CHAPTER - 1

INTRODUCTION
CHAPTER-I
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1.1 INTRODUCTION

Growth with stability is considered as a basic strategy in the context of planning in India. While growth is a function of investment, the later depends on the mobilization of resources available for investment from various sources. The domestic savings at the pre-plan rates of taxes, tariffs and administered prices of goods and services of public sector enterprises contribute towards financing investment expenditures in each plan. However, we find that right from the initiation of the First Five Year Plan in April, 1951 till the running Ninth Plan, such savings always fall short of the investment needed for achieving the desired rate of growth. Consequently, there emerges a saving-investment gap. This gap is filled up by several means. Right from the initiation of the First Five Year Plan till the Eighth Five Year Plan including the Annual Plans 'deficit financing' was taken as one of the major saving-investment gap filling instruments. It is worth mentioning that the anticipated volumes of domestic savings, investment and deficit financing may differ (and they actually do in the context of planning in our country) from the realized volumes.

Inflation, it is said, results from 'plan to invest' exceeding 'plan to save'. Although growth with stability is an objective with topmost priority in case of planning in India, yet it has been noticed that a relatively moderate rate of growth of the economy has always been accompanied by a high rate of inflation and thereby neutralized the benefits of growth to a large extent. In the context of planning in India, 'plan to invest' always exceeds 'plan to save'. In each of the first eight Five Year Plans including the annual plans deficit financing was resorted to as the gap between the saving and investment could not be filled up by other means like additional resource mobilization through additional taxation and raising of administered prices of goods and services of public sector enterprises and external assistance.
1.2 THE PROBLEM UNDERTAKEN FOR STUDY

The idea of resorting to deficit financing for economic development has remained very controversial. Our country resorted to deficit financing right from the First Five Year Plan till the Eighth Five Year Plan as a means of financing investment expenditures. However, in the running Ninth Five Year Plan deficit has been kept at zero level. But the technique of deficit financing is the easiest way of mobilizing investible funds. If the growth impact of deficit financing is more than its inflationary impact then it would be quite rationale to adopt deficit financing as a means of financing investment expenditures. Our present study relates to an empirical investigation of inflationary as well as growth impact of deficit financing in the context of our national planning.

1.3 REVIEW OF LITERATURE

Many researchers have devoted themselves to the study of deficit financing as a means of financing investment expenditures in the context of planning in India. Below we review some such works in brief.

Mihir Rakshit (1987) observes that there is no simple rule to access the impact of deficit financing. According to him a good deal regarding the scale and composition of the budget must be known before its inflationary potential can be analysed. He examines the complexities of accessing the impact of deficit financing in the Indian context, and is intended to serve as a guide for such exercise. The author while examining the inflationary potential of the 1987-88 central budget points out to the fact that such an exercise cannot be completed in the absence of detailed data and reliable estimates of coefficients entering the sectoral demand and supply relations. He finds that from an aggregative analysis along neo-Keynesian lines the budget cannot be said to have much of an inflationary potential. However, at the disaggregative level, a number of factors,
which are likely to raise prices in the short run and make the economy inflation-prone in the long run can be identified.

Abhay Pethe and Ajit Karnik (1992) examine the inflationary impact of financing government expenditures via budget deficit, changes in tax rate and changes in administered prices. The problem is studied within the framework of a small prototype macroeconometric model for the Indian economy. They, on the basis of the optimization exercise, rank the three instruments at the disposal of the government with respect to their finance generation per unit of inflation. They have also suggested an optimal policy mix of these instruments for financing incremental government expenditures.

A.N. Rajamani (1988) observes that large scale spending through budget deficit has failed to prove the Keynesian sikhantos adequately in a developing country like India. Anticipated levels of increase in employment and income, redistribution of national income in favour of the low and the poor, increase in real goods and services are yet to be realized. That depreciation occurs in rupee value is a reflection on the excessive extents of non-economic matters impinging on economic decisions and administration. If this depreciation continues uncontrolled, that will spell economic damages of untold dimension in the long run. Rajamani is of the opinion that since the basic inflationary pressure has arisen because of a shock to supply, the main plank of anti-inflationary policy has been the effective supply management. The maintenance of adequate supplies of food through the public distribution system and other channels has been the backbone of supply management policy.

The study made by B. Kumar (1991) reveals that there is no coherent link between the deficit finance and the expansion of narrow money. The study also brings to light the fact that the rationale of currency policy is not in tune with the need of the country. Deficit financing and monetary stock may be delinked by financing the deficit through other borrowings. The financing of gross fiscal deficit by capital borrowings helps in reducing the liquidity of the system.
Similarly, the inflationary impact of deficit finance may be dampened by making alternative arrangements.

V. Panipati Sarma (1992) observes that any attempt to directly apply western theory of the inflationary process to the less developed countries is bound to yield wrong analysis and prescriptions. Less developed countries are characterised by different social, political systems and stages of development. The institutional setting in these countries is backward and not suitable for application of western economic concepts and instruments. He points out that inflation in India is the combined effect of demand-pull, cost-push and deficit financing pressures in the economy. It also reflects typical structural problems, intersectoral and intra-sectoral bottlenecks. Mr. Sarma believes in structuralist view that inflation centers on the slow growth of agricultural output and slow growth in the capacity to import. Shortages and rising prices provide opportunities for import substituting industrialization, but at the same time import substituting industrialization adds to inflationary pressures. The foodgrain sector dominates the Indian economy both in terms of employment and output and the inflationary pressures emanating from this sector percolates to the rest of the economy. A rise in the prices of foodgrains caused by an increase in procurement prices, administered prices or low agricultural output leads to an upward movement in the level of industrial wages which in turn pushes up the costs of manufactured goods and services. Ultimately, prices of agricultural inputs also go up, causing an upward revision of prices of foodgrains. Thus, one vicious circle is completed with its root cause originating in prices of foodgrains. The impact of revision of procurement prices and administered prices on creating and perpetuating inflationary trend is very conspicuous and dominant.

K. Sundaram and S.D. Tendulkar (1987) argue that the view that the indirect effects of changes in administered prices on inflation would be offset by the deflationary impact of additional revenue is seriously misleading. They also refute the contention that the budget deficit route is more harmful than the once-for-all adjustment in raising administered prices.
Neera Verma (1996) in her study focuses on the sources of inflation and financing of budget deficits in India during the period 1963-1992. The author shows with the help of a multiple regression model that the budget deficits in India were financed mostly with high-powered money during the period under study. The other two factors, namely the domestic debt and the foreign-debt did not play any significant role in financing budget deficits in India, either in the whole period or in the various sub-periods. The author opines that the study made is insufficient to find out the impact of inflation on economic growth in India. Further empirical investigations are needed for this purpose.

Verma has tried to establish the relationship between budget deficits and inflation in India by running a regression and the result is presented in the following equation:

\[ P = -108.46 + 0.838 BD \]

\[ t\text{-statistic (0.264), } R^2 = 0.051 \]

The equation reveals that the relationship between the two cannot be statistically confirmed during the period under study.

Daya Krishna (1990) observes that budget deficits are the main causes of inflation. The author cites the example of the Seventh Plan which made a provision of Rs.14,000 crores for deficit financing but the actual budget deficits for the five years aggregated to Rs.37,255 crores which was more than two and a half times the budget estimate. And the total addition to currency during the seventh plan period (Rs.41,000 crores) was about 4,000 crores more than the total budget deficits (Rs.37,255 crores) which added to the inflationary pressure in the economy. According to the author, an important reason for the budget deficits exceeding the plan estimates is the unexpectedly large losses shown by many public sector enterprises (PSEs).
B.B. Bhattacharya and Madhumita Lodh (1990) established empirically that the average annual inflation rate in India during a long period of four decades had been quite moderate (about seven per cent) in comparison to many other developing countries although the inflation rate accelerated during the later part of the eighties. The degree of fluctuation in annual inflation rates in the eighties was less than the same in the seventies. The relative price has changed significantly over the years. The non-agricultural prices had increased faster than the agricultural prices despite relatively faster growth of non-agricultural output over agricultural output.

There was no stable relationship between inflation rate and output growth rate. Nor was there a stable relationship between inflation rate and money (whether measured by $M_1$ or $M_3$) per unit of output. The overall behaviour of inflation, therefore, did correspond to neither pure monetarist nor pure structuralist models.

The study made by Mongia (1986) shows that there has been a close relationship between the rate of increase in prices and the rate of growth in money supply. His findings are in conformity with Prof. Milton Friedman's emphatic statement about this relationship: "I know of no exception to the proposition that there has been one to one relationship between substantial rise in prices and substantial rise in the stock of money. I have challenged people to cite exception. I have as yet found no exception (1963, p.10)."

Monorama Hukku (1989) observes that deficit financing in India is not always followed by inflation and with proper and successful anti-inflationary policies and controls, deficit financing can go a long way in helping rapid economic development in India.
1.4  THE CONCEPT OF DEFICIT FINANCING

Deficit financing can be understood as filling, through new money, the gap caused by the excess of government expenditure over its receipts. The expenditure includes disbursement on revenue account and capital account. The receipts similarly comprise revenues on current account as also on capital account. As distinguished from the Indian practice, in the foreign countries like the USA, for estimating deficit finance, such receipts on capital account as borrowings — internal and external and other liabilities like small savings, provident fund deposits, etc. are not included. In India, these form a part of total receipts and are set against total expenditure to estimate whether or to what extent deficit financing is needed. In India, deficit financing implies only borrowings from the Reserve Bank of India against the issue of treasury bills or a running down of accumulated cash balances. When government borrows from the Reserve Bank of India, it merely transfers its securities to the Reserve Bank. The Reserve Bank, on the basis of these securities, issues more notes and put them into circulation on behalf of the government. "Deficit financing as understood in India, refers to the financing of the plan outlay through additional money created by the Reserve Bank of India by extending loans to the government to fill the gap between the fiscal outlay and total receipts which include domestic savings, market borrowings, external loans and surplus of the public sector enterprises" (Mankar, 1990, p.246).

1.4.1 Budget Deficit and Deficit financing

The two terms 'budgetary deficit' and 'deficit financing' are often taken to mean the same thing. This is reflected in the statement : "The term deficit financing is used to denote the direct addition to gross national expenditure through budget deficits, whether the deficits are on revenue account or on capital account. The essence of such a policy lies, therefore, in government spending in excess of the revenue it receives in the shape of taxes, earnings of the state enterprises, loans from the public, deposits and funds and other miscellaneous
sources. The government may cover the deficit either by running down its accumulated balances or by borrowing from the central bank of the country and thus creating money" (Planning Commission, Government of India. First Five Year Plan Document, pp.59-60). However, the Chakravorty Committee (the Committee to Review the working of Monetary System, 1985) did not accept that both budgetary deficit and deficit financing are identical. It stressed the need to make distinction between overall budgetary deficit and deficit financing, since their implications for changes in money supply may not always be the same. Mihir Rakhit (1993) has forcefully endorsed the view point of Chakravarty Committee by stating "The overall budget deficit denotes the gap between the expenditure and receipts under the revenue and capital accounts taken together and this gap is met by the sale of treasury bills (with a maturity period of ninety one days) the major part of which find their way into the portfolio of the Reserve Bank. Deficit financing on the other hand refers to the increment during the year in the net Reserve Bank credit to the government. A moment reflection suggests that though the two magnitudes - overall budget deficit and deficit financing - are closely related, they need by no means be identical". In order to differentiate the monetary impacts of the overall budgetary deficit and deficit financing, it is necessary to take note of three major distinctions between the two concepts. First, a major item on the receipt side of the capital account of the budget is the proceeds from the sale of medium and long-term government securities, so that the government expenditure met through such borrowings does not add to the budgetary deficit. However, some of the securities are purchased by the Reserve Bank which implies a net increase in its credit to the government and thus constitutes deficit financing. Secondly, deficit financing will tend to be less than the budgetary deficit to the extent a part of the treasury bills issued to cover the deficit in the government budget is purchased by banks, LIC and other institutions. Thirdly, the Reserve Bank's net credit to the government changes on account of the sale or purchase of the government securities by the former, the implication of which is that deficit financing in a year may be positive or negative even when the budget is balanced. However, it has been observed that data regarding budgetary deficit and deficit financing has been distinguished in the official statistics published by
the government of India till 1980-81. Thereafter, no such distinction is evident, rather, the term budgetary deficit has been substituted for deficit financing in the official documents (Appendix-I reveals this fact).

1.4.2 Fiscal deficit and Budget Deficit (Deficit Financing)

Fiscal deficit or gross fiscal deficit is the broadest concept which measures the total resource gap in terms of the excess of aggregate disbursements over revenue receipts including grants. In other words, it is the sum of borrowing (internal and external) and other liabilities (like small savings, provident fund deposits, etc.) and budgetary deficit (or deficit financing). It reflects fully the impact of fiscal operations on the indebtedness of the Central Government. It has roughly doubled in every five years. In 1980-81 it was Rs.8887 crores. It increased to Rs.17,783 crores in 1984-85 and to Rs.38,278 crores in 1989-90. As a ratio of GDP it has risen from 6.5 per cent to 8.6 per cent during the decade. The net fiscal deficit excludes the centre's own net lendings. It has also doubled in every five years.

Fiscal deficit is a measure of excess expenditure over what may be termed as government's 'own' income. It throws light on the extent to which the government has gone beyond its means and the ways by which it has done so. As against this concept, the budgetary deficit is only a partial measure of the fiscal imbalance. It treats borrowings (internal and external) and other liabilities (like small savings, provident fund deposits etc.) as receipts. As such, the deficit is simply a measure of the new money created by the Reserve Bank of India. The deficit financing or the new money that the budget deficit indicates throws light on the expansion of money which is of crucial significance in the price-scenario. The fiscal deficit, on the other hand, takes into account both the deficit financing and the borrowings.
The International Monetary Fund (IMF) shows its concern with the all-inclusive concept of fiscal deficit. It thinks that it is the reduction in the fiscal deficit that will make a country viable. Since the reduction in the fiscal deficit means reduction in the government's existing debt or liabilities, it establishes a country's capacity to repay the loans.

1.4.3 Deficit financing and Money Supply

Deficit financing measures the increase in the stock of 'reserve money' also known as high powered money by full amount. The reserve money is the money produced by the Reserve Bank of India and the Government of India. The Reserve Bank issues all currency notes while the Government of India creates small coins and one-rupee notes. The reserve money is held by the public and the banks. It includes (i) currency held by the public, (ii) cash reserves of banks and (iii) other deposits of the Reserve Bank. The supply of money increases due to deficit financing by money multiplier times the amount of increase in the stock of reserve money which is equal to the amount of deficit financing. Money multiplier is the ratio of money supply to reserve money. In India, for analytical purposes generally the two concepts of money supply are used. These are $M_1$ and $M_3$. $M_1$ is the narrow measure of money supply and includes (i) currency held by the public, (ii) net demand deposits of banks, and (iii) other deposits of the Reserve Bank. $M_3$ is the broad measure of money supply and is the sum of (i) $M_1$, and (ii) net time deposits of banks.

It has already been mentioned above that the volume of money expands not just by the amount of newly created money of the government through deficit financing, but by a multiple of it — the multiplier being equal to the ratio of money supply to reserve money. This happens because of the secondary expansion of money supply through the credit created by banks which gives more loans. The newly created money by the government goes to banks as deposits, swell their cash reserves and thereby expand their capacity to give more loans and increase
additional deposits. Thus the total expansion of money supply is more than the quantum of deficit financing. The actual money multiplier ratios of $M_1$ and $M_3$ to reserve money, for example, were 1.4 and 3.2 respectively in the year 1994-95. On the basis of these estimated money multiplier ratios, we can say that deficit financing of Rs.10,000 crores, other things being the same would increase the supply of $M_1$ by Rs.14,000 crores and the supply of $M_3$ by Rs.32,000 crores. Thus the total quantum of money supply is much more than the quantum of deficit financing, and in the absence of increase in the supply of essential goods, their prices increase and inflationary pressure builds up.

1.5 CONCEPT OF INFLATION AND GROWTH

Inflation means a substantial and rapid increase in the general price level, which causes a decline in the purchasing power of money. Inflation is statistically measured in terms of percentage increase in the price index per unit of time, the unit being a year, or a month or a week. Inflation is a momentary phenomenon and is generally caused by excessive money supply which causes excessive demand. V.K.R.V. Rao (1983) defines inflation as below:

"When national expenditure exceeds the value of goods and services at a given price level, there is a tendency for all prices to rise, which is termed as inflation". It is worth mentioning that a cyclical movement of prices is not inflation.

Economic growth relates to the steady process of increasing productive capacity of the economy and hence of increasing national income. The analysis of economic growth has played an increasingly important role in economics. The concern of economic growth arises of the idea that the greater the rate of growth of the economy, the greater will be the increase in the level of well being of the people provided the distributive justice is attained. Economic growth is generally measured in terms of growth of GNP or GDP.
1.6 RATIONALE OF THE STUDY

To fight the cyclical depressions in the capitalist countries in the thirties of the twentieth century, Keynes enunciated the logic of deficit financing and its use justified in the conditions of developed countries. With no difficulties in respect of factors, especially capital and skilled labour, production responds to changes in demand in these developed countries. Higher demand leads to larger production, and vice versa. Hence during depression with large many unemployed, recovery of the economy can be started by increasing demand. For this Keynes suggested that the government should spend more than the revenue it earns. No attempt should be made to raise revenue through taxes or borrowing from the public for this will further reduce the purchasing power with the public and, therefore, will further depress demand. Hence Keynes advocated that over and above its ordinary receipts, the government should spend by creating new money and expanding bank credit for this purpose. This is the technique of deficit spending as applied to counteract the effects of depression and initiate a process of recovery. Deficit spending by the government during depression helps to start the stagnant wheels of productive machinery and thus promotes prosperity. Due to deficiency of effective demand, resources remain idle during depression which can be engaged productively by increased government spending through deficit financing. There results an increase in production, employment and income and through the multiplier effect, the economy will be lifted up from the slump level.

The above logic, however, cannot be applied in case of developing countries like India. The developing countries being largely agrarian economies, the cyclical upheavals do not occur within the system. This may, however, be transmitted from outside through foreign trade and that too being small in magnitude. Again, the supply curve of these economies is not so elastic because of the scarcity of mainly capital and skilled labour. Still deficit financing is regarded as an important tool to activise a backward and developing economy as the increase in the volume of money brought about by deficit financing results in
higher demand for labour and other resources. If the resources collected by 
resorting to deficit financing are judiciously invested in the building up of capital 
then it will increase the national output without having much inflationary impact. 
But there is a limit beyond which the government cannot go. If the creation of new 
many could alone solve the problem of mobilizing resources for development, 
every country would have developed long ago.

India has resorted to deficit financing as one of the instruments of financing 
investment expenditures in the process of her planned economic development. 
However, one of the crucial questions which is often posed is whether inflation in 
our country has been a monetary phenomenon or not. The monetarist school of 
thought represented by economists like late Prof. C.N. Vakil and Prof. P.R. 
Brahmananda strongly believe that it is the excessive growth in money supply 
arising out of deficit financing which has been a major cause of inflation in the 
past. On the other hand, there are a number of eminent economists who have 
expressed different opinions on the subject. Dr. K.S. Krishnaswami, in his address 
on 'Thought on Inflation and Distribution to the Indian Economic Association in 
December, 1976, as Deputy Governor, Reserve Bank of India, expressed the view 
that "Inflation is not so much a monetary but a social phenomenon; and the 
nemesis has to be sought at a fundamental level, that is, in changes reflected in 
socio-economic structure". The view has been supported by Dr. I.G. Patel, the 
former Governor, Reserve Bank of India (RBI), in his inaugural address to the 
Indian Economic Association of Madras in December, 1977. He observed that, "In 
the ultimate analysis inflation is not a monetary but a social and political 
phenomenon, monetary trend being only a reflection of our success or failure in 
achieving a stable or acceptable scheme of distribution of income and resources". 
However, the increase in the supply of money resulting from deficit financing 
unaccompanied by similar rise in the supply of goods and services has been held 
responsible by the Planning Commission for inflationary rise in the price level. 
Consequently the method of deficit financing, as practiced so far, has been 
discontinued with effect from 1st April, 1997. Instead a scheme of Ways and 
Means Advances (WMA) has been ushered in. This step has been taken following
an agreement on the subject between the Central Government and the RBI on March 26, 1997. The system in operation till the beginning of the Ninth Plan enabled the government to draw more money from the RBI automatically and to an unlimited extent. The ad hoc treasury bills, which form the basis of the system, came to be used to an ever-increasing amount, running into thousands of crores of rupees. Under the new scheme of WMA, the RBI provides facilities for temporary accommodation of the financial needs of the government up to a ceiling (or limited amount) fixed in advance. The government's need for cash/funds arises when the flow of government's receipts through taxes etc., fall short of government expenditure. To meet this gap, the RBI allows from time to time the government to draw upon the credit extended by it. The credit/loan thus drawn has to be repaid or in technical language the government vacates WMA from time to time. As a result, the WMA will be reduced to zero at the end of the financial year. Thus, the WMA is purely a mechanism to bridge the temporary mismatch between the government's receipts and its expenditure.

The vital question that the planning authority of our country is confronted with is that whether the technique of deficit financing should be abolished for all time in fear of inflationary pressure in the economy and to resort to the technique of WMA. The technique of WMA raises the internal debt burden which is increasing at a galloping rate. India's internal debt burden was of the order of Rs.4,87,682 crores during 1994-95 which increased to Rs.9,34,429 crores (B.E.) during 1999-2000 (RBI Annual Report, 1998-99, p.210). Again, complete elimination of deficit financing may lead to recession. "Experience during the plan holidays of 1966-67, 1967-68 and 1968-69 cannot be forgotten, when attempts were made to balance the budget. It had led to recessionary conditions in the Indian economy. There was a drastic cut in the government demand for capital and consumer goods and services. Deficit financing is inevitable to a moderate extent, not the way in which it is recently resorted to" (Mankar, 1990, p.269).

From the foregoing discussion it is clear that a rigorous study relating to the impact of deficit financing on inflation and growth in the context of our national
planning is very essential. On the basis of our study researchers may take up an optimization exercise where they may be able to determine the limits for deficit financing subject to specified rates of growth and inflation.

1.7 OBJECTIVES OF THE STUDY

The study is being carried on with the following objectives:

(a) To determine the numerical estimate of the influence of deficit financing on inflation,

(b) To determine the numerical estimate of the influence of deficit financing on growth,

(c) To test empirically the impact of deficit financing on sectoral output and income in a consistency framework,

(d) To examine empirically the degree and nature of correlation between inflation and growth in the context of planning in India,

(e) To compare the influence of deficit financing on inflation and growth with the influence of other two major saving-investment gap-filling instruments, viz., additional resource mobilization and foreign assistance.

1.8 SOURCES OF INFORMATION

The study is entirely based on secondary data. Various data pertaining to the study are obtained from the following sources:
1.9 METHODOLOGY USED

Detailed descriptions of the various methodologies used are given in relevant places. Inflation is measured by the increase in wholesale price index (WPI). The reason for selecting WPI as an indicator of inflation is discussed in details at proper places. However, we have also calculated the consumer price indices and displayed along with the wholesale price indices in a table incorporated in Chapter-II. Annual compound rate of increase in inflation (or GNP) during a particular period is computed from the exponential function of the form:

\[ Y = AB^t, \]

Where \( Y \) = price index (GNP) of terminal year of the period under consideration, \( A = \text{WPI(GNP)} \) of the initial year of the period under consideration, \( B = 1 + i \), \( i \) being the rate of increase per unit, \( t \) = number of years between the initial year and
the terminal year of the period under consideration. The annual compound rate of increase \( r \) in \( \text{WPI}(\text{GNP}) \) is given by \( r = (B - 1) \times 100\% \).

The inflation and growth implications of deficit financing are studied with the help of simple linear regression models. Again, for comparing the inflationary and growth implications of deficit financing (DF) with the inflationary and growth implications of Additional Resource Mobilisation (ARM) and External Assistance (EA) we have used multiple regression models with DF, ARM and EA as exogenous variables. While in one multiple regression model the WPI is the endogenous variable, in the order the GNP is the endogenous variable. We have studied inflationary and growth impacts of DF in isolation and jointly with ARM and EA both at current and constant prices. Again, for a consistency exercise relating to the impact of DF on sectoral output and income we have made use of input-output model.

1.10 PERIODICITY OF STUDY

At the time of taking up this research work our country completed eight five-year plans including a few annual plans. Our work covers the entire period of this planning era, i.e., from April, 1951 to March, 1997. It is also worth mentioning that due to the fixing of deficit financing at zero level during the Ninth Five-Year Plan we have not incorporated the Ninth Plan in our study although various data relating to the Ninth Plan became available by the time we engaged ourselves in compiling the requisite data.
1.11 RESEARCH QUESTIONS TO BE INVESTIGATED

Some of the research questions we have investigated are as follows:

(i) Whether the inflationary impact of deficit financing is more pronounced than its growth impact,

(ii) Whether the inflationary impact of deficit financing is more than the inflationary impact of additional resource mobilization and external assistance,

(iii) Whether the growth impact of deficit financing is less than the growth impact of additional resource mobilization and external assistance,

(iv) Whether the correlation between inflation and growth is positive or not.

1.12 SCOPE OF THE STUDY

It is hoped that on the basis of the study made by us researchers may investigate rigorously into the problem whether deficit financing should be abolished for all time or it should be re-introduced again when the internal as well as external debt burden of our country is mounting year after year. It is also possible to find out an optimal pattern of financing plan investment leading to economic growth consistent with a certain inflation rate where deficit financing is one of the instruments of financing plan investment expenditures.

1.13 LIMITATIONS OF THE STUDY

The main limitation of our study is that we do not have appropriate data and information about the investment destination of the resources mobilized through
deficit financing. If resources mobilized through deficit financing are invested in productive works then inflation that will occur initially will gradually decay along with the output flowing to the market. Since information regarding proportions of resources mobilized through deficit financing invested in productive and unproductive works are not available, we have simply analysed the impact of the entire volume of deficit financing on inflation and growth without making any reference to investment destination. Another limitation of our study is that we have not found all the requisite data from the same source. Different agencies adopt different methods of data collection and consequently there appears much variations among the data collected by different agencies. Again, while the planwise deficit financing figures are actual figures, a major portion of yearwise deficit financing figures relate to revised estimates. Consequently, in case of a few plans there emerges a significant difference between the deficit financing figure (actual figure) of a plan period and the sum of the annual deficit financing figures (revised estimates) pertaining to the plan.

1.14 STRUCTURE OF THE THESIS

The thesis is presented with the following chapters:

Chapter-I: Introduction

Chapter-I is the Introductory chapter which is this chapter itself.

Chapter-II: Experience of Planning in India – Rates of Inflation and Growth

This chapter is devoted to the planning experience of India over the period under study giving emphasis on the two main aspects of our study, viz., inflation and growth.

Chapter-III: Financing Pattern of India's Five Year Plans

In this chapter we have analysed the financing pattern of India's Five-Year plans in the context of public sector.
**Chapter-IV : Impact of Deficit Financing on Inflation**

In this chapter an empirical analysis regarding the impact of deficit financing on inflation is made in the context of planning in India with the help of simple linear regression models.

**Chapter-V : Impact of Deficit Financing on Growth**

In this chapter an empirical analysis regarding the impact of deficit financing on growth is made in the context of planning in India with the help of simple linear regression models.

**Chapter-VI : Inflationary and Growth Impact of Additional Resource Mobilisation (ARM), External Assistance (EA) and Deficit Financing (DF) — A Comparative Analysis**

An analysis of the relative influences of the three major instruments of financing investment expenditures namely, additional resource mobilization, external assistance and deficit financing on inflation and growth is made with the help of multiple regression models.

**Chapter-VII : Impact of Deficit Financing as a Resource-Gap Filling Instrument on Income and Output Growth — An Input-Output Analysis**

In this chapter, the implications of saving-investment gap on sectoral output and income are empirically studied in a consistency framework with the help of input-output model.

**Chapter-VIII : Summary of Findings, Conclusion and Suggestions**

In this chapter a summary of findings is presented along with conclusion and suggestions based on our findings.
REFERENCES


