Fiscal Policy-Meaning

- The word **fisc** means '**state treasury**' and fiscal policy refers to policy concerning the use of 'state treasury' or the govt. finances to achieve the macroeconomic goals.
- "any decision to change the level, composition or timing of **govt. expenditure** or to vary the burden ,the structure or frequency of the **tax payment** is fiscal policy."

  \- G.K. Shaw
- The fiscal policy is concerned with the raising of government revenue and incurring of government expenditure.

Objectives of Fiscal Policy

1. Development by effective Mobilisation of Resources.
2. Efficient allocation of Financial Resources
3. Reduction in inequalities of Income and Wealth
4. Price Stability and Control of Inflation
5. Employment Generation
6. Capital Formation
7. Development of Infrastructure

THREE MAIN STANCES OF FISCAL POLICY

- NEUTRAL STANCE: This results in large tax revenue Government. Spending is fully funded by Tax revenues and overall budget has a neutral effect on level of economic activity.(G=T)
- EXPANSIONARY STANCE: government expenditure is more than taxes reciepts
- CONTRATIONARY STANCE: Government expenditure is less than the taxes and revenues received.

FUNDING

- The expenditure of government can be funded in different ways :
  - Taxation
  - Borrowing
  - Consumption fiscal reserves
  - Sale of fixed assets.

Instruments of Fiscal Policy

- Budgetary surplus and deficit
- Government expenditure
- Taxation- direct and indirect
- Public debt

Budgetary surplus and deficit

- “A budget is a detailed plan of operations for some specific future period”
- An accumulated deficit over several years (or centuries) is referred to as the government debt
- A deficit is a flow. And a debt is a stock. Debt is essentially an accumulated flow of deficits

Government Expenditure

➢ It includes :

- Government spending on the purchase of goods & services.
- Payment of wages and salaries of government servants
- Public investment
- Transfer payments

Taxation

- Meaning : Non quid pro quo transfer of private income to public coffers by means of taxes.
- Classified into

1. **Direct taxes-** Corporate tax, Tax, Personal Income Tax, Fringe Benefit taxes, Banking Cash Transaction Tax
2. **Indirect taxes-** Central Sales Tax, Customs, Service Tax, excise duty.

Public debt

- Internal borrowings
- Borrowings from the public by means of treasury bills and govt. bonds
- Borrowings from the central bank (**monetized deficit financing)**
- External borrowings

5. foreign investments
6. international organizations like World Bank & IMF
7. market borrowings

BUDGET

- "A budget is a detailed plan of operations for some specific future period"
- It is an estimate prepared in advance of the period to which it applies.
- It is also known as Annual Financial Statement of the year.