Summary & Conclusion
SUMMARY AND CONCLUSIONS

7.1 Summary

Failure of the market-based economy in ensuring the welfare of the society has led to the adoption of economic planning in most of the developing countries of the world.

The new economic order caters only to those sectors, which are efficient, and neglects the areas like infrastructure that need a large amount of investment and produce low rate of return with a long gestation period. Again there are also some goods and services that do not attract the private sector due to indivisibility in their consumption such as quality of environment, national defence, entertainment services, local administration, street lights, roads, bridges etc. All these factors justify the government intervention in the economy through economic planning.

The financing of economic plans comprises of two important tasks i.e.

(i) Planning for the sources of finance

(ii) Planning for expenditure on different heads.

Since the volume of expenditure on different heads is dependent on the availability of resources; the planning for the financing of plans has emerged as the most important aspect of planning process. Therefore, the management of financial resources occupies an important place in the
scheme of financing of five-year plans. The selection of various sources financing the five-year plans and managing the respective amount from each source has always been a tough task before the Central as well as the State Governments because each source has both its positive and negative impact on the economy. The selection of sources of financing like taxes, borrowings, deficit financing etc are important because these have a close bearing on the pattern of distribution of the burden of development on different sections of the society, the price level and the balance of payments situation. To get better result therefore a combination of all the sources of finance is required to raise the funds for development plans and therefore the need arises for an optimum combination of the sources for financing the five year plans.

The success or failure of the physical targets set by the Plans depends on its effective implementation. For the effective implementation of the programmes sufficient amount of finance is required at the right time. In short, the problem of raising funds to finance the plans is an important aspect of plan implementation. The major sources of finance used by the Government of India are broadly classified under three heads.

1) Domestic budgetary resources of which

   a) Balance from current revenues (b) Contribution from public sector units (c) Internal private savings through market borrowing, small savings, provident funds etc.
ii) Additional resources in the form of additional taxes and additional funds from government undertakings

(2) If necessary, Government uses deficit financing and

(3) External assistance of which

   (a) Loans and grants from foreign countries (b) Loans from international institutions

The second chapter of the present research work covers theoretical background of this research problem. No doubt in India, all the sources of finance for the five year plans are well defined, but there are a number of constraints which limit the expected amount of financial resources from a particular source.

The surplus from the Government undertakings is regarded as an important source of finance by the Planning Commission of India. However the contribution made by the public sector undertakings has always been less than anticipated. Since most government enterprises are running at a loss and the Government Departments like Railways, Posts, Telegraph etc have always contributed less. Despite a minimal contribution it is regarded as a useful source of financing the plans

Taxation is an important source of financing the five-year plans in India. On the one hand it generates adequate amount of financial resources to execute the planned projects, on the other it reallocates the resources to bring out optimum utilization of resources and reduces income
inequality. It is the most effective method of organizing savings out of the incremental income, particularly when the per capita income is low. Its scope as a source of financing the plan also increased also because it reduces the inflation rate or rising price level however with the passage of time, the structure of this source of financing has become lopsided and regressive. Now the share of indirect taxes in the total tax collection has increased which has reduced the consumption level. Again the unequal treatment of Indian tax system – more benefit to higher income group, has also negatively affected the social obligations of the planning purpose. Moreover, the administrative inefficiency and loopholes undermined the potentiality of taxation in raising the funds for developmental purposes.

The next important source of finance is the public borrowing from the internal sources, which was assumed to be an inappropriate source by the classical economists. They advocated that the use of public borrowing should be only under exceptional circumstances but with time it has occupied a significant place in the scheme of financing of the five year plan. In the developing economies it is quite difficult to increase the supply of consumer goods in the initial stages of development. If consumption is not restricted the current demand cannot be met by the available supply of the consumer goods and chances of inflationary pressure become evident thereby hindering the level of development. In this case public borrowing reduces the
chances of excess demand and thereby inflationary pressure by borrowing some amount from the public. This source of financing the five-year plans is disadvantageous in the sense that its burden is borne by the future generations, which in turn is recovered by imposition of heavy taxes. When the current revenues are not sufficient to meet the planned government expenditure, a new method of financing is used which is popularly known as deficit financing. Through this method new currency is issued to raise the desired amount of funds that enables the banks to create more credit. Consequently the total supply of money in the economy increases leading to a rise in prices but this price rise is temporary in nature because the increased supply of money in the economy is used for developmental purposes that creates productive capacity and production in the economy. Ultimately it became a necessary and healthy corrective source for financing the developmental programmes when the economy is suffering from depression, deflationary conditions deficiency of effective demand or presence of idle capacity.

The planned developmental expenditure of the developing economy is so high, that it fails to generate the required amount of finance from the internal sources. Due to low per capita income the domestic savings cannot be mobilized beyond a certain level. This shortfall of domestic saving is bridged up by the external sources in the early stages of development. Moreover it has the advantage of
importing essential capital goods and managerial skill over the internal sources of finance. Though the resource mobilization from external sources serve a multipurpose role, a number of difficulties and problems are associated with its availability and use. Most of the external sources of finance come to developing countries in the form of aid on concessional terms but with many terms and conditions on the receiving country. The most vulnerable problem with aid is that its source is very uncertain. It is very difficult to predict that how much, when and from which country, external resources can be mobilized. Under such type of uncertainties regarding the inflow of capital from external sources it becomes very difficult to carry out the developmental programmes smoothly.

The Planning Commission of India is carrying out its developmental plan under the single paradigm of quick economic growth to address the plight of the poor over the last 55 years, for carrying out this task, the choice of financing the plans occupies an important place. To make the analysis of pattern of financing the five-year plans more simple, we have divided the sources of finance into five broad categories.

a) Current revenue receipts
b) Net Capital Receipts
c) External Assistance
d) Deficit Financing
e) Surplus of public sector

Among the different sources of financing the plan outlay in the public sector, the share of government borrowings (e.g. market borrowings, small saving institutions etc) has been the highest during the planning era except in the Third Five Year Plan and Fifth Five Year Plan. The total share of capital receipt in financing the plan outlay was 35.0 percent in the First Five Year Plan that steadily declined to 24.6 percent during the Third Five Year Plan. In the Fourth Five Year Plan its share rose to 40.5 percent and became more than 50.0 percent in the Seventh Five Year Plan.

The contribution of current revenue balance has been the second highest till the Sixth Five Year Plan in financing the plan outlay. Its share in financing the plan outlays was 32.6 percent in the First Five Year Plan, which slowly declined and touched a low of 2.0 percent in the Seventh Five Year Plan with an exception of 41.6 percent in the Fifth Five Year Plan. The contribution of public sector enterprises remained stagnant around 6.0 percent during First Five Year Plan to Fifth Five Year Plan. After this, it share rose and became 34.1 percent in the Eight Five Year Plan.

Deficit Financing has also contributed significantly in the First Five Year Plan, 17.0 percent of the total financial requirement was fulfilled by deficit financing that increased to 20.4 percent and 13.2 percent except during the Second
Five-Year Plan and Third Five Year Plan respectively. Since then the relevance of deficit financing has diminished and its contribution was at its minimum of 4.6 percent in the Eight Five Year Plan. An important feature of the Ninth Five Year Plan is that the government has stopped taking recourse to deficit financing as a source of finance.

The total domestic budgetary resources plus deficit financing have supplemented nearly 90.0 percent of the total financial requirement of the plan outlay. Therefore the contribution made by external sources has been 10 percent on an average except during the two plans i.e. in the Second Five Year Plan and Third Five Year Plan, when the financial aid provided by external sources was 22.5 percent and 28.3 percent respectively. The internal sources of financing the five year plans has therefore maintained its importance over the years, on an average the contribution of internal sources of finance has been more than 85.0 percent of the total requirements showing less dependency on the external sources of finance till the end of the Eight Five Year Plan. The outstanding liabilities of the Central Government comprising internal and external liabilities registered a declining trend as proportion of Gross Domestic Product (Gross Domestic Product) till 1998-99, which was mainly on account of increase in internal liabilities, which increased from Rs. 722962 crores to Rs. 1435663 crores.
The aggregated financial resources from the different sources are used to finance the public expenditure, which is broadly classified into

i) Plan expenditure

ii) Non-Plan expenditure

The plan expenditure includes expenditure on

a) Central plans, such as agriculture, rural development, irrigation and flood control, energy, industry & minerals, transport, communications, social services & others.

b) Central assistance for plans of the states and union territories.

While the non-plan expenditure includes.

i) Revenue expenditure that is expenditure on interest payment, defence and subsidies

ii) Capital expenditure includes loans to public enterprises and loan to foreign governments.

In the total planned expenditure the highest allocation of fund was made to energy sector. In 1991-92, the total allocation of fund to this sector was Rs. 19733 crores that was 30.5 percent of the total planned expenditure. The dominance of this sector continued to remain over the total planned expenditure during the 1990s. However in 2000-01 the expenditure over this head was 21.5 percent of the total.
The expenditure over this head therefore has been constant during the study period.

The sector that managed greater share in the planned expenditure of the government over the years is social services. It aggregated 15.9 percent of the total planned expenditure in 1991-92. This sector registered a slow gain and absorbed 21.2 percent of the planned expenditure in 1996-97. After a gradual decline in 1997-98 once again it convinced the planners of the need for greater allocation of funds for it in 1998-99 which was 25.9 percent, highest among all these years. But in 2001-02, this sector failed to register its importance in reducing the social deprivation and got a share of only 20.7 percent in the total planned expenditure.

The two important sectors that decide the fate of more than 60 percent of the population are agriculture and allied activities and rural development. The Governments expenditure on agriculture and allied activities has not increased during the last decade of the 20th century. After the economic reforms it could not remain a priority sector for the government. In 1991-92 only 5.9 percent of the total planned expenditure was allocated to this sector, the share of agriculture and allied activities in the planned expenditure, has declined slowly and reduced to 4.6 percent in 1997-98 with the exception being in the year of 1998-97. This declining trend of the share of agriculture and allied activities in the total planned expenditure continued and
became 2.6 percent in 2001-02. Contrary to this, the government expenditure on rural development formed an inverse U shape. Its share in the total planned expenditure firstly increased then reached to its maximum and then declined. Its share was 6.9 percent in 1991-92 that reached to its maximum of 8.0 percent in 1996-97 and then declined. At the end of the fiscal year 2001-02, the share of the rural development expenditure in the total expenditure shrunk to 3.4 percent. We can therefore say that during the 1990s and thereafter the government planned expenditure favoured those sectors, which were less concerned with the welfare of the masses.

Interest payment is an important constituent of non-plan expenditure, which is included in the revenue expenditure. With the passage of time, the burden of interest payment has increased during the period 1990-91 to 2001-02. In 1990-91 the total non-plan expenditure spent on interest payment was Rs. 21498 crores which was 3.8 percent of Gross Domestic Product. After a decade the total interest payment rose to Rs. 112300 crore that was 4.9 percent of the Gross Domestic Product in 2001-02. The Central Government expenditure on major subsidies occupies an important place in non-plan expenditure, the total expenditure on the major subsidies was Rs. 9581 crores in 1990-91 which was 1.9 percent of the Gross Domestic Product. After the economic reforms the Government has curtailed the expenditure on subsidies.
Though in absolute terms the total expenditure on this head has increased to Rs. 27845 crores but as percentage of Gross Domestic Product its share declined to 1.2 percent in 2001-02. The third important constituent of non-plan expenditure is defence. No doubt, in absolute terms expenditure on this sector has increased but as percentage of Gross Domestic Product its share has remained consistent during the period 1990-91 to 2001-02.

A general review of plan situation is being represented in the third chapter. On the eve of independence there was widespread incidence of poverty and unemployment along with the shortage of food supply. Among all these, the most terrible problem was food shortage that became the centre of attention in the First Five Year Plan. Keeping this, in view highest priority was given to agriculture sector by allocating it about 27 percent of the expenditure but in actuality turned out to be about 44 percent. To execute the First Five Year Plan, the government had identified three major sources of finance (e.g. budgetary resources, external assistance and deficit financing). In the plan as it was originally formulated, the estimate of total domestic resource to be raised by way of taxes, loans, small savings etc was Rs. 1258 crores the balance of Rs. 811 crores being financed from external assistance.

Content with the performance of the First Five Year Plan, the Second Five Year Plan was formulated in an atmosphere of considerable optimism. To address the
problem of poverty and unemployment more effectively, the planners adopted the economic policy on socialistic pattern. The new planning approach aimed at improving the standard of living with the help of (i) A sizeable increment in national income (ii) Rapid industrialization with a greater emphasis on the development of basic industries and ii) reducing the incidence of inequalities in the distribution of income and wealth.

The starting of a number of projects during the Second Five Year Plan to realize the above objectives put the Indian economy under stress and strain. To implement all the above programmes a huge amount of resources was required which was not easy to mobilize, under the existing economic conditions of the country. Due to this, the estimated amount of resources could not be materialized in aggregate as well as from the individual sources. All the efforts failed to diminish the relevance of deficit financing, external assistance and Public loans in financing the planned projects. The estimated amount of balance from current revenues was Rs. 350 crores while the actual balance was negative. Exhibiting the same trend, the realization of financial resources from small savings was Rs. 100 crores less than the estimated. The additional taxation target accepted initially in that plan was Rs. 450 crores, however it was realized that the target was inadequate and that the bulk of the gap of Rs. 440 crores shown in the scheme of financing was covered by way of
additional taxation which amounted to Rs. 1052 crores which was considerably in excess of the initial target plus the gap just mentioned.

It was the Third Five Year Plan in which planners explicitly stated the objective of self-reliance as the major goal of planning in the country, which could be achieved by fulfilling the objective of self-sufficiency in food grain production, building a base for the extension of the industrialization process, utilizing the manpower resources through substantial expansion in employment opportunities and by reducing the disparities in income and wealth. The pattern of using the financial resources to realize the above target was the same as it was in the Second Five Year Plan. However, the situation in the balance from current revenue worsened and became an unavoidable burden on the other sources of finance. Against the estimated surplus of Rs. 550 crores from current revenues, the realization was in the form of deficit financing equal to Rs. 419 crores. The realization of other sources of finance on current account was also unsatisfactory, which increased the burden on additional taxation and deficit financing.

The objectives set in the Fourth Five Year Plan was a synthesis of previous objectives used in the First Five Year Plan to Third Five Year Plan. The selection of sources of finance was made in such a way that it made the pattern of financing the Fourth Five-Year Plan distinct from the previous plans. The share of domestic budgetary resources
in total resource mobilization for the public sector plan was raised to about 78 percent as compared to 59 percent in the Third Five Year Plan. However loans from the public including state enterprises, borrowing from the market and term loans from financial institutions presented a good picture as a source of financing the plans as compared to other plans.

The Sixth Five Year Plan moved around its traditional and desired goals of growth, removal of poverty, and achievement of self-reliance. To execute programmes set in the sixth Five year Plan, the Central Government of India approved an aggregate plan outlay of Rs. 172210 crores. In the Plan proposal Rs. 97500 crores was to be raised from the public sector outlay and the responsibility to aggregate the remaining amount of Rs. 747710 was given to the private sector. Out of the public sector outlay, Rs. 14480 crores was to be had from current revenues, but it did not materialize and resulted in a shortfall of Rs. 12590 crores. This had been caused mainly due to a sharp rise in the Non-Plan Expenditure partially resulting from inflationary pressures of the Plan. The Plan had estimated only a gap of Rs. 5000 crores uncovered by public sector plan. However the actual outlay was greater than the planned. Again the available resources from the current revenue balance and public enterprises was substantially lower than what was contemplated.
The Planning Commission of India formulated the Seventh Five Year Plan with the main development strategy of attacking the problems of poverty, unemployment and regional disparities directly. The total plan outlay envisaged for the development strategy was Rs. 348148 crores that was composed of Rs. 180000 crore for the public sector and the remaining of Rs. 168148 for the private sector. The allocated fund to public sector outlay in the Seventh Five Year Plan was greater than the Sixth Five Year Plan. Despite all the efforts made by the government, the balance from current revenues was negative with a shift in favour of indirect taxes. The mounting growth in non-plan expenditure particularly of interest payment, and subsidies left no option before the government except relying on market borrowing to meet the ends.

From the above conclusion it is obvious that there has been a wide gap between estimated financial resources and its realization and the dependence over the capital receipt has increased. Due to this fact, the problem of mobilization of financial resources and its pattern became an integral part of plan implementation. There are a number of sources of financing the plan in which only few are very important in deciding the quantum total resource mobilization for the economy.

The Fourth Chapter of the present study concentrates on the evaluation of the Ninth Five Year Plan in the light of the strategy, objectives and impact of the new economic
policies in the context of major dimensions of state policy officially the Ninth Five Year plan was to start on 1st April of 1997 but due to the compulsions of the coalition politics with a change in the Government at Centre, the Government failed to get the approval of the plan documents before February 1999. The approach paper of the Planning Commission identified four important areas which needed special attention of the government and a perspective plan of 15 years was prepared for these areas. The four identified areas were i) Quality of life ii) Productive employment iii) Reducing regional imbalances and iv) Self reliance.

To ensure better quality of life immediate attention was given to the availability of food and nutrition to the majority of the people. A targeted Public Distribution System (PDS) was developed to assure this provision of the government. The other aspect of quality of life that got attention of the planners was the health and environmental consequences caused by increasing population density. The problem was to be solved through proper urbanization policy, provision of safe drinking water, primary education and health. Due to the lack of concern of the market based economy towards the employment generation, the Government was required to intervene in the economy by devising such a strategy that should be in accordance with the needs of the economy and social infrastructure. For this, vocationalization of the education system is essential and in addition special programmes will have to be implemented to
develop skills, enhance technological know-how and provide marketing channels for people engaged in traditional occupations.

The public investment in the infrastructure in favour of less well off states was proposed to assure the policy of the growth with equity. Greater focus on the agriculture sector of the backward areas, integration of the rural economy with the national economy, and an appropriate public intervention in region of relatively high income and low human indicators were the other measures taken for reducing regional imbalance. The objective of self-reliance was expected to be achieved with the help of expanding export base and reducing dependence on the external debt. To fulfill the objective of self-reliance, some measures were to be taken like, self-sufficiency in food grain production, ensuring balance of payments sustainability and avoidance of excessive external debt and by developing the domestic capacity in respect of all critical technologies needed by the country.

Regarding the impact of the new economic policy in the context of major dimensions of state policy it has produced mixed results. On the one hand, there has been some improvement in the quality of life of the Indian people, on the other hand the goal of productive employment generation and reduction in regional imbalances have not been satisfactorily realized, while the objectives of self-reliance have remained more or less
unfulfilled. There has been marked improvement in literacy rate, life expectancy, and infant mortality rate. The life expectancy became 61.1 years for 1991-2000 from 54.4 years for 1980-81. According to the census 2001, literacy rate increased to 65.38 percent from 13.56 percent in 1981. In the same way infant mortality rate reduced to 70 percent in 1999 from 110 percent in 1980-81. An improvement in the availability of Community Health Centre, Primary Health Centre, supply of safe drinking water, and sanitation facilities has been observed. The objective of self-reliance has been for a rude shock by the performance of the economy depicted by balance of payments. There has been a sharp increase in coverage of imports by export earnings. The export earnings accounted for merely 54.7 percent of the import bill in 1980-81. This ratio rose to 66.2 percent in 1990-91 and increased sharply during the 1990s and became 78.5 percent in 2001-02. As regards the self-reliance in food production there was a positive result, at the same time the objective of self-reliance as got a positive response by the availability of food grains. Regarding the reduction of regional imbalances the result has been a failure as aggregated by the planners over the decades. When we measure the extent of regional imbalances in terms of per capita net state domestic product, no doubt an improvement in the per capita Net State Domestic Product is observed by both type of states that is forward as well as backward but improvement in the per capita Net State Domestic Product
has been higher in case of forward states as compared to backward states leading towards ever increasing gap between states with high per capita income and states with low per capita income. In the field of generating productive employment, the objective was once again not fulfilled in 1992-93, it was estimated that there were 17 million unemployed labourers in which 7 million were educated unemployed. This figure rose to 58 million during 1992-97 and increased to 94 million at the end of 2002.

The Fifth Chapter of the present study examines the mid term appraisal of the Ninth Five Year Plan along with the constraints associated with the choice of optimum combination of sources. The Mid-Term appraisal report revealed a realization of 6.1 percent of Gross Domestic Product growth rate during 1997-2000, against a targeted growth rate of 6.5 percent. This realized growth rate is composed of 2.7 percent growth in agriculture and allied activities, 4.9 percent growth in manufacturing 8.3 percent in construction, 6.1 percent in trade and 14.1 percent in communication. There was a significant shortages in growth performance in agriculture, mining, quarrying and manufacturing. There was a negative growth of agriculture in the year 1997-98 and the two other sectors namely mining, quarrying and manufacturing performed well below their targets during the first three years of the plan. It was due to the fact that the production of the domestic crude oil have declined steadily in the recent years and secondly
production of iron-ore had stagnated due to a slackening in the production of world steel and also due to a sharp decline in demand for domestic steel.

During the first three years of Ninth Five Year Plan, the ratio of fiscal deficit to the Gross Domestic Product has been rising mainly due to increased borrowings from internal as well as external sources, for balancing the growing deficit on current accounts, and to reduce the growing fiscal deficit of the government there are certain measures which need to be taken, firstly there should be mobilization of more resources through taxation, user charges should be imposed for public services and the rising burden of non-plan expenditure should be controlled. secondly tax laws should be simplified and made easily comprehensive for ensuring better compliance so as to check the tax evasion. Thirdly there should be control over the fiscal status of the state governments, particularly the rising wage bill, tax evasions, and reluctance to raise additional resources.

Broadly speaking there are only three types of sources of financing the government plan outlay. First and the most important is the domestic budgetary resources when this source fails to cover the total expenditure, foreign assistance is required. If both these resources fail to accommodate the planned and non planned expenditure deficit financing has to be used. It is well known that no single source can satisfy the need of a developing economy
and hence a combination of all these sources are used to finance the government expenditure. But here it is very important to identify the contribution of each and every source of finance. The relative contribution of these sources depends upon a number of factors such as relative contribution of each in the past, nature and level of development of the economy and socio political framework. Further the pattern of financing will have to be reviewed from time to time in the light of the changed circumstances because there always have been constraints in the way of raising the optimum combination of resources.

Since the inception of planning, taxation has been the main source of finance for current revenue balance and is increasingly used for raising additional resources. It provided 10 to 15 percent of the total financial requirement. Ironically there always has been a deficit in balance for current revenue except in the First Five Year Plan and the Fifth Five Year Plan. This has happened mainly due to rapid growth in defence expenditure and non-plan expenditure. In addition almost 40 percent of the increase in Non-Plan Revenue Expenditure was due to the growth in pension and salary payment brought about by the implementation of the Fifth Pay Commission recommendations. The other component of non-plan expenditure that absorbs the largest resources is the interest payment. The amount of interest payment as a proportion of net revenue receipts rose from an average of a little over 30 percent during 1985-90 to an
average of about 44 percent during 1990-95 and further to 50 percent during 1995-2000. Another major reason for a severe shortfall in the Balance from current revenues (BCR) is the inability of the State Government to raise the budgetary resources through additional resources raising measures.

The poor performance of the PSUs particularly in financial area is another reason for deterioration in the BCR. The inefficient and low level of capital utilization in this sector is mainly responsible for this. The State Electricity Boards (SEBs) and the State Road Transport Corporations (SRTCs) that are the two major state enterprises has been running on losses throughout the planning period. The losses of SEBs are around Rs. 1500 crore per year and the losses of SRTCs are around Rs. 200 crores per year. Subsidies both implicit and explicit are also part of reason for low return to investment in public enterprises. The performance of the PSUs has also been negatively affected by lack of managerial power and autonomy with the pressure of over - staffing. During 1995-96 nearly 22 percent public sector enterprises operated in the capacity utilization range of 50 to 75 percent and about 22 percent functioned below 50 percent utilization of the rated far below the level of optimum utilization.

The increasing reliance of the Government on borrowing for financing the plan outlays produced negative impact on the economy in the form of interest payment and
consequently the burden of debt. As a result of borrowings, the average rate of interest paid on Central Government borrowing rose to 11.86 percent in 1998-99 from 7.03 percent in the eighties. Similarly interest on State Government borrowing rose to 12.35 percent in 1998-99 from 6.7 percent in the early 1980s. Though the burden of external debt has a declining trend during the planning era but still the burden is not small. A high amount of financial resources is being spent on debt servicing. The debt servicing payment as a percentage of gross aid utilization has been steadily rising with every plan. By 1984-85 the total debt service as a percentage of Gross aid utilization was 43 percent which shows that debt servicing has been offsetting a large part of external assistance and as a result only 57 percent of the total aid was left for the purpose of development.

The Chapter Sixth of the present study examines the General impact of the pattern of the burden of development on different classes of people and the economy as a whole. For a developing economy like India, it is very important to identify the class of people, which is financing the plans. In India though the beneficiaries are the members of well-off societies, the burden of the plan is borne by the least affluent people, over the years the incidence of indirect taxation which hit the common people has gone up steadily while the direct taxes like the income tax, gift tax, corporate tax have steadily declined. However after the
taxation reforms, the ratio of direct taxes to Gross Domestic Product has shown significant improvement however, this enhancement has been outweighed by a decline in indirect taxes to Gross Domestic Product ratio. To promote exports, all kinds of incentives are offered to export houses that supports the rich people and reduce the financial resources for plan purposes that is ultimately taken from the common people through different means. Internal debt is another source of financing the plan that has increasing tendency throughout the planning process and has benefitted the people of the higher strata because, at the end it generates income to them and shift this burden to poor people.

It is therefore clear from the above analysis that the balance from current revenue failed to mobilize resources for the development plan. Not only this with the passage of time the balance from current revenue became negative and hence became a burden on the Government and Planners. To meet this deficit, the planners started borrowing more and more from both the sources internal as well as external in financing the plans. Again if some amount was required it was fulfilled by the method of deficit financing and hence the Government plan outlay became heavily dependent on public borrowings. This heavy dependence on borrowing increased non-plan expenditure and little was left for the development purpose which was the main motive of the planning process and this proves our hypothesis that
Indequate financing is the major constraint in achieving the objectives of Five Year Plans.

7.2 CONCLUSIONS

Over the last 50 years of development strategies there has been a series of different approaches of financing of the developmental plan driven by the single paradigm of quick economic growth for generating greater amount of Social Welfare.

The choice of sources of financing has always been a matter of concern for the Government because the sources from which the financial resources are to be mobilized are as much important as their volume.

The most important task for the Government is to mobilize the total financial resources to match the provisions of the plan. This requires a suitable means or technique. There is always a problem of selection of sources of financing like taxes, a problem of selection of sources of financing like taxes, borrowing, ways and means advances facilities and their combination.

The choice of particular sources for financing the plan has a close relationship with the pattern of distribution of the burden of development among the classes of people, for instance, a heavy dependence on the tax and non-tax receipts do not impose any burden of repayment on the Government and hence the Government saves a significant amount from unproductive expenditure like interest payment. But as the share of borrowings increases in the
financing of plan, a high percentage of Gross Domestic Product goes for the interest payment of Gross Domestic Product goes for the interest payment and small amount is left for the downtrodden and hence the very purpose of borrowing is defeated. As a matter of fact the financing of expenditure by borrowing tends to produce higher prices and other inflationary effects specially in the period of full employment because they increase total spending as during to period of full employment, any increase in government expenditure not offset by an equivalent decline in private spending for consumption or investment will be inflationary. Thus the country has been faced with a dilemma by adopting this easy technique for mobilizing financial resources.

An important indicator that represents the fiscal position of the economy in respect of financing the plan is the fiscal deficit. Although it was a the Governments declared policy to bring down the fiscal deficit to the permissible 4 percent of Gross Domestic Product. However so far, the Government have failed to achieve this. During the last decade, the fiscal deficit was rising very fast and as a consequence the public debt and other liabilities of the Government of India were literally multiplying. In the year 1990-91 the total amount of public debt and other liabilities of the Government of India was Rs. 3,14,560 crores while in the year 1999-2000 it was Rs. 9,90,260 crores. Therefore in a matter of just eight years, the volume of public debt and
other liabilities of the Government of India has more than doubled. As a direct result of this expansion of Governments total liabilities, the annual interest burden of the Government of India is also mounting, interest burden of the Government of India was in 1980-81 Rs. 3,500 crores, in 1990-91 it was Rs. 21,500 crores and in 1999-2000, it was Rs. 88,000 crores.

Another important indicator is the Revenue deficit which is the excess of current revenues expenditure over current revenue receipts. It reflects the failure of the Government to meet its current expenditure out of its current revenue. In the year 1990-91, the Revenue Deficit was 3.2 percent of Gross Domestic Product while it was 3.2 percent in 2001-02. It clearly indicates that the government has been living beyond its means. This is due to the growing debt servicing burden which refers to payment of interest along with a portion of the principal.

The continued high level of public borrowing also have an effect on the rest of the economy through the prevalence of high interest rates. Because of the necessity to finance Government deficit the Reserve Bank of India has to keep the level of both Cash Reserve Ratio and Statutory Liquidity Ratio higher as deposits in commercial banks, this leads to the necessity for banks to have higher margins on their commercial activities, thereby subjecting the rest of the economy to high interest rates. Moreover, because of the avid tendency of the Government for
garnering resources from the financial sector including small savings, insurance and the like, the continued high fiscal level also impede financial sector reforms which are necessary for the economy to achieve higher level with increasing level of borrowings to finance activities which have zero or low yields. Interest payment increases inexorably. Thus non-productive current expenditures rises giving rise to higher and higher revenue deficits. This leads to yet higher and higher borrowing levels. Because of debt service payments forming a higher proportion of both revenues and expenditures, all other activities of the Governments suffer since wages and salaries, interest payment, defence expenditures, pensions, food subsidies etc. are all committed expenditures with little or no flexibility. The main sufferer in this process is Governments capital expenditure in both social and infrastructural facilities. Judging by the steep rise in outstanding debt and interest payments it seems we have reached the limits of fiscal prudence with such borrowing mainly used to finance current consumption expenditures thereby pre-emptying resources for development, since servicing the country's debt claims a large share of public resources and since these expenditures form an essential component for state management, very little room is left for the Finance Minister to improve social and economic services, which are essential for fostering economic development.
The Study makes the following recommendations having policy implications.

Expenditure management has to improve through appropriate prioritization and control is important for the Government. The tension between containing the deficit and providing adequate outlays for the relevant heads makes the priority of curbing expenditure even more important issue in India than what it is in many other countries.

The share of interest payments must be brought down by limiting the fiscal deficit and by retiring some of the existing debt. Given the size of the debt, retirement would achieve only a relatively small reduction in the debt burden. However, through the sale of seized gold and some of the Government lands and through disinvestments of PSUs shares, a sizeable amount could be raised and used for the retirement of debt.

Subsidies have to be reduced mainly because the government cannot afford the luxury of providing wide ranging subsidies for production. Subsidies directly targeted at consumers from the vulnerable Groups should be developed and implemented to safe guard the Governments objective of income distribution. Carefully developed small projects that are practical and implementable, with a clear beginning and a fixed termination are more likely to be successful than nationally announced mega projects short of sufficient funds and subject to wide misappropriation.
The most important fact revealed by the present study is that the unproductive expenditure has increased and is still increasing in the process of development planning. Now the need of the hour is to curtail the unproductive expenditure. In addition the expenditure over defence may also be minimized to get the desired results.

The process of disinvestments should be continued to lessen the burden of the mounting interest payments and debt servicing. It will be beneficial for the economy to reduce the burden of the external debt and if necessary some burden may be borne partly by the internal debt from the internal assistance because the payment for the internal debt is paid to the nationals after amortization and not to the foreign country. The bureaucratic and political control or dependence of the PSUs should be minimized and more control and greater autonomy should be given to the managers of the respective PSUs so as to take the right decision at appropriate time to make the unit more efficient and competitive.

Investment on agriculture sector has declined particularly after the economic reforms that lowers the growth rate of the agricultural sector than the projected. To get the desired result an improvement in the agriculture infrastructure is required.

The Government must clarify the objectives of the process of privatization and seek to forge a consensus. The objectives must be both the strengthening of these
enterprises to enable them to grow and to contribute to the restoration of the fiscal health of the country. The return from privatization must not be used for current expenditures. They should be explicitly used for retiring public debt so that the interest burden is progressively reduced.

In the ultimate analysis, it may be concluded that the inadequacy of resources for financing the Five Year Plans has been the major constraint in the achievement of objectives of Five Year Plans throughout. Moreover, despite the fact that in the Ninth Five Year Plan, deficit financing was discarded and ways and means were adopted as a method of financing the Plan and at the same time ‘Growth with Equity’ were set as the twin objectives of the Plan, the hypothesis stands proved.