SEMESTER 1 – IEP-1 – MODULE 1

PROBLEMS RELATING TO FISCAL POLICY

India is the seventh-largest- economy in the world measured by GDP, the third largest by PPP and therefore the outlook for short term growth is additionally good as per the international monetary fund, the Indian economy is the "bright spot" within the global level India additionally topped the world Bank growth outlook for 2015-2016 for the first time with the economy growth 7.6% (expected growth is 8% (2016-2017) "Fiscal policy is that a part of government policy that is concerned with Raising Revenue through Taxation"

The economic policy is bothered with the raising of public revenue and incurring of public expenditure. To generate public revenue and to incur government expenditure, the government frames a policy known as budgetary policy or fiscal policy. So, the fiscal policy is concerned with expenditure and income. Fiscal policy must pick the size and pattern of public of expenditure from the government to the economy and from the economy back to the government. Economic policy refers to the policy of the government with respect to public taxation, public expenditure and public borrowings. The importance of economic policy is high in underdeveloped countries.

These are the main policy approaches utilized by economic managers deals with fiscal policy whereas the central bank is answerable for monetary policy. Fiscal policy consists of several components. These include, tax policy expenditure policy, investment of withdrawal ways and debt or surplus management, economic policy is a vital constituent of the economic framework of a country and is thus intimately connected with its general economic policy strategy, fiscal policy additionally feeds into economic trends and influence monetary policy.

1. Effective Mobilization of Resources The principal objective of fiscal policy is to confirm fast economic process and development. The objective of economic growth and development is achieved by mobilisation of economic resources.

2. Reduction in inequalities of Income and Wealth Fiscal policy aims at achieving equity or social justice by reducing financial gain inequalities among totally different sections of the society. The direct taxes like income tax are charged additional on the wealthy individuals as compared to lower financial gain groups.

PARALLEL ECONOMY

Causes of black money in India:

The Indian economy has incessantly recorded high growth rates and has turn out to be striking purpose for savings; but the current finding of dishonesty cases has thrown light on the dark side of the growth that is rise of the black money circulation in the economy.

A large amount of the black money in India is supposed to be the off-shoot of the tax avoidance. In actuality, there are more than the particular causes of such black money in India. No doubt, tax avoidance is the major cause but there are other causes too to which the government officials pay no attention.

(a)High rates of taxation guide to the black income with the people: High rates of taxation are certainly one of the causes of tax elusion. It is usually a belief in our country that the supervision officials try to make use of the people through higher rates of taxation (it is true to some extent). Moreover, the people believe that the money or the funds raised from such sources by the government is not at all utilized for their advantage. It is dispersed among the cabinet ministers of the ruling party unlawfully. Hence the people find it better to remain the money with themselves to a convinced extent than giving it to the desecrated ministers. There seems to be the global conformity that the irrelevant rates of taxation are the best when the rates are lower than 40%. It is very important to note that in the year 1997 or 1998, the rate of property tax was as high as 97%.

(b)Hawala market as the main cause of black money generation:

It is incredibly well known that the international smugglers or the traders in other illegal trade cannot complete their financial communication through any public sector or other private legal banks in India. Also, the quantity of money in which the drugs and other artillery are imported or exported is fairly large, more often than not in billions. Since, these worldwide traders deal with the smugglers of a multiplicity of countries, they always need to exchange their domestic money into the money of the other country which is only probable through the central bank of the countries.

MODULE 2:

Developing grass-root organizations for development

The growth of the non-profit sector in India in the last two decades has been phenomenal. India has possibly the largest number of active non-government, not-for-profit organizations in the world. Official estimates put the number at 3.3 million. From relief services to educational initiatives, from healthcare projects to housing organizations, grassroots NGOs work in numerous spheres which touch the daily lives of marginalized communities across the country to aid in empowering grassroots. Engaging directly with the people, these grassroots development NGOs are able to participate in the thought-making process of the communities they work with, and thus have the capacity to bring about long-term change. As such, the sector has had a substantial contribution in the nation building process.

But accelerated development soon reaches a stagnant point if it is not sustainable. Ensuring sustainability of initiatives requires a reorientation of NGOs focusing on their capacity building to attain competitiveness. This is not an easy transition, requiring grassroots NGOs to rethink and reform their programme designs, planning, fund mobilisation, fund management, and effective programme delivery. There is also a need to guide these NGOs to be able to identify and adapt with the changing national and global socio-political and economic developments which affect them. To equip and facilitate grassroots NGOs in the country to address these issues and eventually aim at achieving sustainable grassroots empowerment and community development, Smile Foundation initiated Empowering Grassroots.

A national capacity building programme, Empowering Grassroots is aimed at handholding, training and enabling community based organisations (CBOs) to maximise their impact on the ground. Under 'Empowering Grassroots' initiative, CBOs are trained on vital issues relevant to the development sector in the country like scalability, sustainability, communication, resource mobilisation and governance by industry experts from reputed Indian and international organisations. Handholding meetings and face to face learning sessions are held round the year to help the CBOs effectively resolve their day to day operational challenges, helping achieve the highest social return on investment (SROI).

POVERTY AND INEQUALITY

Poverty is a multidimensional concept. Poverty may be defined as a state of lack of access to the basic needs of income, food, shelter, education, health services, safe drinking water and sanitation that help an individual lead a decent, normal and effective existence. Indeed, the list of basic and other needs may vary, depending upon the society in question and what, in its view, constitutes normal and effective existence.

MEASUREMENT OF POVERTY:

Income Indicators of Poverty:

The first step in estimating the incidence of poverty is to define a poverty line. The "Task Force on Projections of Minimum Needs and Effective Consumption Demand" of the Planning Commission (1979), used an average energy (nutritional energy) requirement norm to define the poverty line. Since calorie is the unit of energy, the norm used was in terms of calories. In this manner, the Task Force attempted to capture in the average norms factors such as age, sex and occupational differences in the daily calorie requirement of the population. The calorie norms, thus, derived were rounded off to 2,400 calories per capita per day for rural areas and 2,100 calories per capita per day for urban areas.

In other words, the poverty line was defined as the per capita expenditure level at which the average per capita per day calorie intake is 2,400 calories for rural areas and 2,100 calories for urban areas.

Indicators Covering Income and Non-income Dimensions of Poverty:

Poverty Ratios (PR) and measures related to PR provide a composite picture of people whose per capita consumption expenditure is below the level of per capita consumption expenditure corresponding to the basket of commodities constituting the desired minimum. These do not, however, provide a complete picture of the extent of deprivation or, alternatively, the state of well-being of the population. These are rooted in calorie consumption and do not say anything about several other factors that shape living standards, like: (a) the health status of the population like longevity, overall mortality, infant mortality, maternal mortality (mortality of women arising.

MODULE 3:

FINANCES OF STATE GOVERNMENTS

The financial condition of the state governments in India has been a cause for concern for some time now. Over the years, the consolidated financial position of the state governments has shown a marked deterioration in some of their major deficit indicators. One of the fundamental weaknesses of state government finances in India can be attributed to the increases in no developmental expenditure, particularly the revenue component of the non-developmental expenditure, and interest payments as a proportion of revenue receipts.

A growing pressure on state finances has also stemmed from the rising demand for public services. Furthermore, the fiscal situation in the states is likely to come under much greater pressure with the acceptance of the Report of the Fifth Pay Commission by several state governments in India.

Despite reduction in the ratio of state expenditure to GDP from 17 percent in 1990-91 to 16.6 per cent in 1996-97 and further to 15.7 percent in 1997-98, signs of structural weaknesses persist and therefore can be seen in the estimates of revenues and expenditures for 1997-98. The revenue expenditure on non-developmental heads is expected to rise by about 20 per cent over an increase of 14.8 percent in 1996-97; interest payments and administrative services would account for over 60 percent of the total increase in revenue expenditure in 1997-98.

The revenue deficits of the state governments have been rising since 1987-88. Large and persistent revenue deficits have implied diversion of high-cost borrowings for consumption purposes, leading to a declining share of investment expenditures. As a consequence, the investment outlays of states as a ratio of GDP have declined from 2.8 percent in 1990-91 to 2.3 percent in 1996-97 and further to 2.2 percent in 1997-98.

The aggregate revenue deficit of all state governments for 1996-97 was placed at Rs. 156 billion or 1.2 percent of GDP, and the same for 1997-98 is marginally lower at Rs. 125 billion or 0.9 percent of GDP. In particular, high fiscal deficit of the states is primarily on account of five states. These are Uttar Pradesh, Tamil Nadu, West Bengal, Andhra Pradesh, and Kerala. Together they account for as much as 85.6 percent of the consolidated revenue deficit of the states. A very high proportion of the fiscal deficit is caused by revenue deficit for the states of Uttar Pradesh (69.8 percent), Kerala (51.9 percent), Tamil Nadu (49.8 percent), Punjab (45.1 percent), and West Bengal (42.3 percent). In these states, a major portion of the borrowings is pre-empted in financing the current expenditure, which naturally affects the quantum of resources available for developmental capital outlay.

A shift of policy focus towards changing the pattern of resource allocation and improving the resource base of states is critical for improving the state of State finances given the current situation. While efforts to introduce state level VAT and other tax reform measures have begun.

FISCAL FEDERALISM

The word ‘federation’ etymologically means union or league by agreement. However, fiscal federalism is not confined to federal countries only. It has more to do with division of responsibilities and resources between two (or more) level of government (or administrative units) irrespective of whether the State is politically federal or not.

Modern federalism developed with the emergence of the US in 1776 when thirteen British colonies in America, asserting to be States, declared Independence from Britain and constituted into United States.

Before Independence, Government of India Act 1935 was modelled on federal principles. After Independence, Constituent Assembly of India deliberated for about three years and finally India adopted the Constitution of India with about 560 princely states integrated with India. In later years, Pondicherry, Goa and Sikkim also became part of India.

Fiscal Federalism in India Constitution of India delineates tax bases between the Union and States listing them in the Union List and the State List respectively (as provided in the Seventh Schedule under Art 246). There was/is no taxation provision in the Concurrent List. However, when GST had to be introduced, it needed to be provided for concurrent base for which Article 246A was inserted (as 101st Amendment in August 2016). This enabled the Union to make law for CGST (central GST) and IGST (integrated GST) and the States could legislate for SGST. There is an elaborate scheme, in the Constitution, of levying, collecting and appropriating taxes and duties between the Union and State governments.

The rationale for two or more levels of government is that government at one level cannot carry out diverse functions suiting the demands of regional requirements and preferences. Functions might differ across various parts of the country and it is presumed that governments nearer to people would understand their requirements better.

The ideal principle of division of taxes, based on theory, is that Union should tax mobile bases like corporate profit or excise (manufacturing) while Units should tax immobile bases like property, agriculture or consumption. This obviates the phenomenon of ‘voting by feet’.

MODULE 4

MONEY AND CAPITAL MARKETS

MONEY MARKETS:

The money market and capital market are two major components of the Indian financial system. The money market caters to short term liquidity needs, while the capital market provides a platform for long term investing. The instruments of the money market have a maturity of less than one year.

A market for securities that have a maturity of less than one year is a money market. The securities in the money market are short term in nature, highly liquid. A few of the money market instruments are treasury bills, repos, certificates of deposits, and banker's acceptances.

The money market also helps in mobilising funds across different sectors of the market. When investors have excess funds in the short term, they invest in the money market. Other players in the market use these funds to fulfil their short-term cash needs. Due to the high liquidity of money market instruments, channelizing savings to investments is easier.

The interest rates of money market instruments serve as a benchmark for all other debt securities. Moreover, RBI and the government use money market interest rates to frame future monetary policy.

Features of Money Market:

Liquidity: Money market instruments are highly liquid assets that generate fixed income for investors. The short term maturity of the instruments makes them a highly liquid asset. Hence, they are a quite close substitute to holding cash.

Safety: The issuers of the money market instruments have a high credit rating, and the returns are fixed. Also, the risk of losing the investment is almost zero. Therefore, these instruments are one of the safest and secure options available in the market.

Returns: Money market instruments are issued at a discount to their face value, and the maturity amount is decided in advance.

Types of Money Market Instruments:

Treasury Bills (T-Bills):

The Reserve Bank of India issues the Treasury Bills (T-Bills) on behalf of the central government to raise funds. T-bills are short term financial instruments with a maximum maturity.

WORKING OF SEBI IN INDIA

What is SEBI:

SEBI stands for Securities and Exchange Board of India. It is a statutory regulatory body that was established by the Government of India in 1992 for protecting the interests of investors investing in securities along with regulating the securities market. SEBI also regulates how the stock market and mutual funds function.

Objectives of SEBI:

Following are some of the objectives of the SEBI:

1. Investor Protection: This is one of the most important objectives of setting up SEBI. It involves protecting the interests of investors by providing guidance and ensuring that the investment done is safe.

2. Preventing the fraudulent practices and malpractices which are related to trading and regulation of the activities of the stock exchange

3. To develop a code of conduct for the financial intermediaries such as underwriters, brokers, etc.

4. To maintain a balance between statutory regulations and self regulation.

Functions of SEBI:

SEBI has the following functions

1. Protective Function

2. Regulatory Function

3. Development Function

The following functions will be discussed in detail

Protective Function: The protective function implies the role that SEBI plays in protecting the investor interest and also that of other financial participants.