

Course Name:-B.A.LLB-IVth Sem

Subject:-Economics-IV

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Topic:-Advantages and Disadvantages of
Fiscal Policy

Meaning of Fiscal Policy

Fiscal policy is related to income and expenditure of government. It refers to budgetary policy of government. It is also known as Income and Expenditure policy or tax and expenditure policy of government.

Fiscal policy may be defined as that part of government economic policy which deals with taxation, government expenditure, borrowing, deficit financing and management of public debts in an economy.

Definition of Fiscal Policy

According to A.G.Buchler, "Fiscal Policy mean the use of public finance or expenditure, taxes borrowing and its administration to future our national income objectives."

Advantages of Fiscal Policy

- Capital Formation
- Incentives for Saving
- Inducement to Private Sector
- Mobilisation of Resources
- Social Welfare
- Development of public Enterprise
- Alleviation of poverty and Generation of employment Opportunities
- Export Promotion

Capital Formation

Fiscal policy has played a significant role in the capital formation of public and private sectors. It leads to further economic development of the nation. Consequently, Gross Domestic Capital formation increased to 33.3 percent in 2015-16.

Mobilisation of Resources

Fiscal policy has also helped mobilisation of resources. To execute the plans, resources have mainly been provided by internal resources. By making use of measures like taxes, saving, public debt etc..., government has mobilised sufficient resources for the projects necessary for economic development. In third five year plan, 72 percent resources were mobilised for plan through internal resources. In Eleventh and Twelfth five year plans percentage of internal resources to finance the plan rose to 100 percent

Disadvantages of Fiscal Policy

- Inflation
- Defective Tax Structure
- Poor Tax Administration
- Inequality of Income
- Increase Interest Burden
- Increase non development Expenditure
- Failure of Public Sector

Inflation

Deficit financing has proved inflationary. Deficit financing results in increase in money supply, which results in fall in the value of money and in turn leads to rise in prices.

Inequality of Income

Fiscal policy has failed to check inequality of income. The poor class has to bear the burden of indirect taxes like the rich class. Direct taxes like gift tax, death duty, estate duty, etc. Which have no effect on poor have been withdrawn.

Defective Tax Structure

In India share of direct taxes is less than the share of indirect taxes. Such tax structure proves burden some for the poor. Indirect taxes like excise duty, value added tax, GST, etc., are charged at the same rate from rich as well as poor persons. It badly effects the poor section of our society.

Conclusion

Fiscal policy is the part of economic policy of the government which is related to government income and expenditure. it includes public expenditure policy, taxation policy , public debt policy and deficit finance.