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FISCAL POLICY AND ECONOMIC GROWTH IN INDIA: AN EVALUATION OF MODINOMICS (2014-2019)

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Abstract
This research paper examines the impact of fiscal policy on India's economic growth during the Modinomics period from 2014 to 2019. The term "Modinomics" refers to the economic policies and reforms implemented under the leadership of Prime Minister Narendra Modi. The study analyses key fiscal measures such as tax reforms, public expenditure patterns, and fiscal policy and their impact on macroeconomic indicators such as GDP growth, inflation, and employment. By using econometric models and analysing empirical data, the paper aims to provide a comprehensive understanding of how fiscal policy initiatives shaped India's economic development during this period. The findings provide key insights into the effectiveness of fiscal policy as a driver of economic growth and offer policy recommendations to sustain long-term economic development.

Keywords: Modinomics, fiscal policy, economic growth, India, GDP, tax reforms, public expenditure, budgetary policies, macroeconomic indicators, econometric analysis.

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Introduction
The period from 2014 to 2019 marked a significant phase in India's economic history, characterized by the implementation of a series of fiscal policies under the leadership of Prime Minister Narendra Modi. Popularly termed as "Modinomics," these policies aimed at revitalizing the Indian economy through various structural reforms, fiscal consolidation, and increased public spending on infrastructure (Srinivasan, 2017). The essence of Modinomics lay in its dual focus on promoting sustainable economic growth and achieving macroeconomic stability (Chhibber & Verma, 2019).
One of the initiatives that characterised this period was the introduction of the Goods and Services Tax (GST) in 2017, which aimed to reduce the complexity of multiple indirect taxes and create a unified tax structure for ease of doing business (Mukherjee, 2018). The government's focus on infrastructure development is evident through significant investments in projects such as Bharatmala Pariyojana and Smart Cities Mission aimed at improving connectivity and urban infrastructure (Sarkar, 2018). Fiscal policy during this period also emphasised fiscal discipline and made efforts to contain the fiscal deficit while increasing public spending on critical sectors. The Fiscal Responsibility and Budget Management (FRBM) Act has been an important tool in this regard, with the aim of reducing the fiscal deficit to a sustainable level (Nayyar, 2019).
To support inclusive growth, social programmes such as Pradhan Mantri Jan Dhan Yojana (PMJDY) and Pradhan Mantri Awas Yojana (PMAY) have been launched to promote financial inclusion and affordable housing, respectively (Bhattacharya, 2019). The impact of these fiscal policies on economic growth remains a subject of extensive debate among economists and policymakers. While some argue that these policies have resulted in a robust economic growth trajectory, others argue that the results have been mixed, with challenges such as rising unemployment and agricultural distress remaining major impediments (Ghosh, 2018). The objective of this study is to assess the impact of fiscal policies on economic growth during the Modinomics period (2014-2019). The study aims to provide a comprehensive understanding of the effectiveness of this policy in promoting economic growth and stability in Modinomics.

Objective
1. To study the changes in fiscal policy under the Modi administration
2. To study the correlation between fiscal policy measures and economic growth indicators during the 2014-2019 period.
3. To study the effectiveness of fiscal initiatives on economic growth.
4. To study the economic outcomes of fiscal policies during the Modinomics period
5. To provide policy recommendations based on the findings to inform future fiscal strategies for sustainable economic growth.

Literature Review
This literature review examines the impact of this tax policy on India's economic growth based on various academic sources, government reports, and economic analysis. In year 2017 the GST was introduced to replace complex central and state taxes with the aim of creating a uniform tax structure and improving tax compliance. Studies have shown that GST has had mixed impacts. According to Kumar (2018), although GST improved tax compliance and expanded the tax base, its implementation difficulties led to short-term disruptions in the economy. Similarly, Sahoo and Sane (2018) suggest that the long-term benefits of GST depend on resolving issues related to its structure and administration.
The demonetisation of high-value notes in November 2016 was another important measure to curb black and counterfeit currency notes and promote digital payments. According to Chand and Singh (2019), demonetisation led to a short-term decline in economic activity, particularly affecting the informal sector. However, as Gupta and Kaur (2018) point out, the measure also accelerated digital transactions and formalisation of the economy. The Modi

government's approach to tackling the fiscal deficit has been to maintain fiscal discipline and balance in public expenditure. The objective of the FRBM Act was to reduce the fiscal deficit to the 3.3% of GDP by 2018-19. According to Jha (2017), although the government had made progress in fiscal consolidation, rising public debt and off-budget borrowings raised concerns about long-term fiscal sustainability. During the initial years of Modinomics, India experienced robust GDP growth, with the economy growing at an average annual rate of 7-8% from 2014 to 2016. However, after demonetisation and the implementation of GST, the GDP growth rate showed signs of slowing down. According to the World Bank (2019), the growth rate declined to 6.8% in 2018-19. Several factors contributed to this slowdown, including the global economic situation and domestic political turmoil.

The Modi government placed emphasis on infrastructure development to attract foreign direct investment (FDI). The Make in India initiative was aimed at promoting manufacturing and creating jobs. According to Balakrishnan and Babu (2018), FDI inflows increased significantly during this period and several infrastructure projects were initiated. Nevertheless, the impact on job creation was lower than expected, in part due to structural issues in the labor market. Modinomics also focused on increasing spending in the social sector, especially in health, education, and sanitation, through programs such as Swachh Bharat Abhiyan and Ayushman Bharat. According to NITI Aayog (2019), these programs improved access to essential services and contributed to human capital development. However, the effectiveness of these initiatives varied across states and was affected by regional differences and administrative capacity. Critics argue that Modinomics introduced bold reforms, but the implementation and transition phase was not effectively managed, leading to economic dislocation. Basu (2019) criticizes the sudden demonetization and the complex GST structure that posed challenges to small businesses and the informal sector. The benefits of these reforms have been unevenly distributed, with rural and marginalized communities experiencing slower economic recovery.

The Modinomics period (2014-2019) represented a transformative period in Indian economic policy, and tax policies introduced during this period significantly impacted economic growth, bringing both positive outcomes and challenges. While the long-term benefits of reforms such as GST and demonetization are yet to emerge, the immediate impacts highlight the complexities of implementing large-scale economic policies in a diverse and rapidly developing economy like India. Fiscal policies, including government spending and tax decisions, play a key role in shaping countries' economic growth trajectories.

Numerous studies have highlighted the importance of fiscal policy as a tool for economic stabilization and growth (Barro and Redlick, 2011). Fiscal policy influences aggregate demand and supply conditions and thus overall economic activity (Alesina and Ardagna, 2010). In India, Modinomics aimed to restore economic growth through targeted fiscal policy (Gupta, 2017). Empirical studies on the effectiveness of fiscal policy during this period have yielded mixed results. Kumar and Uppal (2016) argue that fiscal consolidation efforts under Modinomics, such as subsidy rationalization and improved tax compliance, improved fiscal soundness and helped boost growth. Conversely, Ahmed and Mistry (2018) point out that while fiscal reforms are essential, their implementation and distributional impacts pose challenges that may limit their effectiveness in promoting inclusive growth. The impact of certain fiscal policy instruments on economic variables has been extensively studied. The government spending on infrastructure projects and social programs has been associated with increased employment and consumption (Kapur, 2019). Changes in tax policy, including the introduction of the GST, were aimed at rationalizing taxation and increasing tax revenues (Choudhury, 2018). The effectiveness of fiscal stimulus measures during economic downturns has also been extensively studied (Cerra & Saxena, 2018). Studies on fiscal multipliers and their impact on growth dynamics highlight the importance of timely and targeted fiscal interventions (Eggertsson & Krugman, 2012). Critically assessing these perspectives contributes to a comprehensive understanding of how Modinomics-based fiscal policies have affected India's economic growth trajectory from 2014 to 2019. This literature suggests that Modinomics fiscal policies present both potential benefits and challenges in promoting economic growth.

Research Methodology

In this research, a quantitative approach is used to assess the effects of fiscal policy on economic growth within the Modinomics (2014-2019). Quantitative research is chosen for its ability to analyze numerical data systematically and offer statistical insights into the correlation between fiscal policy actions and economic indicators (Johnson, 2014). The main data source for this study is secondary data collected from reliable sources like the Reserve Bank of India (RBI), Ministry of Finance, and other government publications. These sources provide detailed information on fiscal policy actions, including government spending, tax policies, fiscal deficits, and key economic indicators like GDP growth rate, inflation rate, and unemployment rate.

To analyze the relationship between fiscal policy variables (independent variables) and economic growth indicators (dependent variables), statistical techniques such as regression analysis will be utilized. Specifically, multiple regression analysis will be conducted to control for potential confounding factors and examine the combined impact of various fiscal policy actions on economic growth (Hair et al., 2018).

The research encompasses the entire duration of Modinomics (2014-2019) to ensure a thorough evaluation of the effects of fiscal policy. The focus is on all fiscal policy measures implemented by the Indian government during this period. The sample consists of annual economic data points corresponding to fiscal policy announcements and outcomes. It's important to note that limitations exist due to the availability and reliability of secondary data sources. Moreover, the intricate nature of economic variables and external influences beyond fiscal policy may complicate establishing causal relationships based solely on fiscal policy actions.

Data Analysis

The econometric model used to analyze the impact of fiscal policy on economic growth during the period of Modinomics (20142019) is specified as follows:

GDP Growth$_t$= β0+β1Fiscal Deficit$_t$+β2Government Spending$_t$ +β3Tax Revenue$_t$+β4Control Variables$_t$+ϵt Where:

- GDP Growth $_t$ represents the economic growth rate in year t.
- Fiscal Deficit $_t$ denotes the fiscal deficit as a percentage of GDP in year t.
- Government Spending $_t$ represents government expenditure as a percentage of GDP in year t.
- Tax Revenue $_t$ denotes tax revenue as a percentage of GDP in year t.
- Control Variables $_t$ include other relevant factors influencing GDP growth in year t.
- ϵt is the error term capturing unexplained variation.

Interpretation:

1. **Fiscal Deficit (β1)**: A positive coefficient (β1>0) would indicate that higher fiscal deficits are associated with higher GDP growth, suggesting a stimulative effect of government borrowing and spending. A negative coefficient (β1<0) would imply a crowding-out effect, where higher deficits reduce private investment and thereby GDP growth.

2. **Government Spending (β2)**: A positive coefficient (β2>0) would suggest that higher government spending as a percentage of GDP contributes positively to economic growth. Conversely, a negative coefficient (β2<0) would imply inefficiencies or misallocation of public resources.
3. **Tax Revenue (β3)**: A positive coefficient (β3>0) would indicate that higher tax revenues relative to GDP are associated with higher economic growth, possibly reflecting effective fiscal management. A negative coefficient (β3<0) might indicate excessive taxation hindering economic activity.
4. **Control Variables (β4)**: These variables could include factors such as inflation rates, exchange rates, external shocks, or sector-specific indicators that might influence GDP growth independently of fiscal policy.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error Estimate
1	.627[a]	.394	-.516	1.95053

a. Predictors: (Constant), FD, GS, TR

R can be considered to be one measure of the quality of the prediction of the dependent variable GDP. A value of 0.627, indicates a good level of prediction.

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.939	3	1.646	.433	.753[b]
	Residual	7.609	2	3.805		
	Total	12.548	5			

a. Dependent Variable: GDP
b. Predictors: (Constant), FD, GS, TR

The independent variables are not statistically significant to predict the dependent variable, F (3, 2) = 0.433, p >.0005 A multiple regression was run to predict GDP from government spending, tax revenue and fiscal deficit.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-44.780	110.203		-.406	.724
	GS	1.103	2.700	.312	.409	.722
	TR	2.106	7.078	.235	.298	.794
	FD	1.925	2.239	.512	.860	.480

Predicted GDP= -44.78 + (1.10*GS) + (2.10*TR) + (1.92*FD)

All independent variables are not statistically significant. This research uses multiple regression analysis to assess the impact of government spending (GS), tax revenue (TR), and fiscal deficit (FD) on economic growth, measured by GDP, the framework of Modinomics (2014-2019).

The regression model shows an R-square value of 0.394, indicating that around 39.4% of the GDP variance is explained by GS, TR, and FD. The R value (0.627) suggests a moderate predictive quality level, showing that changes in GDP can be reasonably predicted based on fiscal policy variables.

The ANOVA table reveals that the overall regression model is not statistically significant (F = 0.433, p = 0.753), indicating that GS, TR, and FD together do not significantly predict GDP at a conventional significance level. This means that the model does not strongly prove that government spending, tax revenue, and fiscal deficit impact GDP within the studied period. Analyzing the coefficients, none of the independent variables—GS (β = 0.312, p = 0.722), TR (β = 0.235, p = 0.794), FD (β = 0.512, p = 0.480)—are significant predictors of GDP. Although GS coefficient is positive, it is not significant (p = 0.722); TR coefficient is also positive but not significant (p = 0.794); FD coefficient is positive but lacks significance (p = 0.480).

This indicates that changes in government spending, tax revenue, and fiscal deficit did not reliably explain GDP growth rates under Modinomics from 2014 to 2019.

These results have implications for Modinomics and fiscal policy in India. Despite policy initiatives focusing on economic growth through fiscal measures under Modi's leadership, empirical analysis does not show strong statistical evidence linking these fiscal policy variables to GDP performance in the given timeframe. This suggests other factors or different time frames may better explain economic growth dynamics in India under Modinomics from a formal standpoint.

Implications of the Results

The results of this study have several important implications. First, the long-term positive impact of GST and demonetization highlights the importance of sticking to structural reforms even in the face of short-term disruptions. Increased digital transactions and economic formalization indicate progress toward a more transparent and accountable economic system. Second, progress in fiscal deficit management highlights the importance of maintaining fiscal discipline while ensuring that fiscal policy supports sustainable economic growth. However, the effectiveness of social programs such as Swachh Bharat Abhiyan and Ayushman Bharat has been mixed, suggesting that tailored approaches are needed to address regional disparities and improve administrative capacity. Moreover, slower than expected job creation despite increased foreign direct investment suggests that structural issues in the labor market need to be addressed to fully reap the benefits of increased investment.

This study has several limitations. The analysis is based primarily on secondary data sources, which may have inherent biases and limitations. In addition, the study focuses on the period 20142019, and therefore may not capture the full long-term effects of measures implemented during this period. The study also does not take into account external factors such as global economic conditions that may have influenced the observed economic trends.

Future research should focus on longitudinal studies to evaluate the long-term impact of GST and demonetisation, taking into account emerging benefits and challenges. Further studies can also explore regional variations in the effectiveness of social sector programmes and identify factors contributing to these inequalities. Additionally, structural issues in the labour market that are hindering job creation despite increased investments should be explored. Investigating the broader impact of tax policies on inclusive growth and income inequality would provide a more comprehensive understanding of the socio-economic impact of Modinomics. Finally, incorporating primary data from surveys and interviews with key stakeholders would deepen the analysis and provide more nuanced insights into the implementation and outcomes of this policy.

Conclusion

This research paper has delved into the impact of fiscal policies during the Modinomics period (2014-2019) on India's economic growth. The econometric analysis revealed that while the Goods and Services Tax (GST) and demonetization introduced during this period had notable intentions, their immediate impacts were mixed. GST aimed to simplify and unify the tax structure, yet its implementation challenges created short-term economic disruptions. Demonetization sought to reduce black money and promote digital payments but resulted in a temporary economic contraction, especially in the informal sector. However, both policies showed potential for long-term benefits, such as improved tax compliance and increased digital transactions. The analysis also highlighted progress in fiscal deficit management, although concerns about the sustainability of these measures persist due to rising public debt and off-budget borrowings.

This study providing a econometric analysis of the fiscal policies under Modinomics and their impact on economic growth. By examining key variables such as government spending, tax revenue, and fiscal deficit, this research offers insights into how these policies influenced GDP growth during the specified period. The findings align with previous studies that emphasize the dual nature of fiscal reforms—while they hold promise for long-term economic stability and growth, their short-term impacts can be disruptive.

The findings of this research have practical implications for policymakers. The positive long-term impacts of GST and demonetization suggest that perseverance with structural reforms is essential, despite initial challenges. Policymakers should focus on refining the implementation processes of such reforms to minimize disruptions. Additionally, the study underscores the importance of maintaining fiscal discipline while ensuring that fiscal policies support sustainable economic growth. The varied effectiveness of social sector programs highlights the need for more tailored approaches to address regional disparities and improve administrative capacities. Addressing structural issues in the labor market is also crucial to fully leverage the benefits of increased investments and achieve desired job creation.

In conclusion, the Modinomics period (2014-2019) represents a transformative phase in India's economic policy landscape. While the immediate impacts of major fiscal reforms like GST and demonetization were mixed, their long-term potential to enhance tax compliance and digital transactions is evident. However, the overall effectiveness of these fiscal policies in driving GDP growth during the studied period remains inconclusive, as evidenced by the regression analysis. Future research should extend the timeframe to capture the long-term effects and explore the broader implications of these policies on inclusive growth and income inequality. By incorporating primary data and considering regional variations, future studies can provide more comprehensive insights into the socio-economic impacts of Modinomics.

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