 2.8% in 2020-21 and to **2.5% by 2023.**

PYQ

Q. Along with the Budget, Finance Minister also places other documents before the Parliament which Include "The Macro Economic Framework Statement". The aforesaid document is presented because this is mandated by

a) Long standing parliamentary convention
b) Article 112 and Article 110 (1) of the Constitution of India
c) Article 113 of the Constitution of India
d) Provisions of the Fiscal Responsibility and Budget Management Act, 2003

Q. Distinguish between Capital Budget and Revenue Budget. Explain the components of both these Budgets.