1. What a Well-Aimed Fiscal Stimulus could do for India

Context:

- The Recent Economic Growth suggests that, we need a large dose of fiscal stimulus to reviving up the engine of growth. All eyes are on India's Union Budget that will be presented in a Couple of Months.

What is Fiscal stimulus?

- Fiscal stimulus consists of attempts by governments or government agencies to financially stimulate an Economy. A fiscal stimulus is the use of fiscal policy changes to kick-start growth during a recession.
- Governments can accomplish this by using tactics such as lowering interest rates, increasing government spending and quantitative easing, to name a few.

Factors should be considered during Fiscal Stimulus:

- The size of the stimulus will be determined by constraints on borrowing capacity, debt servicing and concerns about India's sovereign rating.
- **A downgrade would increase the cost of borrowing** not just for the government, but for the private sector as well; **it could also trigger an automatic freeze on portfolio funds** that passively follow indices and have been pouring into India.
- Such a freeze could in turn strain the rupee's exchange rate, which might fall abruptly. The risk of a sudden stop or reversal of international flows is very real, and cannot be ignored by our fiscal managers. **This is the price one pays for not being able to pay for imports in one's own currency.**
- That **foreign inflows are necessary,** at the very least **to pay for imported oil** and capital goods, is undeniable. Since dollar earnings from exports are neither shining nor enough to cover the country's trade deficit, the dependence of currency stability on the fiscal situation cannot be emphasized enough.
- **A weaker rupee acts as a sort of stimulus to domestic manufacturing,** especially the small and medium enterprises reeling under the onslaught of cheap imports.

Various Measures of Fiscal Stimulus to revive the Growth:

1. Keep in mind that for fiscal policy to be effective, it has to be countercyclical, so a higher deficit in a recession-like year is okay.
2. It must also be inclusive, so that every precious extra fiscal rupee should lead to an immediate boost to consumption and growth.

- **The corporate tax cut** announced earlier was very welcome, but may not lead to an immediate increase in consumption or employment. It is, of course, the right tax reform for the medium to long term. For **the short term,** we have to find additional ways to directly inject that fiscal rupee into the pockets of consumers—preferably from the lower-income strata, since their propensity to spend the money will be the highest.
- This could be in cash or kind. It could even be an enhancement of the rural job guarantee scheme, which also serves as proxy unemployment insurance.

3. **Do not give up the capital gains tax.** We are in line with most jurisdictions that do not have zero-tax treatment of capital gains.

- These are direct taxes which are progressive because they impact the rich more than the poor, and technology has made them easier to administer.
- India's direct tax to GDP ratio is among the lowest in the world, and we cannot afford to give up a well-justified direct tax.

4. The time has come to consider a digital tax. Apple, Amazon, Google, Facebook and Microsoft, the world's five most valuable firms, have a substantial user base in India, but not even an iota of their prosperity is shared with Indian users. Can we ask them to compulsorily list here? That will take some time and is debatable. But meanwhile, can we have a small digital tax on transactions? The current fiscal situation justifies this option.
5. We need to divorce the standard goods and services tax (GST) rate from the bogey concept of a revenue neutral rate.

- A GST reduction would offer a bigger bang for the fiscal buck than a cut in individual income tax, which is paid by only about 3% of the population.
- Lower GST should be accompanied by a broadening of the base, and shifting more items from the merit rate to the standard rate.
- The formula for compensation given to the states for their GST collection shortfalls can be reworked, since they too must share some fiscal pain.

Conclusion:

- Finally, there are a slew of **non-fiscal measures** too, such as reducing the amounts **stuck in tax litigation, eliminating the "inspector raj", especially for smaller enterprises that need freedom from tax inspectors,** reducing India's still large non-merit subsidies, allowing special economic zone players to access domestic markets, and so on.

Source: The livemint