CONSTITUTIONAL ECONOMICS IN INDIA: A SURVEY OF INDIAN CONSTITUTION

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Abstract

Constitutional Economics determines the national character of the economic life with corresponds to fundamental principles of Justice. The Constitution of India, especially, Preambular ideas along with Directive Principles of State Policy carries the aspirations of distributive justice including the socio-economic and political justice. Entry 35 carries the provision for managing the public debt, Entry 36 related to the foreign exchange, Entry 37 with respect to the foreign loans, Entry 38 contains the Reserve Bank of India i.e. central monetary authority, Entry 41 talks about the foreign trade, Entry 45 carries Banking, Entry 46 and 48 highlight the components of capital market, Entry 47 carries Insurance in the Union List, almost similar macroeconomic framework available for the States in the State List in the Seventh Schedule and under the scope of the Article of 246 of the Constitution. The Entry 20 of the Concurrent list contains the planning related to social and economic life of the contrary. The allocation and distribution of the societal resources shall rest upon the Finance Commission under Article 280 of the Constitution. In the light of the Article 112, we can call that the Parliamentary control financial matters. Moreover, the Constitution of India if we go deeper into the Constituent Assembly debate find that macroeconomic framework philosophy is blending of ancient Indian political economic ideas and both western modern Classical ideas and Keynesian activism. This research paper divided into three parts Part I related to Introduction of Constitutional Economics and highlights the Constitutional provisions related to the macroeconomic framework, Part II discuss the working of macroeconomic framework under Indian constitution and the legislative intent to achieve the macroeconomic stability by enacting The Fiscal Responsibility and Budget Management Act, 2003 and Part III suggestions and conclusion.

Keywords; *Constitutional Economics, Law & Development, Macroeconomic Stability, Socio-economic Justice, Constitutionalism*

I. INTRODUCTION

Constitutional economics determines and orders the economic life of a country through the affirmative and legislative action, especially, in the Constitution of India it is a blending of both directly ancient Indian political economic ideas, Keynesian activism and indirectly ideas of the Classical economics. Intuitional economics is the core idea behind the Keynesian activism while free and liberal market driven economics promoted by the Classicals. Constitutional economics is referred to as the school that deals with constitutionalism and economics. The term "constitutional economics" can be defined as "the set of institutional legal rules defined in the constitution that frame the activities and choices of political and economic agents."[1]

The impact of Constitutions on the economic performance is of a country due to following three reasons. *First,* A constitution can be unwritten or written, as some countries follow written while some follow unwritten constitutions but the

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1 GEOFFREY BRENNAN, THE REASON OF RULES: CONSTITUTIONAL POLITICAL ECONOMY 166-178 (London: Cambridge University Press, 2008).

constitutional conventions play an important role in the working of the Constitutions. In the United States, the central monetary authority is not independent in US constitution but the board of the authority is enjoying independence through the executive. The *de facto* autonomy of the bank lies in the unwritten constitution conventions. The legislative intent is clear through the Act of legislation on the autonomy of the highest monetary authority. In comparison the United Kingdom exclusively relied on the constitutional convention as far as the highest monetary authority is concerned. *Second*, the constitutional framework may be effective of ineffective on the macroeconomic activities. The rigid set of principles, *for instance*, the formerly communist countries having fewer roles in managing political affairs related to economic activities. In other words, such rigid principles were imposing various constraints both on the society and on the market during the transition from traditional economic activities to modern one. These rigid set of principles also created hurdles to adopt free liberal competitive market structure and their political life from communism to democracy. The present day in these countries constitutions are ineffective to promote the socio-economic-cultural transition. The respect for the constitutions may be laid in the effectiveness of the constitution itself. *Third*, the countries having the traditions of the constitutionalism and institutionalism promote and facilitate the adoptability and adjustability according to the circumstances. Both the original and amended constitutional provisions and court decisions addressing the real problems of the society related to the economic life. The constitutional design, especially in the Europe, is sufficient to manage the macroeconomic activities, therefore the working of constitutions is subject to the constitution creation and development. [2]

The Preambular ideas in the Constitution of India affect the formulation of economic policy, economic policy outcome to some extent and macroeconomic performance to larger extent. There is a research gap in the field of *constitutional economics* that how the Constitutions shape the economic philosophy of respective country.[3] The nature of Constitutions determines the nature of the constitutional agencies and institutions, further both these are important determinants of the nature of the constitutional economics and accountability of governments especially in the matters of development economics. Constitutional economics manages, protects and engineers the contending and competing interests of different sections and among different communities.[4] Constitutional governance on macroeconomic framework signifies that Constitution provides rules of economic governance i.e. allocation of societal resources on such

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2 Jon Elster, *The Impact of Constitution on Economic Performance,* Proceedings of the World Bank Annual Conference on Development Economics, 1994

3 Torsten Person and Guido Tabellini, *Constitutions and Economic Policy* 18 The Journal of Economic Perspective 75, 76-78 (2004).

4 Charles A. Beard, An Economic Interpretation of The Constitution of The United States 98-127 (The Macmillan Company, New York, 1935).

principles that suitable to circumstances and promotes economic growth in the short run and economic development in the long run, set the ideas of economic planning either designed that development through the free and liberal market driven or centrally planned economy (welfare approach).Variations in Constitutions with respect to direct and indirect democracy determine the nature and function of the constitutional, political and economic institutions. Constitutional patterns are different according to the national, regional and local conditions of the societies.[5] The constitutional macroeconomic features i.e. budgetary procedures, allocation and distribution of societal resources with respect to vertical and horizontal arrangements, monetary and fiscal policy framework, fiscal discipline and fiscal behaviour of the State, national and sub-national institutions and public debt management maximise the welfare of the society and laid down the guiding principles for potential macroeconomic outcome.[6] The available research work suggests that mostly democratic constitutions carry the Classical economic rights i.e. freedom of trade, of contract, to carry any business, occupation and profession and of private property. Thus, the vision of the constitutional economics, at micro-level, is to provide the fundamental and legal rights against the economic inequalities and creating equal economic opportunities for all. Constitutional economic governance implies that there are rules of economic governance i.e. the constitutional agencies must act exactly within the power conferred on them.[7] The constitutional rules of economic governance that executive relied upon the legislative prescriptions. The subordinate constitutional functionaries must act within the rules of constitutional governance and legislative intent and prescriptions.[8] Thus, Constitutions matter for economic performance to the extent that they promote stability, accountability, and credibility.

Constitutional failure occurs, whenever the constitutional provisions or lack of rule of law, resultantly, uncertainty may appear on the executive decisions or orders and leadership in power failed to honor and carries the framework for the macroeconomic stability. The abutment of the citizenry' rights by the executive or by the decree rather than through the legislative process. The transfer of power is the positively correlated with the macroeconomic stability. The empirical evidences show that most of the constitution failure occurs due to lack of the enforcement mechanism do not exists. Constitutional success requires strong institutions and constitutional agencies to enforcement the constitutional mandate

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5 Alesina, Aiberto and Robert Perotti, *The Political Economy of Budget Deficits* 42 IMF Staff Papers 1, 11-26 (1995).

6 B. Weingast, *Constitutions as Governance Structures: The Political Foundations of Secure Markets* 14 Journal of Institutional and Theoretical Economics 286 (320-309).

7 Persson, Torsten and Guido Tabellini, *Constitutional Rules and Economic Policy Outcomes* 11 American Economic Review 166, 174-189 (2004).

8 POTERBA, JAMES & JURGEN VON HAGEN, FISCAL RULES AND FISCAL PERFORMANCE 56 (University of Chicago Press, Chicago, 1999).

and develops constitutional cultures to promote respect and honor for the constitutional conventions.[9] Constitutionalism can enhance economic efficiency by solving the problem of time inconsistency. It has been argued by many writers that individuals tend to discount the future by a non exponential function that causes them to deviate from their plans. Conceived of as a requirement for a supermajority, constitutionalism can promote economic efficiency.

Constitutional choice depends on the leadership in the power that how the choices revel or the decisions are made by paying due consideration to nature of the coming generations in the matters of the both financial and economic stability. Farsightedness and ability to predict and to make decision to prevent the uncertainty and ability to predict the long run trends of the future generational behavior will influence the macroeconomic stability. The constitutional choices differ from the political and administrative day to day decision. The constitutional choices are ideal in the theory but in the practice these must having the capability and ability to address the competing and contending interests of the society in the both short run and long run. The success of the Constitution also depend that decisions are not based on the self interest but problem solving one. The modern economic analysis is very difficult to predict and revels the choices accordingly. Moreover, the constitutional choices are the reality in context to put the economic life of the country in order. Modern economies are globalised themselves and well interconnected in order to carry day to day economic activities in the competitive global economies. The success of the constitution is in the matters of the macroeconomic stability depending upon both market institutions and public institutions to coordinate with global economy.[10]

Constitutional economics reveals constitutional choices on the basis of the either *egalitarian* or *utilitarian* philosophy to manage the competing and contending interests of the society. It sets the path in the lights of the basic and foundational principles in the Constitution to achieve the aims, aspirations and hopes the constitution carries. Constitutional economics is a sub-discipline of the political economy and in the foundations of the socio-economic analysis. The traditional economic ideas based analysis is attempted to explain the revealing of choices by the economic agents. The economic agents interact within the legal framework, institutional mechanisms, political culture & environment and constitutional structures. Such interaction is effective, productive and sustainable if the above-said framework, mechanism, culture and structure are suitable to circumstances. The constitutional economic analysis is alternative to the extra legal-institutional framework to the traditional economic analysis. Therefore, the constitutional economic analysis requires better standard set of constitutional defined rules and

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9 Levmore, S., *Bicameralism: When are two decisions better than one?* 12 International Review of Law and Economics 141, 145-16 (1992).

10 J. BUCHANAN, THE ECONOMICS AND THE ETHICS OF CONSTITUTIONAL ORDER, 113-128 (University of Michigan Press 1991).

conventions to carry. The central task to coordinate the economic activities subject to the scarcity of resources and constraints imposed by constitutional conventions and defined rules. The constitutional economists recommended the policy design and policy advise to the leadership in power.[11] Constitutional economics, therefore, is important to prevent constitution itself.

THE NATURE OF CONSTITUTIONAL ECONOMICS IN INDIA: India adopted a normative welfare constitution. The Preamble to the Constitution of India and the Directive Principles of State Policy carry the vision of the Economic justice and certainly welfare character of the State but not directed a particular model for socio-economic development. The choice for choosing the development path the Constitution is rest upon the leadership of the time that to manage scarce resource in the best interest of the national economic life and suitable to circumstances. At the commencement of the Constitution there were mainly two popularly economic models US Model i.e. free and liberal market driven model and USSR Model i.e. centrally planned model, the former followed by the countries to the large extent and the letter a very small. The leadership of the day was chose the centrally planned model in the best interest of the country and obviously suitable to Indian conditions with expanding the role of the market subject to the given conditions. The constitutional economics in Indian Constitution targeted both normative individualism and positivity individualism.

II. LAW, DEVELOMENT AND PLANNING:

The Planning Commission of India was the nodal agency of the Union government for the purpose long run and short plans for the socio-economic transformation of the country. The Planning Commission was the extra-constitutional institution. Therefore in the planning in India is under control of the executive to a larger extent. The Constitution is salient on the economic planning. The economic development is largely strategise and the ideas carry by the Preamble, the Directive Principles of the State Policy and on the wisdom and farsightedness of the leadership in power.

The Part IV the Directive Principles of State Policy and the Entry 20 of the Concurrent List laid down the foundations, directions and patterns of *Development Economic* in India. Directive Principles of State policy are the fundamental principles to the public policy. Part IV monitors the national economy. Article 39(b) contains the idea of socialist economy by prohibiting the monopoly of material resources that these can sub-serve the common good in the best interests of the nation. Article 39(c) carries the aspiration of the economic system that trickled down the benefits of both economic growth and development. The final effect of these two constitutional provisions reflected the idea of *Distributive Justice* in India. The Directive Principles of State Policy

[11] Ludwing Van Den Hauwe, *Constitutional Economics* 16 The Elgar Companion to Law and Economics 83, 93-97 (1999).

desirous to laid down the ideal economic democracy in India and will try to reach on the same. The constituent assembly paid due considerations to various way to reach the economic democracy i.e. individualistic, socialistic or communistic ideas and patterns. The founding fathers of the constitution were well known and understood the historic conditions and reality of the society that both exploiters and exploited classes existing. So in this background and such reality the Constitution of India, especially the Preamble and Part III lay down the foundation of the social and economic democracy in the country and the Statesmen, leadership and government in power chooses the economic policies to achieve the social and economic democracy. The Entry 20 of the Concurrent List is one of the sources of development economic in India. The Constitution is silent on the development planning. It is very strange that the Constitution gives welfare State but does not provide the framework for economic and development planning. All such planning that is very important to reach the objective and discharge the functions of the welfare State. The Constitution carries such welfare Character of welfare State without the rule of law. The Constitution left behind the economic, social and development planning totally on the bureaucratic control. Resultantly Indian economist followed, imported and applied the western economic ideas to the Indian conditions. The experience and empirical study of the Indian planning suggest that these ideas were partial success in the economic history of Independent India.[12]

Article 39(d), 42, 43 and 43A reflects the nature of *Labour Economics* in India. Article 39(d) talks about equal pay for equal work lays emphasis on the eliminations of gender discrimination in the wages. Article 42 contains that State shall maintains the humanly working conditions and paid due consideration to the women worker too. Article 43 carries concepts of living wage, fair wage and minimum wages. It stated that State should by enacting suitable legislature and economic organisation promote the full enjoyment of leisure, standard of life and cultural opportunities for Labour class of the Society. Article 43A highlights the participation of the worker in the management of the industries. The combined effect of these Articles founds and directs the welfare labour economic in India. The 73rd and 74th Constitutional Amendments give constitutional status to the Local self governments in India. These amendments institutionalise the socio-economic justice and materialising the idea of inclusive growth. The Article 243G and 243W carries the power, authority and responsibilities of the *Panchayati Raj* Institutions and Municipalities preparation for plans and implementation of scheme for economic development respectively.[13]

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12 L. Viswanathan, R.V. Anuradha, *Liberalisation, Public Interest and Indian Constitution* 36 Journal of the Indian Law Institute 378, 380-381 (1994).

13 Chanchal Kumar Singh, *Economic Policies and Political Processes in the Pursuit of Constitutional Goals* 53 Journal of the Indian Law Institute 333, 339-342 (2011).

Article 112 of the Constitution of India is the legitimate source of the *Fiscal policy*. It provides the annual financial statement popularly termed as *Budget* before the Parliament. The said Article establishes the supremacy of the Parliament especially the House of the People through the vote of the House over the financial matters. This supremacy suggests that public finance only rests upon the House of the people neither the President nor the concerned minister under authority is competent on the same. The matters of the Public Finance are great core of concerns. Therefore, the lower house of the parliament is the watchdog and sole custodian of all the financial matter of the Union. The said Article beautifully designed by the Constituent Assembly certain matters under the expenditure *charged upon* category the Consolidated Fund of India related to the independency of the Constitutional Institutions keeps beyond the party politics and all other matters left remains on the confidence of the House. So, the Article 112 designed in order to strengthen economic and financial stability, to achieve proper funding of economic development and in the interest of the national credibility.[14]

The Article 265 and 266 related to the *Economics of Public Finance.* Article 265 makes it clear that taxation can only be levied only by an authority of law or Act of Legislation. The purpose of the taxation in Indian Constitution is clear, that like developed economies and mature countries experienced, levied for the purpose of the development projects and promoting the public utility character of the State. The legislation cannot delegate the power to levy the taxation in India. Therefore, taxation is the legal compulsory payment in India. The Article 266 talks about the revenues of India and the revenues of the States named as the Consolidated Fund of India and the Consolidated fund of the States keeping their custody with President of India and the Governor of the States respectively. All revenues received by the Union and the States credited in the respective fund. The Parliamentary procedures for withdrawing any amount of money through the Article 116 i.e. 'Vote on Account' and 'Vote on Credit' from the above said funds. Therefore, the *Public Money* is controlled by legislation.

ROLE OF FINANCE COMMISSION, RESERVE BANK OF INDIA AND COMPTROLLER AND AUDITOR GENERAL OF INDIA: The Article 280 stated the Finance Commission of India is for advising and recommending the with regard to the finances of the Union and of the States. Fiscal federalism is the core objective of the Finance commission and empowering the backward States in the Union by transferring financial resources on the basis of the principles developed since the commencement of the commission that suits to circumstance and reaches to the objectives. Cooperative Federalism is the principle behind the working of the Commission by reducing the regional imbalances including vertical and horizontal imbalances in the development due to geographical and

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[14] Constituent Assembly of India, Debates, Part I (10 June, 1949).

economical barriers. The recommendations of the Finance Commission strengthen the fiscal stability of the country and fiscal relations of the Union with the States. The commission plays an important role to balance the contending interests and competing claims of the States and of the Union. The elements of equity can be traced in the history of the Finance Commission in the Horizontal distribution. Moreover, the Horizontal imbalances have been addressed by the commission through the Grants-in-Aid on the basis in the need of assistance to the States. The combined effect of the Articles 112, 265 and 280 is that *Economics of Public Finance* shall be governed within the Constitutional framework.[15]

Entry 38 of the Union List carries the provision of the central monetary authority i.e. The Reserve Bank of India. This entry is the source of the *Monetary Economics*. The overall Economic Policy of a country is divided into the fiscal and monetary policy. The objective behind the establishment of the Reserve Bank of India is to guide and guard the monetary interests and stability.[16] The conduct and determination of the effective monetary policy depend upon the independency of the central monetary authority. The independency of the monetary authority needs that the economic interests of the country beyond the party politics and the government cannot finance itself without limits through money creation.[17] The Reserve Bank of India finances the Government through the credit creation and the borrower and the banker to the government. All such functions require the independency of the highest monetary authority. The Preamble of the Reserve Bank of India Act, 1934 stated one of the objectives that to make the monetary standards that suit to the Indian conditions.[18] The participatory style of the Reserve Bank is not independent in India in practice. The conflicts in the short term objectives in the economic policy may inflict certainly and considerable loss to economy therefore the integrated economic policies are possibly the best solution to such conflicts. The independency of the Reserve Bank of India is matter of the great core of concern both in practice and in the Constitution to achieve the macroeconomic stability. Placing Reserve Bank of India in the Entry 38 in the Union List putting under the control of the legislative and executive is not a good idea. This position and status of the highest Bank is always under political pressure. It clear from the experiences of all developed economies that monetary system management is the long term macroeconomic impacts. If any injury caused to the monetary system it will take

15 S. P. Aiyer, *India's Emerging Co-operative Federalism* 21 The Indian Journal of Political Science 307, 309-311 (1960).

16 Dr. C. Rangarajan, Governor, Reserve Bank of India, *Tenth M.G. Kutty Memorial Lecture* (1993).

17 Grilli, Vittorio, Donato Masciandaro and Guido Tabellini, *Political and monetary Institutions and Public Financial Policies in Industrialised Countries* 13 Economic Policy 341, 366-375 (1991).

18 The Preamble, Reserve Bank of India Act, 1934.

a long time to recourse. Therefore the strong monetary system requires the autonomous centrally monetary authority.[19] The Article 148 stated that there shall be the Comptroller and Auditor General of India for supervising and audit the public money, public accounts, resources and all the expenditure made from the Consolidated Fund of India. All the three Constitutional institutions play an important role in the macroeconomic stability in India. The Finance Commission and the Comptroller and Auditor General of India are independent constitutional agencies while Reserve Bank of India is putting under the Union List lacking the independency. The suggestion related to such challenge will discuss in the conclusion of the paper.[20]

III. THE FISCAL RESPONSIBILITY AND BUDGET MANAGEMENT ACT, 2003 AND FISCAL DISCIPLINE:

The fiscal position of country is one of the major determinants of the macroeconomic stability, pace of economic development and fiscal sustainability.[21] The said Act is the legislative intent on the fiscal prudence in India. The Act ensures the inter-generational equity in the fiscal affairs of the Union by imposing restriction on the Government through the legislative actions. The Act further lays emphasis on the macroeconomic stability in the long run by removing the fiscal impediments and makes suitable conditions for the effective conduct of the monetary policy. The public debt management is the sole objective for achieving the fiscal sustainability by putting the limits on the borrowings, debt and deficits of the Union government through the fiscal procedural commitments such as medium term expenditure statement and fiscal management principles.[22]Section 3 of the Act mandatory that central government lay down the Fiscal; Policy Statement before the Parliament including the Statements on mid-term fiscal policy review, medium term expenditure and macroeconomic framework. The scrutiny by the Parliament of the fiscal policy must contains taxation, expenditure, lending, borrowings, investment and pricing of administrative goods that have potential implications on budget. Section 4 carries the Fiscal Management Principles to develop fiscal discipline in the country by limiting the fiscal deficit, Government debt. Section 6 promotes the fiscal transparency by taking suitable measures in fiscal operations in public interest. The Central Government shall give monthly statement of its accounts. The Act carries the provisions that Central Government systematically carried out the functioning of all fiscal indicators such as fiscal deficit, primary deficit,

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19 N. L. Mitra and Rakesh Kumar, *Constitutional Response to Good Governance and Macro-economic Management* 42 Journal of the Indian Law Institute 335, 340-369 (2000).

20 J. V. M. Sharma, *Federal Fiscal Relations in India: Issue of Horizontal* Transfer 32 Economic and Political Weekly 1719, 1714- 1716 (1997).

21 Alt, James and Robert Lowry, *Divided Government, Fiscal Institutions and Budget Deficits: Evidences from the States* 88 American Political Science Review 811, 816-826 (1994).

22 The Preamble, The Fiscal Responsibility and Budget Management Act, 2003.

budgetary deficit and revenue deficit. The assessment of and fiscal policy strategy is the foundations of the inter-generational equity on fiscal sustainability.[23]

IV. SUGGESTIONS AND CONCLUSION:

The research work suggests the conclusion that the economic analysis of constitution depends and grows in the light political economy of the country. There is wider scope in the Constitution of India to adopt the international practices on institutional framework for macroeconomic stability. The legitimacy of the macroeconomic institutions should be sourced from the constitution. In other words, economic institutional can only be grow with strict rule of constitutions and under strict financial discipline. Institutional discipline depends upon the constitutional conventions and judicial articulation.

The Constitutional Governance in India depends upon the strengths, independency and functioning of the Constitutional agencies and *subordinate constitutional institutions*. The constitutional framework is on macroeconomic left on the wisdom of the leadership in power and the functioning of executive. The constitutional rules and framework on the macroeconomic stability and management is sufficient but do not have sufficient implementation machinery. India *adopted a normative welfare constitution* that requires the affirmative action of the State to reach on the Preambular aims and to materialise Preambular ideas to carry Preambular aspirations. The macroeconomic experience in the post constitutional era draws conclusion that India need rule of law based independent economic institutions with more autonomy such as Finance Commission and Reserve Bank of India. The populist political measures should not interfere and impact the decision making monetary. The reserve Bank of India should be acted outside the control of legislation and party politics but within the constitutional framework and integrated with aims and objective of the fiscal policy. The Macroeconomic framework should be coordinated within the constitutional framework. Even the constitution provides the sufficient framework for fiscal transparency but it needs to be strengthened. The institutional quality is one of determinants of the macroeconomic stability. Maintain the macroeconomic stability is not easy task when the economy is globalised. Public spending and of such audit-ability is a matter of great core of concern.

The financial prudence that loan amount must be used only for the purpose of increasing the assets and income earning capacity of the it must not be used for public debt financing nor moreover, meeting revenue expenditure. So, in this background the Fiscal Responsibility and Budget Management Act, 2003 enacted by the Parliament but due to Global recession in the period of 2008-2012 this Act amended again in the year of 2022. Therefore, the history of Fiscal Responsibility and Budget Management Act, 2003 suggest that the government is not serious both in commitment and in practice to achieve the fiscal sustainability in India.

[23] Ursula Hicks, *Fiscal Federalism in India* 34 Public Finance Analysis 358, 360-361 (1976)

There is a long way to go to realise fiscal responsibilities and management of the budget. The constitutional economics can grow only with independency and autonomy of the economic institutions. Therefore, we need strong and rule of law based institutions in order to achieve macroeconomic stability. The constitutional framework on the macroeconomic stability requires the predictability and less uncertainty in both the short and long run economic decisions.

The conventional understanding of economic analysis is necessary but not sufficient condition for the economic analysis of constitution. It requires the able leadership and farsightedness and well institutional coordination in the economic decision making and efficient enforcement mechanism in order to achieve the macroeconomic stability. The structural changes in the modern economic activities must be addressed through the institutional framework. The power of decision making must be shared across the different level of institutions, it must not be concentrated in the few hands or institutions. The constitutional framework must institutionalise the economic activity in order to reveal the resources and economic choices for the macroeconomic stability.

The constitution must ensure that politicians are held responsible for their actions and that there is a mechanism for voting them out of office. Accountability affects both economic efficiency and security. If the executive is not subject to sanctions, it cannot make credible promises. Also, threats to basic security may not be deflected if those responsible cannot be held accountable. The constitution must provide a framework that is relatively stable and immune to strategic manipulation. The provision of basic rights should not be at the mercy of changing majorities. By ensuing stability of the basic framework, the constitution discourages wasteful rent-seeking. Also, stability and non manipulability of the political system are needed in order to underwrite accountability. The constitution should facilitate and encourage long-term planning by citizens by protecting them against retroactive legislation and taxation and against expropriation without full compensation. Stability is a necessary but insufficient condition for predictability. The constitutional rule should address the institutional discipline and institutional accountability. Institutionalism is the core essence of the constitutional economics and great core of concern for the constitutional success in the matters of macroeconomic stability. Constitutional rules and constitutional agencies appear to have greater economic consequences.

ANNEXURE

Constitutional Economics in Indian: A survey of Indian Constitution

	Constitutional Provisions	**Subject Matter**

Fiscal Economics	**Article 112, 113, 114, 115 & 116**	**Annual Financial Statement, (Budget)** Article 112 of the Constitution of India is the legitimate source of the ***Fiscal policy*****.** It provides the annual financial statement popularly termed as ***Budget*** before the Parliament. The said Article establishes the supremacy of the Parliament especially the House of the People through the vote of the House over the financial matters. The said Article beautifully designed by the Constituent Assembly certain matters under the expenditure *charged upon* category the Consolidated Fund of India related to the independency of the Constitutional Institutions keeps beyond the party politics and all other matters left remains on the confidence of the House.
	Article 265 & 266	These Articles related to the ***Economics of Public Finance.*** Article 265 makes it clear that taxation can only be levied only by an authority of law or Act of Legislation. The Article 266 talks about the revenues of India and the revenues of the States named as the Consolidated Fund of India and the Consolidated fund of the States keeping their custody with President of India and the Governor of the States respectively.
Monetary Economics (Money, Banking & Insurance)	**Entry 38, 43, 45, 46 & 47 of the Union List**	It carries the provision of the central monetary authority i.e. The Reserve Bank of India. This entry is the source of the ***Monetary Economics*****.** The objective behind the establishment of the Reserve Bank of India is to guide and guard the monetary interests and stability. The Reserve Bank of India finances the Government through the credit creation and the borrower and the banker to the government. All such functions require the independency of the highest monetary authority, the highest monetary authority.
Economic Development & Planning	**Preamble, Article 39(b) & 39(c), Article 243G, 243W and 243ZI, Entry 20 of the Concurrent List**	The Part IV the Directive Principles of State Policy and the Entry 20 of the Concurrent List laid down the foundations, directions and patterns of ***Development Economic*** in India. The final effect of Article 39(b) & 39(c) reflected the idea of ***Distributive Justice*** in India. These Constitutional

		Provisions carry the ideas of economic and social justice, formulation of plans for economic and social development.
Labour Economics	**Article 39(d), 42, 43 & 43A**	Reflects the nature of ***Labour Economics*** in India, equal pay for equal work lays emphasis on the eliminations of gender discrimination in the wages, concepts of living wage, fair wage and minimum wages, the participation of the worker in the management of the industries.
Finance Commission of India *(Economics of Public Finance)*	**Article 280 & 281**	Finance Commission of India is for advising and recommending the with regard to the finances of the Union and of the States. ***Fiscal federalism, Cooperative Federalism.***
Public Borrowings	**Article 292 & 293, Entry 35 & 37 of the Union List**	Borrowings by the Union upon the Consolidated Fund of India and borrowings by the States upon the Consolidated Fund of States and management of public debt.
Trade, Commerce & International Trade	**Article 301, 302,303,304,305 & 307 Entry, 41 & 42 if the Union List**	The promotion of the trade, its nature, development within the territory of India and among the States.
Capital & Stock Market	**Entry 48 of the Union List**	Future and Forward markets, Foreign Direct Investment and Foreign Institutional Investment

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