Preface

Fiscal Policy is such an aspect of macroeconomic policy which has the distinction of intimate interaction between theory and practice. The theoretical concepts and policy applications in fiscal policy feed upon and grow out of each other. Therefore, it requires a meaning and usefulness in the context of institutional framework of the economy with reference to which it is being studied. It has been also realized over a period of time that no single theoretical model can adequately fit in the framework of every economy since the institutional framework of every economy is unique to itself. This is realized in the literature review carried out at all possible dimensions of fiscal policy such as fiscal policy, fiscal deficit, fiscal consolidation, fiscal incentives, fiscal policy and exchange rate, fiscal restructuring, fiscal transfer and reforms, MSMEs and fiscal incentives, SEZs and fiscal incentives and fiscal policy and Gujarat etc. This is presented in chapter 2.

Reviewing of literatures in the various parameter of fiscal policy gave an insight to empirically study fiscal policy and other dimensions of fiscal policy in Indian context. Chapter 3 named Research Methodology paved path for this thesis. Relevant objectives and hypothesis were framed in this chapter. Based upon literature review it was decided to apply Inter Temporal Budget Constraint Method, Mundell Fleming Model and Domar Debt Model from the year of 1980-81 to 2011-12 to study trend in fiscal policy, fiscal policy indicators, impact of fiscal policy on price and output, trade, savings and investment etc. Also, to empirically test how fiscal policy affects corporate performance, it was decided to study the performance of MSMEs and SEZs firms of Gujarat. Different fiscal incentives offered to MSMEs and SEZs by state and central government were collected and the two separate questionnaires were constructed to empirically test how fiscal incentives affect corporate performance.

Chapter 4 studied about fiscal policy from year 1980-81 to 2011-12 by applying various methods such as Mundell Fleming Model, Inter Temporal Budget Constraint Method and Domar Debt Model. Index of fiscal deficit, foreign exchange reserve index and trade index were constructed to find out how fiscal deficits affect India’s foreign exchange reserve and trade policy. It was also tested how fiscal deficits affects price and output of the economy by applying Mundell Fleming Model. Inter Temporal Budget Constraint Method was applied to study steady state debt income ratio and sustainable level of primary deficit and debt to GDP ratio. Domar debt model was used to find out decomposition of accumulation of debt to GDP ratio and impact of fiscal policy on savings and investment in India.

As discussed above no single theoretical model can adequately fit for every economy; reviews of literature regarding ‘fiscal incentives and MSMEs and SEZs performance’ gave mixed results in terms of growth of the economy, employment, technology transfer etc for different economy. Also literature in this context discusses that many times incentives given with the objective to increase growth of the economy and industry, employment, to enhance technological strength of the industry, to improve goods and services, export growth etc. just
brings marginal benefit or brings loss to the exchequer. The impact of different fiscal incentives like tax exemption/rebate, interest rate subsidy, cash subsidy, export and import duty exemptions etc on various corporate decisions like less borrowings, expansion, modernization, improved liquidity of business etc is not certain or in other words it varies from country to country and also from time to time. Also, many researchers has viewed that such fiscal incentives results in to nothing but just raises the burden of the government.

To empirically test it in Indian context, total 216 MSMEs units and 102 units of SEZs were surveyed cum interviewed. Outcome of this surveys were codified, entered in to SPSS and then different statistical tests such as factor, cluster, chi-square, ANOVA etc were applied to study how fiscal incentives impacts various parameters of corporate performance such as reduced cost, less borrowing, whether fiscal incentives acts as a source of fund, improves margin and liquidity etc. Outcome of how fiscal incentives affect MSMEs and SEZs performance is presented in chapter 5 and 6 respectively.

Chapter 7 provides conclusion of this work in three parts namely 1. fiscal policy and fiscal deficit, 2. impact of fiscal incentives on MSMEs performance and 3. fiscal incentives and SEZs performance.