**Role of Fiscal Policy in Underdeveloped/Developing Countries**

Fiscal policy is designed as an instrument of economic development in under developed countries. It aims at influencing the pattern of production, the general price level, accelerate investment and productive capacity of the economy so that economic growth becomes possible. The role of fiscal policy in underdeveloped economies are discussed below-

1) Mobilization of resources:

Financing of development plan poses a very difficult problem for the government of under-developed country as the volume of voluntary saving is very low in this country. Hence the government is compelled to resort to the device of forced saving for mobilizing an adequate volume of resources. Taxation serves as an important instrument for development finance. Progressive income taxes, heavy duty on luxury imports, heavy excise duties on luxury goods etc. curtail consumption and help in mobilization of resources. Taxation is the most important source for raising revenues to finance development plans in absence of adequate voluntary saving.

2) Accelerate the rate of economic growth:

Fiscal policy can contribute to the acceleration of the rate of growth in developing economies by increasing the rate of investment through public expenditure and taxation policies. It has a dynamic role in accelerating the rate of economic growth by increasing the rate of saving and investment and bringing about technical progress. In these economies, the rate of growth of saving and investment and the speed of technical change can be very powerfully affected by taxation and public expenditure policies of the government.

Thus, fiscal means such as taxation, public borrowing, deficit financing, etc, should be used in such a combination so that the production, consumption and distribution are not adversely affected. As such, the economy as a whole should develop so as to increase the national income and per capita income rapidly.

3) Encourage investment into socially desirable channels:

Taxation and public expenditure can play an important role by directing resources from socially undesirable channels to socially desirable channels. Thus, fiscal policy should encourage should encourage investment into those channels which are judged to be most desirable from the point of view of the society. It would be possible if inducement to invest is increased by providing various incentives to private entrepreneurs such as development rebates, subsidies, tax concessions, etc, into those sectors of the economy which are considered useful to the society. Besides, unproductive investments like speculative investment in land, gold, etc, should be subject to heavy taxation so as to divert resource from unproductive to productive and socially desirable channels.

4) Inducement to investment:

Through fiscal policy, the government tries to build up economic and social overheads like transport and communication facilities, power installation, health education, irrigation, etc, through its public expenditure policy. These economic and social overheads are helpful for widening the size of market, reducing cost of production and increasing the social marginal productivity of investment, hence they provide incentives to investment in private sector. The government also induces investment in private sector by providing assistance to new industries and introduces modern techniques of production in industries and agriculture both.

5) The pattern of investment:

The pattern of investment should be such that the social marginal productivity of which is the highest. The criterion of social marginal productivity must be interpreted within the usual dynamic complex. Thus, in short, if the marginal productivity in socially desirable projects low, the objective of fiscal policy should be to increase the social marginal productivity and to divert resources to those projects where the social marginal productivity is highest.

6) Fiscal policy and price stability:

At present, there is a general agreement that economic growth and stability are joint objectives for under developed countries to pursue stagnation is regarded as to heavy and unacceptable a price to pay for the achievement of stability. At the same time, the evils of inflation are such that no one would today recommend large scale inflation as a means of promoting economic development of underdeveloped countries. Thus, the role of fiscal policy in this country is to stabilize price for the smooth growth of the economy.

7) Fiscal policy and inflation:

In the process of economic growth, general price level has the tendency to rise mainly because of the expanding public expenditure. An inflationary gap is always maintained and prizes have a general tendency to rise. Rising prices lead to rise in demand for more wages. Cost of production is increased. Cost-price spiral is set-up. In a developing economy, a mild dose of inflation is considered an unavoidable and desirable to stimulate production. Thus, here the role of fiscal policy is to check the rising prices so that a mild inflation may not be converted into a galloping inflation.

8) Fiscal policy and distribution:

An equitable distribution of income and wealth is usually taken to mean a reduction in the existing inequalities of income and wealth. Inequalities of distribution of income may have adverse effects on the economic development of underdeveloped countries. Fiscal methods like taxation and public expenditure are appropriate to bring about more equitable distribution of incomes and channel additional resources into economic development. Thus, the role of fiscal policy is to reduce inequalities of income and wealth through its redistributive tax policy like heavy taxation on rich and exempting poorer section from taxation is of immense importance for a developing country.

The above are the various roles played by the fiscal policy in underdeveloped and developing economies.