PREFACE

There has been a good deal of discussions in India about the significance of deficit financing in the context of planning in India. This discussion has ranged between the two extreme views. On the one hand, there are some people who regard deficit financing as essential for the purposes of economic planning and healthy means of stimulating growth. On the other hand, there are some people who regard any dose of deficit financing as inflationary and a serious threat to the stability of the economy. Deficit financing which is used to secure an appropriate money supply and to redirect real resources to the government for its investment, is essential to the success of the plans. If, however, deficit financing is undertaken without regard to its effect on the money supply and the availability of resources, it will inevitably lead to inflation and hamper the achievements of planning. Whether deficit financing is desirable or not depends fundamentally on the volume of deficit financing as well as the environment in which it is undertaken, and the policies that go along with it. Though growth with stability is the desired goal, yet development with reasonable inflation has been often regarded as better than no development at all. However, deficit financing should be kept within proper limits so that it does not lead to hyper-inflation and no growth.

Since the Third Five Year Plan, the planners always decided to limit deficit financing to the minimum level at the time of plan formulation, but at the end of the plan period it was observed that reliance on deficit financing had always been much larger. Due to this wide gap between the intentions and actions for resorting to deficit financing for resource mobilization, there had been an agreement between the Government and the Reserve Bank of India, to avoid deficit financing completely after 1996-97. Following the agreement, during Ninth Five Year Plan deficit financing has been kept at zero level. Success in maintaining the agreement is yet to be seen. The success, however, is possible only if Government can exercise control over its plan and non-plan expenditures and can reduce the unproductive expenditures to as low as possible. It is to be mentioned that the
experience during the plan holidays 1966-69 was not a happy one when attempts were made to balance the budget. It had led to recessionary conditions in the Indian economy with a drastic cut in the government demand for capital as well as consumer goods and services.

With this background, in our present work, we have studied the impact of deficit financing on inflation (as measured by the increase in the wholesale price index) and growth with simple regression models. We have also analysed the relative contributions of additional resource mobilization, external assistance and deficit financing to inflation and growth with the help of multiple regression models. We have also made an empirical study on the implications of deficit financing as a resource-gap filling instrument on sectoral output and income in a consistency framework with the help of input-output model. We have also make an attempt to study statistically the interrelationship between inflation and growth in the context of planning in our country.

The present work has been completed under the supervision of Dr. Padmalochan Hazarika, Reader, department of Commerce, Gauhati University. I have been guided by him all through the work. I am greatly indebted to him and express my deep sense of gratitude to him.

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