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Q3

There has been a persistent deficit budget year after year. Which action/actions of the following can be taken by the Government to reduce the deficit? 1. Reducing revenue expenditure 2. Introducing new welfare schemes 3. Rationalizing subsidies 4. Reducing import duty Select the correct answer using the code given below (a) 1 only (b) 2 and 3 only (c) 1 and 3 only (d) 1, 2, 3 and 4 Official key: C.

UPSC Civil Services Prelims 2016 · General Studies · 2 marks · Economy

Indian economy, budget, schemes - Prelims GS Paper I.

Explanation

(a)

Reducing revenue expenditure only. Cutting salaries, interest-unrelated running costs and poorly targeted transfers does shrink the deficit, but rationalising subsidies (statement 3) is also a standard consolidation tool. 1 alone is incomplete.

(b)

New welfare schemes and rationalising subsidies. Fresh welfare outlays raise revenue expenditure and widen the gap unless fully funded. Statement 2 works against deficit reduction, so 2 and 3 only is not the key.

(c) Official key

1 and 3 only. A persistent deficit is narrowed by spending less on revenue account and by targeting or pruning subsidies. New schemes add outgo; cutting import duty usually cuts customs revenue and can worsen the fiscal gap. That stored letter is the official key.

(d)

All four. Introducing new welfare schemes and reducing import duty do not, by themselves, reduce a deficit. All four cannot be the key.

Summary

Official key is (c) 1 and 3 only. Deficit control means lower revenue spending and smarter subsidies. New welfare schemes increase committed expenditure. Lower import duties typically reduce tax receipts and may raise the import bill. Honour the stored letter (c).

Related possible facts

These can be asked in a future Prelims paper.

Fiscal deficit

Borrowing to meet the gap between total expenditure and non-debt receipts

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Revenue expenditure
Does not create assets; salaries, subsidies, interest

Subsidy rationalisation
Targeting, Direct Benefit Transfer, price reforms

Import duty cut
Usually a revenue-losing customs measure

FRBM aim
Rule-based path for deficit and debt

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