"Fiscal Policy: Role in a developing economy"

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Introduction:—

The role of fiscal policy varies from Country to Country, according to the level of economic development. The fiscal policy in developing Countries should apparently be Conducive to rapid economic development. In a poor Country, fiscal policy Can no longer remain a Compensatory fiscal policy. It has an important role to play in a developing economy to accelerate the rate of economic growth along with stability.

Let us discuss the role of fiscal policy in a developing economy.

1) The main goal of fiscal policy in a developing economy is the promotion of the highest possible rate of Capital formation. Most of the developing Countries are Caught in the 'vicious circle of poverty'. So to accelerate the rate of capital formation, the fiscal policy has to be designed to raise the level of aggregate savings and to reduce the actual and potential Consumption of the People. In order to promote savings, various

tax incentives may be provided to the people.

2) Another role of fiscal policy, in a developing economy is to divert existing resources from unproductive to productive and socially more desirable uses. Fiscal policy must be blended with planning for development. So expenditure by the Government in those productive channels which benefits the low income people and increasing expenditure on social welfare and provision of essential commodities to the poor at subsidized prices are some of the steps or measures which can be undertaken.

3) An important role of fiscal policy in a developing economy is to create an equitable distribution of income and wealth in the society. However, the aims of rapid growth and attainment of equality in income are two paradoxical goals because growth needs more savings and equitable distribution causes reduction of aggregate savings. So a reconciliation of these two contradictory goals of growth and reduction of inequalities can be attained by Taxation measures, which

involves imposing heavy taxes on the richer section and exempting poorer sections of the community, higher taxes on luxury goods and lower taxes on commodities of mass consumption.

4) Fiscal policy in a developing economy can be used for protecting the economy from high inflation domestically and unhealthy developments abroad. Reducing purchasing power of the people through taxes, compulsory savings and public borrowings, providing incentives for savings to the people, increasing production of essential commodities through public investment are some of the fiscal measures which can be adopted to contain inflation.

5) Fiscal policy helps in maintaining relative price stability. Falling prices (or depression) decreases the level of economic activity, whereas steeply rising price (or inflation) hurts the fixed income groups and benefits the speculators and traders. Fiscal policy helps in securing price stability by fighting inflationary and deflationary tendencies in the country.

6) Fiscal policy can play an important role to check sectoral imbalances.

Sectoral imbalances are to be Corrected by appropriate segmental fiscal measures which would remove frictions and immobilities, turn demands into proper directions, seek to eliminate bottlenecks and other obstacles to growth.

Conclusion:— Fiscal policy today assumes unique importance in realising general economic goals, depending on the size of the fiscal measures adopted and their timing. The exact change effected in the national economy will depend on the form and the magnitude of Public revenue, especially the rates and structure of taxation and the mode of Public spending by the Government. Fiscal Policy of India always aims at improving the growth Performance of the economy and ensuring social justice to the people.