Chapter - 1

Introduction and Theoretical Perspectives
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1.1 Introduction

In recent years, deficits in the budget of the Central Government of India have become a key-concern in the making of economic policy. For quite some time now, there has been a fierce debate among economists as to the justifiability of dependence on deficit as a tool of economic development. Policymakers are often seen to follow a path of contractionary fiscal policy, more so after the implementation of the FRBMA. At present, there is an intense debate among the economists as to the relevance of the deficit-cutting strategy as, there is, by definition, a tension between fiscal restraint and finding resources for all the expenditure needs of the government (Rangarajan and Subbarao 2007). According to some experts, running after achieving quantitatively reduced deficit targets can be fatal for the economic health of the country. In a study, Kannan and Mohan (2004) find that the emphasis on fiscal deficit reduction without paying attention to its quality has led to the centre and the states resorting to a softer option of cutting productive
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capital and necessary maintenance and social sector expenditure. In a study on fiscal management, Amaresh Bagchi (2006) concludes, “since the revenues could not be raised by all states to the level required to meet the FRL targets of deficits, cuts were imposed on both capital and social sector expenditure...While the burden on deficit compression at the centre fell on the government’s, investment expenditure, in the states it was the social sector that bore the brunt.”

This is likely to have adverse consequences on equitable growth and to impede the process of relieving the economy of structural constraints on growth. P. Geetha Rani (2004) expresses similar apprehensions that fiscal correction may lead to cut in social investment in strategic areas such as education: “With economic reforms, cuts in public budgets for higher education have been very steep, severely impairing the growth of higher education.” Wes et al (2007), in a world bank paper discuss that fiscal correction, just to meet targets, has led to cuts in capital expenditure, leading to its negative growth effects. Moreover, “Insufficient capital expenditures have contributed to the infrastructure gap.” M. Govinda Rao (2007) has expressed entirely different concerns regarding the quality of fiscal adjustment, which, he
believes, could also have been manipulated by "hidden deficits" and "creative accounting". Rangachari Aravamudhan (2007) also claims that there are many expenditure items such as oil bonds and other special bonds (such as special bonds issued to Food Corporation of India) which are not included in the budget. So, it is one thing to actually undergo fiscal discipline and quite another to pretend doing so. To sum up, the economists are divided in their views on whether to go for an expansionary or contractionary fiscal policy.

Present study is an attempt to analyse whether taking such a course towards reduction of various deficit variables, particularly fiscal and primary deficit is the right step in the context of the Indian Economy, and what are the possible lacunae while following a contractionary fiscal policy.

1.2 Measurement of Some Key Deficit Concepts

Before we go in for a detailed analysis of the problem, it will be useful to define and explain briefly about the key deficit variables.

In analyzing the trends in fiscal contours of the economy, which provide a summary view of the net outcome of the performance of
various revenues and expenditures, we have considered three indicators of fiscal imbalance: revenue deficit, fiscal deficit, and primary deficit. Before divulging into the trends of the deficit variables, it will be useful to define briefly the three deficit measures to be discussed.

**Fiscal Deficit:** Fiscal deficit is the difference between the government's total expenditure and its total receipts, excluding borrowings. (Bhattacharya, 2002)

Fiscal Deficit $= \text{Total Expenditure} - (\text{Revenue Receipts} + \text{Recovery of loans} + \text{Receipts from the sale of assets})$

The elements of fiscal deficit are: (a) revenue deficit, and (b) capital expenditure. Fiscal deficit can be financed by borrowing from the Reserve Bank of India (which is also called deficit financing or money creation) and market borrowing (from the money market that is mainly from banks). Sometimes, fiscal deficit is referred to as a measurement of addition to the liabilities of the government. However, this is true only if the item 'drawing down of cash balances' is zero. Mostly, 'drawing down of cash balances' is a small item and, therefore, fiscal deficit may be accepted to be a measurement of addition to the liabilities of the government.
The concept of fiscal deficit is, however, not without controversy. It is debated whether the two items of capital receipts, namely, recovery of loans and receipts from the sale of assets such as disinvestment of public sector units should be included on the receipts side in calculating the fiscal deficit or not. Some writers feel that a better measure of fiscal deficit is to define it as the difference between total government expenditure, i.e., expenditure on revenue and capital account taken together and government's current revenue and no item of capital receipts is allowed on the receipts side.

**Revenue Deficit:** Revenue Deficit measures the excess of expenditure on revenue account over receipts on revenue account.

The motivation behind calculating the revenue deficit stems from the intuition that revenue expenditures are in a way, ’inferior’ to capital expenditures. Revenue deficit indicates the extent to which current receipts are not able to cover revenue expenditures necessitating borrowing to finance current, not-asset building, expenditure. It represents the extent to which capital receipts are being used by the government to finance consumption expenditure - a situation that is clearly not viable or desirable in the long run. Deshmukh et. al, (2006)
put it in an interesting way. "Drawing a layman analogy, it's like taking a loan for feeding the village at your daughter's wedding. The loan has to be repaid, but no additional productive assets have been created with which to repay." Capital expenditures help create physical assets and therefore, are more productive than revenue spending that represents short-term consumption of government agencies. If this 'unproductive' or less productive revenue spending was, at least, being funded through taxes and other revenue receipts, it would at least leave the capital receipts (such as money raised from sales of equity stakes) to fund physical investments. If instead, revenue expenses exceed revenue receipts, they eat into capital receipts and limit the government's investment potential. Thus, it is important from a policy angle to measure the quantum of the revenue deficit.

**Primary Deficit:** Primary Deficit, also called "non-interest deficit" (Deshmukh et. al, 2006) represents fiscal deficit sans interest transactions. Other measures of deficit described above include payments or receipts of interest. These transactions, however, reflect a consequence of past actions of the government relating to loans taken and advanced in years prior to the one under consideration. Exclusion of interest
transactions, therefore, enables us to see the way the government is currently conducting its financial affairs. Primary deficits accumulate into debt, unless offset by an excess of GDP growth rate over interest rate.

Fiscal Deficit and primary deficit are divided into gross and net. Gross fiscal deficit is a change in gross liabilities, i.e., taking only the borrowing side into account. It is calculated by subtracting revenue from "Expenditure plus net lending". Corresponding to gross fiscal deficit is gross primary deficit which is obtained by subtracting gross interest payments from gross fiscal deficit (Bhatia, 1996).

Net fiscal deficit is defined as a change in net liabilities, which is calculated by subtracting net lending from gross public borrowings. Corresponding to it is the net primary deficit which is obtained by subtracting net interest payments from net fiscal deficit (Bhatia, 1996).

1.3 Fiscal Scenario: The Background

In India, there are 28 states and 7 union territories, and over a quarter million local governments. Furthermore, there are 240 public sector enterprises (PSEs) of the central government and several hundred
PSEs owned and managed by the states and the UTs. Theoretically speaking, the deficit measures should take all these as well as governments at local levels, e.g., municipalities and panchayats into consideration while computing various deficit variables. For macroeconomic analysis, however, we have concentrated on the fiscal deficit of the centre and the states as not much data is readily available on aggregate fiscal variables at the local level, that is municipalities and panchayats, and on PSEs and secondly, in relation to the size of the centre's and states' finances, these hardly hold much importance. "The fiscal operations as well as the deficit at the local level, however, are known to be relatively small compared to those of the centre, states and UTs" (Lahiri, 2000).

Till 1980s, macroeconomic management in India was concerned mainly with maintaining price stability and managing the balance of payments. The fiscal situation was hardly any problem. Budgets were in reasonable balance. Borrowing was on a modest scale and the combined deficit of the centre and the states seldom went beyond 4 per cent of GDP. The budgets remained in balance even when the expenditures of the government as a proportion of GDP more than doubled following the
growth of the public sector under the strategy of planning adopted for
development; in fact often, there used to be some surplus, though small,
in the revenue budget. This was because keeping pace with expenditures,
revenues of the government had also gone up. The debt-GDP ratio had
moved up but remained below 45 per cent of GDP. It was only in the
1980s that the budgetary situation started causing worry. With the public
sector expanding fast, growth of government expenditures outstripped
revenue growth. Both deficits and the debt ratio went up. Things came to
a head at the end of the 1980s. In 1990-91, the combined fiscal deficit of
the centre and the states exceeded 9 per cent of GDP and the debt-GDP
ratio increased to nearly 62 per cent. Interest payments as a proportion of
GDP had gone up from less than 2 per cent earlier to over 4 per cent
preempting almost one quarter of revenue. As a large part of this deficit
was monetised, severe inflation was experienced by the economy. As
domestic savings proved insufficient, the deficits tended to spill over to
the external sector. The current account deficit, that is foreign borrowing,
widened to unsustainable levels with forex reserves dwindling to barely
14 days cover for imports (US $ 975 million on July 12, 1991). As is
well known, amidst this gloomy economic crisis, the government
undertook wide-ranging reforms to stabilise the economy immediately. Fiscal stabilisation figured prominently in the reform agenda. The focus was on reducing the deficits in the government budget quickly. The strategy was to act on both sides of the budget, raising more revenue and reducing expenditures. But revenue could not be raised quickly; in fact with liberalisation and opening up, the revenue-GDP ratio went down as the role of customs as a source of centre’s revenue sharply diminished and the taxes on domestic income and trade were inadequate to compensate for the revenue lost. So the stabilisation was brought about largely by cutting expenditure that could be cut easily and quickly. The axe fell mainly on capital expenditure and also on expenditure on social and economic services with adverse consequences for the economy. The states too felt the pinch though their fiscal situation did not come under much attention initially as the level of deficit in the state budgets remained at reasonable levels at the time. However, the states too came under the scanner not long after and various measures designed to get them to obey the rules of fiscal discipline were initiated.
1.4 Key to Strong Macroeconomic Fundamentals - Expansion or Contraction of Fiscal Deficit: Theoretical Perspectives

There is no agreement among economists either on analytical grounds or on the basis of empirical results whether financing government expenditure by incurring a fiscal deficit is good, bad, or neutral in terms of its real effects, particularly on investment and growth. Among the mainstream analytical perspectives, the neo-classical view considers fiscal deficits detrimental to investment and growth, while in the Keynesian paradigm, it constitutes a key policy prescription. Theorists persuaded by Ricardian equivalence assert that fiscal deficits do not really matter except for smoothening the adjustment to expenditure or revenue shocks. While the neo-classical and Ricardian schools focus on the long run, the Keynesian view emphasises the short run effects.

1.4.1 The Orthodox School

Orthodox School had started the debate about the role of deficit financing at a very early stage of economic planning in India. As A K Dasgupta (1987) pointed out "It was, let us remember, the eve of the Second Five Year Plan and the problem before us among other things was whether we could go in for some deficit-financing for the
mobilization of additional resources” B.R.Shenoy (1955) opposed resorting to deficit financing because of its inflationary impact. Over time, the poor performance of public sector dampened the faith in the efficacy of public investment in the productive sectors.” The orthodox school strongly argued for containing the fiscal deficit mainly due to three reasons:

(i) Risk of inflation, (ii) unsustainability and (iii) danger on the external front” (Lahiri and Kannan, 2001)

On the issue of fiscal stimulus through deficit –financing, we have been witness to a sharp swing in policy. To begin with, from the 1950s to the 1970s, deficit financing was perceived and deployed as one of the valuable tools of developmental financing. Perhaps this was a correct approach, given the constraints of low domestic savings then. However, in the 1980s and 1990s the limitations of deficit financing and the macro distortions arising from it (surging inflation, weakening external value of currency, distortions in resource allocations, fiscal extravagance, etc) became so overwhelming that the system of ad-hoc treasury bills was eventually suspended in April 1997.
1.4.2 The Keynesian School

The Keynesians argue mainly on the basis of the points mentioned below:

The first point is that the debt is moderate by international standards, as Rakshit (2000) pointed out "Why should a 65 per cent debt-GDP ratio be considered too high, remembering that instances abound when some countries often had debt-GDP ratio exceeding 100 per cent, without any apparent clogging of their wheels?"

Another argument was that the major chunk of central debt burden, which represented cumulative effect of past deficits, was mainly in the form of internal debt and interest payments did not cause any net diminution in the community's command over goods and services available for consumption or investment. Another strongly forwarded argument was that rate of interest paid on debt was lower than the GDP growth rate.

Fiscal deficit is a very important tool for economic development, especially in developing economics like India. It is used for various purposes like incurring developmental expenditure (for infrastructure, social services sector etc.), reducing regional and
economic imbalances and so on. But, lately, reliance on fiscal policy as a tool for economic development is being questioned. There is ongoing controversy as to whether reliance on fiscal policy as a tool of economic development is justified or not. It would be better for most governments to err on the side of too much fiscal stimulus than too little.

1.4.3 The Ricardian Approach

The Ricardian approach argues that fiscal deficits do not change national savings because individuals increase private saving to exactly offset the rise in the budget deficit. This approach is also known as Ricardian Equivalence Theory, according to which as fiscal deficits increase, private savings also catch up in anticipation of future tax hikes. Ricardian Equivalence Hypothesis states that, for a given expenditure path, the substitution of debt for taxes has no effect on aggregate demand nor on interest rates. This approach suggests that it does not matter whether a government finances its spending with debt or a tax increase, the effect on total level of demand in an economy being the same. In other words, the impact of fiscal deficit on interest rate and economic growth rate, in Ricardian terminology, is neutral.
1.5 Need or Significance of Fiscal Deficit

Fiscal discipline and desirability of ‘sound finance’ has been an issue of much debate in India and elsewhere. But the very terms ‘sound finance’ and ‘functional finance’ underline the fact how a proper fiscal policy can contribute to robust health and growth of an economy. There is a general consensus that fiscal deficits are not bad as such. As Jhunjhunwala puts it fiscal deficit can be used to jump-start investments but expenditure must be on projects that push up production quickly (Jhunjhunwala, 2007). Recommending deficit for financing economic development, the UN experts maintained that it may lead to inflation but at the end of it, we all would have the dams and the irrigation canals and roads which could not have been started in the first place if rigid insistence on the sound financing was maintained (Patel and Dasgupta, 1951). A view contrary to fiscal correction is that an expansionary fiscal policy is the key to economic development and it has some distinguished academic credentials as well (Patnaik, 2006). Taking exception to FRBMA’s guideline to reduce revenue deficit to zero, Venkitaraman (2006) maintains that “the commitment to reducing revenue deficit to zero would mean decreasing the expenditure provisions for education, health
and social welfare schemes". This paper also cites Keynesian arguments to the effect that fiscal deficits, in general, need not per se lead to inflation or balance of payment difficulties. In this view, there need be no spillover of fiscal deficit to the current account of the BoP. Quoting a leading economist, Dr Pulapre Balakrishnan, he gives some international experiences in support of his argument. The Mexican economy faced a BoP crisis when their budget was in surplus. Similarly, the Thai economy had a BoP crisis when its budget was in the pink of health. All this goes to prove that fears regarding fiscal deficits spilling over into BoP problem may not be fully justified.

The argument for fiscal expansion runs on two strands – an analytical one and an empirical one. The analytical argument is that fiscal expansion will accelerate growth and raise the tax buoyancy, and the higher revenues so generated will be more than sufficient to meet the additional debt service obligations. In other words, through a ‘borrow and invest’ fiscal stance, the economy can get on to a virtuous circle of higher growth and higher revenues, and the government can borrow its way out of a debt crisis! (Rangarajan and Subbarao, 2007)
The empirical argument for fiscal expansion draws from recent Indian experience. It goes as follows. The conventional wisdom that fiscal deficits put pressure on interest and exchange rates and fuel inflation is not borne out by the Indian experience of the recent period. On the contrary, during the period 1996/97-2001/02 when fiscal deficits were on the rise, inflation had remained subdued and interest rates were restrained. What this shows is that India was not affected by the maladies traditionally associated with high fiscal deficits because our economic dynamics are different from those underlying the mainstream theory. Fiscal deficits hurt growth only when the imbalances are way off track. In India we are still very much within the limits of safety. Too drastic an adjustment in pursuit of some pre-determined target for fiscal deficit (set by FRBM) will threaten the growth momentum. What we need is not fiscal contraction, but fiscal expansion.

Surjit Das (2007) also warns against any attempt to cut down government expenditure in order to contain fiscal deficit as “the contractionary fiscal policy may actually increase the ratio of fiscal deficit to GDP…” In a similar vein, Shome (2006) sees the slowdown in later part of 1990s as a lagged effect of fiscal tightening of 1991-94- “the cutback in public
investment during the 1991-94 fiscal tightening seems to have affected private corporate investment adversely. This reflects a widely prevalent view that the relative inadequacy in the public provision of economic infrastructure has been at least partially responsible for the inability of private investment to achieve its full potential in terms of output and economic growth.” Some economists have pointed out that in India, there are large infrastructural deficits to be met and that the fiscal deficit targets will restrict Government's capacity to bridge the gaps — unless, of course, tax revenues rise in an uncharacteristically steep fashion.

1.5.1 Excessive Reliance on Fiscal Deficit can be Harmful

Rangarajan and Subbarao (2007) aver that the bedrock of sustainable growth is macroeconomic stability. Maintaining macroeconomic stability, as characterized by low inflation, stable interest rates and comfortable balance of payments, is critically dependent on redressing fiscal imbalances. Continued high fiscal deficits are a concern for several reasons. First, they disempower the government’s fiscal stance by preempting a larger share of public resources for debt servicing thereby leaving that much less for desirable expenditures such as physical infrastructure and social infrastructure. Second, if we incur
fiscal deficits together with revenue deficits, it means we are using up borrowed resources for current consumption which may raise growth in the short term, but of the spurious variety. To the extent the government preempts the available investible resources, it crowds out the private sector investment. The crowding out argument has even greater force in an economy with capital controls. Moreover, increased fiscal deficit means higher interest rate, increasing burden of debt servicing leading to more revenue and fiscal deficit that makes for a self-sustained vicious circle. Jayati Ghosh (2006) says that it has been argued that “fiscal deficit can be inflationary, or that it will cause external deficits, and is therefore destabilizing”. Second, it is suggested that large fiscal deficits will “crowd out” more desirable private investment by reducing the investible resources available to the private sector and raising the interest rate on borrowing. Third, it is argued that, even if fiscal deficits do not cause inflation, they lead to the accumulation of public debt and mounting future interest obligations of the government, and therefore are not sustainable.”

However, Rangarajan (2007) maintains that fiscal expansion works only in a limited case of zero revenue deficit and rate of return
being higher than the rate of interest. But in India, the rate of return over borrowings has consistently been insufficient to service the debt. Regarding empirical arguments, while it can be admitted that in India, high fiscal deficits have not had an adverse economic impact on the Indian economy, but this apparent paradox is the result of a fortuitous combination of circumstances. Kalpana Kochhar (2004) in a study has concluded that despite the apparent ease, with which the fiscal imbalances seem to have been tolerated, they have taken their toll on the economy in terms of foregone growth and that high fiscal deficit prevents the economy from attaining a sustained high growth path. Similar views have been expressed by Singh and Srinivasan (2004) who argue that the cost of India’s high fiscal deficit has been growth that is below potential. They go on to say that even if debt is not high, the potential debt dynamics are still cause for concern in the short run. Finally, even if a crisis is many years away - even if it never occurs – the cost of the current fiscal stance, in terms of forgone growth, may well be substantial. The economic reforms launched in 1991, called LPG popularly, had unleashed competitive forces resulting in higher investment as well as higher efficiency in production leading to an increase in production
capacity, which ran ahead of demand. This excess capacity led to a slackening of corporate investment demand, which declined from 9.6% of GDP in 1995/96 to 5.6% in 2001/02. The slackening of corporate investment demand coincided with the period when fiscal deficits, after the compression of the immediate post reform period, started to expand once again. It was because of this sluggish private investment demand that we escaped higher interest rates despite higher fiscal deficits. These domestic dynamics were aided by some exogenous factors as well such as the softening of global interest rates which helped to restrain domestic interest rates (Moorthy 2004).

Quoting Martin Feldstein’s address to the RBI in 2004, to give a lucid explanation of fiscal deficit and apathy towards it, they say that a country with a high fiscal deficit is like a fat man. Obesity hurts in an insidious way through diabetes, blood pressure or heart disease. But the irresponsible fat man always says that he is fine, and one more helping of icecream never seems to hurt. In a similar situation, it is all too easy for an irresponsible politician to peddle one more big expenditure program, despite accelerating inflation. In response to the fiscal expansion argument, drawing from Keynesian Theory, it has been argued that the
Keynesian logic works only in a demand constrained economy (Rangarajan, 2007, Srivastava 2006) which is clearly not the case with India. To substantiate, Srivastava, says that policy of fiscal expansion as a Keynesian tool is not always useful as “shown by our experience in the early years of this decade (2000-03) when we went through a severe slowdown in spite of having the highest levels of fiscal deficit relative to GDP. In those years, as shown below, high levels of fiscal deficits succeeded in reducing both primary and capital expenditure rather than increasing it. The experience after 2003-04 shows that a fall in the fiscal deficit can release resources for primary expenditure by reducing debt and interest payments relative to GDP” (Srivastava, 2006). Further, he goes on to cite the example of the economy seeing a healthy rebound in growth following fiscal correction post FRBMA.

Fiscal deficits are also bad for another little realized, but powerful reason. Fiscal deficits, especially in the face of revenue deficits, exacerbate inter-temporal equity concerns as they give the pleasure of spending to the current generation while passing on the pain of debt servicing to the later generation. It has also been argued (Bhalla, 2003) that a lower fiscal deficit, and consequent lower debt burden in near or
distant future, will lead to lower interest burden and this can release “resources for the revenue plan through falling interest payments and increases capital expenditure”.

1.6 Motivation for the Study

As the study attempts to analyse the impact of fiscal deficit on some important macroeconomic variables, the study assumes significance for understanding and analysing fiscal policy in a much more effective way. As discussed above, there is so much literature around underlining the need for fiscal discipline. The present study seeks to analyse if fiscal expansion can prove to be helpful in easing some economic variables paving way to economic upliftment of the country. The recent experience of most of the nations resorting to fiscal packages is a case in point.

1.7 Research Objectives, Hypotheses and Methodology

1.7.1 Research Objectives

The main objective of the study is to assess the impact of fiscal deficit on selected macroeconomic variables. The study investigates the extent to which fiscal deficit, apart from other variables like money supply, influences rate of inflation in context of the Indian economy. Another
objective is to evaluate the degree of impact of fiscal deficit on economic development. The study also assesses if fiscal deficit causes debt burden to increase and how significant is the relationship. The relationship between fiscal deficit and rate of interest has also been investigated. Similarly, the study also analyses the effect of fiscal deficit on trade deficit and if the phenomenon called ‘twin deficits’ exists in context of the Indian economy or not. Thus fiscal deficit has been sought to explain the behaviour of some of the very important macroeconomic variables.

1.7.2 Hypotheses of the Study

In order to achieve the said objectives we have framed following hypotheses:

- Fiscal deficit influences the inflation rate positively.
- Fiscal deficit causes rate of economic development to rise.
- Fiscal deficit causes debt burden to rise.
- Fiscal deficit causes trade deficit to increase.

1.7.3 Research Methodology

The present study is exclusively based on the secondary data collected mainly from various publications. For working out the impact
of fiscal deficit on the various aspects of Indian economy, different techniques of statistical analysis have been used. Statistical inferences have been drawn with the help of multiple correlation analysis, regression technique and the analysis of time series data. The graphic methods have been used wherever found necessary. Besides, the specific methodology of each chapter has been described at the appropriate place.

1.7.4 Data Sources

The proposed research has explored various resources for data. The data for the proposed study is drawn from the following secondary sources:

Reserve Bank of India Bulletin, RBI Mumbai

Economic Survey, Government of India

Report on Currency and Finance, RBI Mumbai

Union Budget, Government of India

WPI published by the Office of the Economic Adviser, Ministry of Industries,

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Economic and Political Weekly

National Accounts Statistics, Government of India
Hand Book of Statistics on Indian Economy, RBI Mumbai

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and

Public Finance Statistics etc.

1.7.5 Design of the Study

The present study has been divided into six chapters including introduction. The first chapter entitled ‘Introduction and Theoretical Perspectives’ deals with the introduction of the problem under study followed by its justification and significance. Here, some discussion has also been made regarding the need and importance of fiscal deficit in the economic development of an economy supported by the arguments from the existing literature on the subject. A brief idea of the objectives, hypotheses, research methodology and a synoptic view of the plan of the study has also been discussed.

The second chapter analyses relation between fiscal deficit and rate of inflation. This chapter, apart from discussing inflation and related concepts like WPI and CPI, looks into whether heavy fiscal deficits are leading to consistent price rise.
In the third chapter, after briefly discussing concept of economic development, the study has elaborated the effect of fiscal deficit on rate of economic development as well as the ways in which fiscal deficit can influence the rate of economic development.

In the fourth chapter entitled ‘Fiscal Deficit and Debt Burden’, the impact of growing fiscal deficit on debt burden has been analysed. In the light of recent debacles caused by increasing debt, this study assumes enhanced relevance. In this chapter, we have also discussed the impact of fiscal deficit on public debt via causality of effect of fiscal deficit on interest rate.

In the fifth chapter, trends of Trade Deficit have been put in relation to relative levels of fiscal deficits and relevant inferences are drawn. It makes an attempt to check if a high fiscal deficit leads to a high trade deficit.

In the sixth and the last chapter entitled ‘Summary and Conclusion’ we have summarised the whole study. Finally, in the end selected bibliography has been given.
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