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Resource Mobilisation In India Pathways To Development(2000-2011)

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Abstract

Resource mobilisation refers to the process by which a nation identifies, acquires, and allocates economic resources—particularly financial resources—for productive use in development, public services, and economic growth. For a developing economy such as India, effective resource mobilisation has been central to the planned development strategy since independence in 1947. This article examines historical trends, government strategies, successes, and challenges related to resource mobilisation in India up to the year 2010. Emphasis is placed on fiscal reforms, taxation, domestic savings, public debt, foreign capital flows, and financial markets. Resource mobilization is a cornerstone of economic development, referring to the generation of fiscal resources (tax and non-tax), savings, borrowings, and external capital to finance public investment and development. In India, resource mobilisation strategies evolved dramatically from 1950 to 2010. This article examines historical trends in fiscal mobilization, including tax-to-GDP ratios, public savings, borrowings, and capital market contributions, supported by data sources. The paper highlights institutional reforms, challenges, and achievements in the Indian context up to 2010.

Keywords: Resource mobilization, India, public finance, savings, investment, economic reforms

1. Introduction

India's post-independence economic strategy included a strong emphasis on mobilising financial resources to fund its Five-Year Plans and development agenda. Resource mobilisation is indispensable for financing public investment in infrastructure, education, health, and productive sectors. It involves tapping domestic and external sources to meet expenditure requirements and sustain growth. Mobilisation of resources enables governments to invest in infrastructure and public welfare, contribute to balanced regional growth, and reduce dependency on external assistance. Effective resource mobilisation also plays a key role in stabilizing the economy during cyclical downturns. India's transition from a newly independent economy in 1947 to a major emerging market by 2010 necessitated efficient mechanisms to mobilize resources for economic development. Resource mobilisation determines the capacity of the government to fund public goods, infrastructure, social welfare, and growth-oriented schemes.



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Mobilisation of resources is primarily achieved through:

1. **Tax revenues** (direct and indirect),
2. **Non-tax revenues**,
3. **Public savings and borrowings**,
4. **Domestic financial markets**, and
5. **External finance**.

Each channel underwent significant changes in the post-independence period, especially following the economic reforms of 1991.

2. Historical Trends in Tax Resource Mobilisation

Tax revenue has been the most significant source of fiscal resources. One of the main indicators used to measure fiscal mobilisation performance is the tax-to-GDP ratio — the total tax revenue as a percentage of GDP.

Resource mobilization in public finance is generally conceptualized through the following channels:

1. **Tax Revenue** – Direct and indirect taxes collected by the government.
2. **Non-Tax Revenue** – Income from government services, fees, dividends from public enterprises, and resource rents.
3. **Public Savings & Borrowings** – Surplus from public sector enterprises and government borrowings.
4. **Private Savings Controlled through Capital Markets** – Financial markets that enable mobilisation from households and firms.
5. **External Finance**– Foreign aid, loans, and capital inflows.

These channels are critical for underdeveloped economies where domestic savings and revenue generation capacity are limited.

2.1 Tax-to-GDP Ratio (1950–2010)

The long-term data on tax-to-GDP ratio shows a progressive increase from independence until the late 1980s, followed by fluctuations related to economic reforms

Table 1: Tax-to-GDP Ratio (Selected Years) Total combined taxes of Central and State Governments	
Year	Total Tax Revenue (% of GDP)
1950–51	6.22%
1960–61	7.42%
1970–71	9.34%
1980–81	14.73%



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1990–91	13.98%
2000–01	15.61%
2007–08	17.45%
2009–10	15.45%

Source: National Institute of Public Finance and Policy (NIPFP) Working Paper data (tax-GDP ratios from 1950–2010)

These data illustrate:

- **1950–1960s:** Low initial ratios because of narrow tax base and limited economic activities.
- **1980s:** Significant increase due to buoyant indirect taxes and expansion of economic activities.
- **1990s onwards:** Fluctuating ratios due to liberalisation, changing tax structures, and reform-linked tax base adjustments.

The tax-to-GDP ratio peaked at around 17.45% in 2007–08 before showing slight decline by 2009–10, coinciding with the global financial crisis.

2.2 Composition of Taxes

Historically, **indirect taxes dominated tax revenue**, particularly in the early decades, reflecting reliance on customs and excise duties. For example:

- In 1950–51, indirect taxes comprised more than 60% of total tax revenue.
- By the late 1980s, indirect taxes still accounted for major shares, though direct taxes grew after the 1990s reforms. (Source: Composition from historical tax statistics by Indian Economic Statistics, Ministry of Finance)

3. Resource Mobilisation in Early Post-Independence Period (1950s–1970s)

3.1 Planning Commission and Five-Year Plans

With the advent of the First Five-Year Plan (1951–56), India prioritised resource mobilisation to fund planned industrialisation and social programmes. During this era:

- The tax-to-GDP ratio was very low, around 6.4% in 1950–51 (Economic Administration data).
- The government relied on direct taxes (income tax, corporate tax) and indirect taxes (customs, excise) as principal revenue sources.

3.2 Public Borrowings and Deficit Financing

Public borrowing emerged as a secondary source when revenue did not suffice. The use of deficit financing became common, especially in the 1960s and 1970s, to support budgetary expenditure and plan outlays. Although deficit financing helped sustain investment, it also contributed to rising public debt over time.



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The clearest trend has been the gradual rise of direct taxes (income tax, corporate tax) relative to indirect taxes after the 1990s reforms. This shift reflected policy priorities aimed at expanding the tax base and improving equity in taxation.

3.3 Central and State Tax Shares

Data indicate sustained growth in overall tax resources and increasing fiscal capacity at the state level. Data on revenue composition between central and state governments (1998–2010) helps illustrate how revenue collection responsibility has been shared:

Year	Total Tax (% GDP)	Central Government	State Government
1998–99	8.4	3.9	4.5
2003–04	11.3	5.2	6.1
2007–08	16.9	7.9	9.1
2009-10	17.5	7.5	10.0

Source: Trends in revenue sources from Political Economy Research Data, 1998-2010

4. Non-Tax Revenues and Public Savings

Non-tax revenue includes fees, dividends, fines, government service charges, and profits from public enterprises. Although a smaller share compared to tax revenue, non-tax revenue expanded with greater state participation in services, user fees, and sectoral charges. Public savings — reflected in retained earnings of public sector enterprises and government-managed funds — also contributed to resource mobilization. However, adverse financial performance of PSUs at times constrained public savings. Finance Commissions were established under the Constitution to allocate resources between the Centre and states and recommend tax sharing arrangements. These commissions helped streamline fiscal transfers and ensure predictable resource flows to sub-national governments (Fourth Finance Commission, 1964).

5. Resource Mobilisation in the Reform Era (1980s–1990s)

5.1 Economic Liberalisation of 1991

The 1991 economic crisis prompted India to undertake structural reforms, focusing on liberalization, privatization, and global integration. Resource mobilisation during this period was expanded via:

- **Tax Reforms:** Simplification of tax structures, reduction of tax rates, and broadening of the tax base under the *Dream Budget* led by N. K. Singh in the late 1990s, which sought to improve compliance and revenue collection.
- **Foreign Capital Flows:** Liberalisation of FDI (Foreign Direct Investment) norms facilitated capital inflows, adding to investment resources.
- **Mutual Funds and Capital Markets:** The use of capital markets increased mobilisation through equity and debt instruments (India Budget 2006–07).



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5.2 Buoyancy in Tax Revenues

Between the late 1980s and early 1990s, buoyancy in tax revenues improved. For example, excise and sales tax buoyancies exceeded unity, indicating that revenues grew faster than economic output (Financial Administration data).

6. Resource Mobilisation up to 2010

6.1 Tax and Non-Tax Revenue

By the early 2000s:

- Taxation remained the primary source of government revenue.
- Indirect taxes, such as customs and excise duties, were significant until the introduction of newer systems like Goods and Services Tax (GST) post-2010 (although GST was implemented after the period considered).

6.2. Public Debt and Fiscal Responsibility

The Fiscal Responsibility and Budget Management Act (FRBMA) was enacted in 2003 to institutionalise fiscal discipline. The Act aimed to reduce deficits and rationalise borrowing. However, implementation was suspended in 2009 in response to the global financial crisis, reflecting the challenge of maintaining fiscal targets during downturns (FRBM Act, 2003). The FRBM Act was introduced to institutionalise fiscal discipline, limit deficits and control growth of public debt. It aimed to reduce the revenue and fiscal deficits to sustainable levels. However, implementation targets were pushed back following the global financial crisis in 2009. (Fiscal Responsibility and Budget Management Act details)

6.2.1. Fiscal Responsibility and Budget Management (FRBM) Act, 2003

The enactment of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003 marked a significant institutional reform in India's approach to resource mobilisation and fiscal governance. Prior to the FRBM framework, India's fiscal policy was characterised by persistent fiscal deficits, rising public debt, and increasing reliance on borrowings to finance development expenditure. These trends posed concerns regarding macroeconomic stability, intergenerational equity, and the sustainability of public finances.

6.2.2 Background and Rationale

During the 1980s and early 1990s, India experienced growing fiscal stress, with the combined fiscal deficit of the Centre and States exceeding 9 per cent of GDP by 1990–91 (Ministry of Finance, 2011). The balance of payments crisis of 1991 highlighted the risks associated with unchecked deficits and debt accumulation. Although economic liberalisation improved growth prospects, fiscal consolidation remained weak throughout the 1990s. In this context, the FRBM Act was introduced with the objective of institutionalizing fiscal discipline by placing statutory limits on government borrowing and deficits. The Act sought to strengthen resource mobilisation



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by improving revenue efficiency, controlling expenditure growth, and reducing dependence on debt-financed spending.

6.2.3 Objectives of the FRBM Act

The key objectives of the FRBM Act included:

1. **Reduction of fiscal deficit** to a sustainable level.
2. **Elimination of revenue deficit**, thereby ensuring that borrowings are used for capital expenditure rather than current consumption.
3. **Containment of public debt** to maintain long-term fiscal sustainability.
4. **Improvement in transparency and accountability** in fiscal operations through regular reporting to Parliament.

The Act mandated the Central Government to progressively reduce the fiscal deficit to **3 per cent of GDP** and eliminate the revenue deficit by 2008–09 (FRBM Act, 2003).

6.2.4 Fiscal Targets and Rules

Under the FRBM framework, the government committed to:

- Annual reductions in fiscal and revenue deficits.
- Limits on government borrowings from the Reserve Bank of India.
- Prohibition of monetisation of fiscal deficit, except under exceptional circumstances.

These rules were intended to discipline fiscal policy and encourage the government to focus on efficient tax-based resource mobilisation rather than excessive borrowing.

6.2.5 Impact on Resource Mobilisation

The implementation of the FRBM Act had several implications for resource mobilisation in India:

- **Improved tax effort:** Fiscal consolidation pressures encouraged tax reforms aimed at broadening the tax base, improving compliance, and enhancing revenue buoyancy.
- **Expenditure rationalisation:** Governments increasingly prioritised capital expenditure over revenue expenditure, improving the quality of public spending.
- **Reduced debt dependency:** Between 2003–04 and 2007–08, India witnessed a decline in the fiscal deficit from around 4.3 per cent to 2.5 per cent of GDP, reflecting improved fiscal discipline (Ministry of Finance, 2011).
- **Enhanced investor confidence:** Greater fiscal transparency and discipline improved India's credibility with domestic and international investors, indirectly aiding capital mobilisation.

6.2.6. Suspension during the Global Financial Crisis

The global financial crisis of 2008–09 posed a major challenge to the FRBM framework. In response to the economic slowdown, the government temporarily suspended FRBM targets to allow for fiscal stimulus through increased public expenditure and tax relief measures.



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Consequently, the fiscal deficit rose sharply to around 6.5 per cent of GDP in 2009–10 (Government of India, 2011).

This suspension highlighted an inherent limitation of rigid fiscal rules in responding to macroeconomic shocks, while also underscoring the trade-off between fiscal discipline and counter-cyclical policy needs.

6.2.7 Evaluation and Limitations

While the FRBM Act represented a landmark reform in India's fiscal management, several limitations were evident up to 2010:

- **Weak enforcement mechanisms** limited adherence to targets.
- **Off-budget borrowings** and accounting practices diluted the effectiveness of fiscal rules.
- **State-level fiscal stress** persisted despite the adoption of similar FRBM legislation by most states.
- **Revenue mobilisation constraints**, such as a narrow tax base and large informal sector restricted the effectiveness of deficit reduction efforts.

Nevertheless, the FRBM Act played a crucial role in shaping India's fiscal policy framework and laid the groundwork for later reforms in public finance management.

6.3. Savings and Capital Markets

The Indian capital market matured into an important mobilisation mechanism. Primary market mobilisations (via IPOs and mutual funds) grew significantly in the mid-2000s, illustrating the role of capital markets in directing private savings toward investment (India Budget data).

6.4. External Resources

Foreign capital, including FDI and portfolio investments, provided additional financial resources. The economic reforms helped open sectors to foreign participation, contributing to domestic resource mobilisation indirectly.

7. Challenges in Resource Mobilisation (up to 2010)

Despite progress, several constraints persisted:

- **Low Tax Base and Compliance:** Large informal economy and tax evasion limited revenue potential.
- **Fiscal Imbalances:** Persistent deficits and debt accumulation strained public finances.
- **Uneven State Capacities:** States with weaker tax bases depended heavily on central transfers.
- **Dependence on Borrowing:** Heavy reliance on public borrowing increased debt servicing obligations.

These issues constrained government capacity to mobilise adequate resources for development needs.



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7. Conclusion

India's resource mobilisation strategy evolved significantly from reliance on traditional taxation and deficit financing to diversified mechanisms including capital markets and external capital. Tax reforms and liberalisation measures helped broaden revenue sources. Institutional mechanisms like the FRBM Act attempted fiscal prudence, although global disruptions posed challenges. Mobilisation of resources remained critical for sustaining economic growth and financing public investments, laying the foundation for later reforms expected after 2010.

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