To Our Readers

Another year has drawn to a close, and has taken away with it many of the memories of anguish, happiness, and apprehension. The new year is here, and as always, this is a time to look forward and try to guess what the next twelve months will hold in store for us.

Being a professional journal, we do not comment on individual incidents; instead, we try to take a broader view of issues. There are now only a few months left before the country is exposed to the new budget and the modifications and additions to instruments of fiscal policy. It is therefore time to look at some other related matters.

The sister to fiscal policy is monetary policy. In the short run, monetary expansion can be used to achieve a diverse set of real objectives such as low interest rates, a high level of economic activity and employment, financing of the government budget, and the prevention of financial crises. Similarly, depreciation of nominal exchange rates can be used to improve the current account of the balance of payments. Although governments dislike inflation, they are usually willing to live with some inflation in order to realize with one or more of these objectives. That monetary policy usually has an inflationary bias is consistent with empirical observations, although motives for monetary expansion vary. Financing of budget deficits is more important in developing countries while employment considerations are more important in developed ones.

The issue that arises is the relationship of monetary policy with the impact of globalization. It has been stated by many economists that the entry of the 4 billion or so of developing country and less developed country population into the world economy dominated by and largely restricted to, the developed nations has created havoc in terms of the sharing of added value between labor and capital. It certainly has created unanticipated skewness in the employment sectors in the more developed countries, just as it has - at the cost of a fair return on labor - created employment in the underdeveloped ones. The more pessimistic amongst them have predicted world chaos in the short to medium terms.

What then, is likely to happen? In countries like India, inflation is something that would appear to be built in, in all measures of monetary expansion - which in turn is inevitable if the groundwork for proper participation in the new world economic order is to be laid. This will inevitably lead to larger schisms in the social fabric. Such a situation has been called a 'global social crisis'. Perhaps what is happening in the name of religion and social imperatives is a symbol of a much more deep rooted crisis that has as much to do with the economics of daily living and the economics of a secure future as religion and social mores.

And what is the role of professional accountant in all this? In as much as the premises for both monitory and fiscal policies are fully based upon fair presentations of the performance of the economic entities, it then is the highest duty of professional accountants to see that in fact, all financial presentations by economic entities are so. To the extent that the professional accountants are concerned with the private sector, there is already a certain degree of assurance in this regard. It is not so as far as the governmental sector is concerned, and this is where therefore, where their skills and inputs need to be brought in so that, ultimately decision making on monitory policies and fiscal policies are appropriate and appropriately taken.

We bring this issue to the fore so that the apparent distinctions between the effects of fiscal and monetary policies are not only more clearly understood, but are also made understandable by the government to the society at large. Our readers may have more to say on this issue, and we welcome comments.

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