CHAPTER - III

FINANCING PATTERN OF INDIA'S FIVE YEAR PLANS
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3.1 INTRODUCTION

Success of a plan to a great extent depends on the consistency between the physical targets and the financial resources available for the plan. An essential aspect of development planning relates to its financial pattern. For an effective implementation of a plan the scheme for its financing should be devised in such a way that adequate financial resources become readily available. The financing pattern of a plan is normally considered to be sound and effective when beside providing adequate resource for the plans, it distributes equitably the burden of development among various sections of population, and does not affect seriously the price level and balance of payments.

3.2 RESOURCES FOR PUBLIC SECTOR

The most difficult problem faced by the government has been to mobilize adequate resources to finance the development programmes of the public sector. Understandably the government makes all possible efforts to raise resources from both domestic and external sources. Estimates of financial resources likely to be available over the plan period are prepared on the basis of (a) the rate of increase in national income envisaged under the plan and (b) planned outputs of state enterprises materializing and being disposed of on assumptions as to prices provided in the plan frame.

There are broadly two concepts of public expenditure. According to one concept, government expenditure is distinguished as plan expenditures and non-
plan expenditures. The plan does not include expenditures on the continued
maintenance of institutions and services which may have already come into
existence at its commencement. Expenditure on these are called non-plan
expenditures. Non-plan expenditures are estimated and only the balance of the
resources available (at existing level of taxation) is taken into account in relation
to the finance of the plan. A second concept that is employed is to distinguish plan
expenditures which constitute ‘investment’ and those termed as ‘current outlays’.
‘Investment’ is defined as expenditure on the creation of physical assets e.g.
building, plant and equipment including expenditure on personnel required for
putting up these assets. The expression ‘current outlays’ corresponds broadly to
expenditure on revenue account on plan schemes; these are expenditures other
than those classified as ‘investment’.

Resources expected to be available to the government are estimated under
the following main heads:

(1) Balance from current revenues, which means revenue receipts (mainly
tax yields) at existing rates minus non-plan revenue expenditures of
the center and the states, which may even be a negative figure plus
additional resource mobilization (ARM). Till the Fourth Five Year
Plan ARM included mostly additional taxation. Since the Fifth Plan
Share of additional taxation in additional resource mobilization is
going down and that of ‘reduction in subsidies’ and ‘internal resources
of public sector enterprises’ is going up.

(2) Surpluses of public enterprises: (a) Contribution of railways. (b)
Surplus of other public enterprises.

(3) Capital receipts include: (a) Market loans (net), (b) Small savings
(net), (c) Annuity deposits, (d) Provident funds (net), (e) Steel
equalization fund (net), (f) Balance of miscellaneous capital receipts
over non-plan disbursements.
(4) Budgetary receipts corresponding to external assistance. It includes all sorts of foreign assistance whether it is in the form of loans or grants.

(5) Deficit financing (that is, net credit by the Reserve Bank of India to the government). It is actually the balancing factor which shows the shortfall of all the resources, and, therefore, has a special place in total resources.

The aforementioned sources of finance are self-explanatory. On the basis of the anticipated rate of growth, current revenues are projected and from this projected amount, projected non-plan expenditures (both developmental and non-developmental) are deducted to arrive at existing rates of taxation for financing the plan. For capital receipts only net amounts are taken. Against item (4), only those receipts against external assistance are taken which pass through the government’s budget. Thus, amounts going directly to the private sector, from whatever source they come, are not recorded as ‘budgetary receipts’. Deficit financing is resorted to when the adequate resources cannot be mobilized from the domestic budgetary resources (funds raised by the government within the country) and foreign assistance. This is a source that enables the government to bridge the gap between the expenditure over revenues earned from all the sources from (1) to (4). This source of resource-mobilization not only constitutes a debatable issue, but also has a far reaching impact on the economy.

3.3 RESOURCES FOR THE PRIVATE SECTOR

Resources for the private sector are estimated in much less detail and precision than for the public sector. For the unorganized sector of the economy (agriculture, trade, small industry and construction) estimates are prepared by the Reserve Bank of India mainly on the basis of past trends projected into the future
on assumptions as the rates of growth during the plan period and data derived from such special studies and surveys as may be available. For the corporate sector, besides the Reserve Bank of India and Planning Commission, the Company Law Administration Department of the Government of India and the Central Statistical Organization also participate in the studies.

The savings of the individuals and of the companies are available to the private sector either directly or through the bank system. The public sector financial institutions like the Industrial Finance Corporation of India, the State Financial Corporations, the Industrial Credit and Investment Corporation of India (which is supported by the World Bank), the Industrial Development Bank of India, the Life Insurance Corporation of India, the National Bank for Agriculture and Rural Developments, Export-Import Bank, Unit Trust of India etc. supply funds to the private sector. The private sector may also raise funds from the market through floating of shares and debentures. Finally, it may get foreign funds in the form of equity capital or foreign collaboration, subscription to equities from non-resident Indians, from the International Financial Corporation (an affiliate of the World Bank), loans from the World Bank and so on.

Though our developmental efforts are carried on by both private and public sectors, the detailed plans are framed for the public sector only. So in this Chapter, we however, deal with the financing pattern of the public sector plan only.
Table-3.1: Financing of plan outlay in the Public Sector (Rupees in crores).

<table>
<thead>
<tr>
<th>Period</th>
<th>Balance from current revenues</th>
<th>Surplus of public enterprises</th>
<th>Capital receipts</th>
<th>Total domestic resources</th>
<th>External Resources</th>
<th>Deficit Financing</th>
<th>Aggregate Resources</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>1.1</td>
<td>1.2</td>
<td>1.3</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
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<tr>
<td>First Plan (1951-56)</td>
<td>637 (32.5)</td>
<td>115 (5.9)</td>
<td>686 (35.0)</td>
<td>1438 (73.4)</td>
<td>189 (9.6)</td>
<td>333 (17.0)</td>
<td>1960</td>
</tr>
<tr>
<td>Second Plan (1956-61)</td>
<td>1063 (22.7)</td>
<td>167 (3.6)</td>
<td>1439 (30.8)</td>
<td>2669 (57.1)</td>
<td>1049 (22.5)</td>
<td>954 (20.4)</td>
<td>4672</td>
</tr>
<tr>
<td>Third Plan (1961-66)</td>
<td>2473 (28.8)</td>
<td>435 (5.1)</td>
<td>2113 (24.6)</td>
<td>5021 (58.5)</td>
<td>2423 (28.3)</td>
<td>1133 (13.2)</td>
<td>8577</td>
</tr>
<tr>
<td>Annual Plans (1966-69)</td>
<td>1254 (18.9)</td>
<td>398 (6.0)</td>
<td>1887 (28.5)</td>
<td>3539 (36.4)</td>
<td>2410 (10.2)</td>
<td>676 (12.8)</td>
<td>6625</td>
</tr>
<tr>
<td>Fourth Plan (1969-74)</td>
<td>4044 (25.0)</td>
<td>1431 (8.8)</td>
<td>6538 (74.4)</td>
<td>2087 (12.9)</td>
<td>2060 (12.8)</td>
<td>16160</td>
<td></td>
</tr>
<tr>
<td>Fifth Plan (1974-79)</td>
<td>16939 (41.6)</td>
<td>2583 (6.3)</td>
<td>12424 (78.5)</td>
<td>31943 (86.4)</td>
<td>5209 (8.7)</td>
<td>3560 (11.2)</td>
<td>40712</td>
</tr>
<tr>
<td>Annual Plan (1979-80)</td>
<td>4332 (34.5)</td>
<td>1696 (13.5)</td>
<td>4132 (80.6)</td>
<td>1086 (8.6)</td>
<td>1355 (10.8)</td>
<td>12601</td>
<td></td>
</tr>
<tr>
<td>Sixth Plan (1980-85)</td>
<td>22039 (19.9)</td>
<td>18634 (16.8)</td>
<td>45935 (78.1)</td>
<td>8329 (7.7)</td>
<td>15684 (14.2)</td>
<td>110821</td>
<td></td>
</tr>
<tr>
<td>Seventh Plan (1985-90)</td>
<td>13220 (5.8)</td>
<td>29627 (13.1)</td>
<td>124538 (73.9)</td>
<td>20708 (9.1)</td>
<td>38545 (17.0)</td>
<td>226638</td>
<td></td>
</tr>
<tr>
<td>Annual Plan¹ (1990-91)</td>
<td>(-10997) (17.9)</td>
<td>10961 (17.8)</td>
<td>43453 (70.8)</td>
<td>6320 (10.3)</td>
<td>11347 (18.6)</td>
<td>61137</td>
<td></td>
</tr>
<tr>
<td>Annual Plan¹ (1991-92)</td>
<td>(-9000) (13.9)</td>
<td>13227 (20.4)</td>
<td>43117 (73.7)</td>
<td>7892 (12.2)</td>
<td>6855 (10.9)</td>
<td>64698</td>
<td></td>
</tr>
<tr>
<td>Eighth Plan² (1992-97)</td>
<td>(-39583) (10.4)</td>
<td>131449 (34.5)</td>
<td>240215 (87.2)</td>
<td>19234 (5.1)</td>
<td>33037 (8.7)</td>
<td>380524</td>
<td></td>
</tr>
<tr>
<td>Ninth Plan (1997-2002)</td>
<td>(-1406) (0.1)</td>
<td>340409 (39.6)</td>
<td>460179 (93.0)</td>
<td>60018 (6.9)</td>
<td>0 (0.0)</td>
<td>859200</td>
<td></td>
</tr>
</tbody>
</table>


Note:

a. Includes additional resources mobilization.
b. Covering market borrowings, small savings, provident funds and loans from financial institutions etc.
1. Estimates.

Figures within parentheses indicate percentage of aggregate resources.
3.4 FINANCING OF FIVE YEAR PLANS

The most important aspect of preparing a plan is the identification of the source of financial resources. Different sources of financing a plan will have varied implication on growth and other related issues like income distribution, inflation etc. Table-3.1 exhibits the various sources and their contributions towards the financing at various plans.

3.4.1 Financing the First Plan

The resource mobilization scheme at the First Five Year Plan is shown in Table-3.1. The pattern of financing of the public sector shows that 73.4 per cent of the financial resources come from budgetary sources, 17 per cent through deficit financing and 9.6 per cent from external resources. Among the various sources of domestic budgetary resources the contribution of capital receipts, covering market borrowings, small savings, provident funds and loans from financial institutions among others was the maximum being 35.0 per cent of the aggregate financial resources. About Rs.296 crores were received by the public sector as assistance from foreign countries over the 5 years period out of which only Rs.189 crores could be utilized. The remaining sum of Rs.107 crores were left unutilized, to be used during the second plan period. The non-utilization of the total external assistance during the First Plan period were attributed to delays in the execution of plan projects, shortage of equipment and materials, and lack of trained personnel. On the whole, the First Five Year Plan did not face any financial difficulties and was mainly financed through internal sources, the contribution of external assistance being only 9.6 per cent of the total aggregate resources for the plan.
3.4.2 Financing the Second Plan

The original Second Five Year Plan proposed an outlay of Rs.4800 crores for its financing. However, subsequently the plan had to be pruned and the actual resources for financing the plan stood at Rs.4672 crores. The detailed break up of this aggregate amount of resources are shown in Table-3.1.

During this plan, more emphasis had been laid on deficit financing as well as external resources. The actual amount of foreign assistance was of worth Rs.1049 crores whereas it was proposed up to Rs.800 crores only. Though deficit financing constituted 20.4 per cent of the total resources available for the plan as against 17 per cent during the First Plan yet deficit financing had been within proper limits as it amounted to Rs.954 crores as against Rs.1200 crores set originally. But the volume of deficit financing increased from 17 per cent in the First Plan to 20.4 per cent in the Second Plan and this much of deficit financing, it is argued, was instrumental in raising prices and indicated the limitations of this method of financing.

The amount of deficit financing as estimated by the Planning Commission was much in excess keeping in view Indian economic conditions and compared to the estimates made by some prominent economists and statisticians. Thus the Commission of the International Monetary Fund in 1963 expressed that the scale of deficit financing should be related to the availability of Sterling balance and regarded Rs.333 million per annum or about Rs.1650 million over the five years as a feasible maximum. Dr. B.R. Shenoy (1956) recommended Rs.1800-2000 million for the five year period. In his report on Tax Reforms in India, Prof. Kaldor stated that the amount of deficit financing which the economy could bear was not likely to exceed Rs.1500 million a year or Rs.7500-8000 million over the five year period. The ECAFE considered Rs.12000 million as the upper limit to deficit financing in the Second Plan period and stressed the fact that to raise the sum further it might leave a large quantity of excess purchasing power without any corresponding cover.
In the Second Five Year Plan, external assistance exceeded the original target of Rs.800 crores by Rs.249 crores. This volume of external assistance accounted for 22.5 per cent of the aggregate financial resources during the Second Plan as against 9.6 per cent in the First Plan.

3.4.3 Financing the Third Plan

The Third Five Year Plan proposed an outlay of Rs.7500 crores in the public sector whereas the actual amount spent was Rs.8577 crores. Table-3.1 shows the resource mobilization scheme of the Third Plan.

The Third Plan mobilized 58.5 per cent of the financial resources from domestic budgetary resources and 13.2 per cent from the unconventional method of deficit financing. The external assistance, increased from 22.5 per cent of the total financial resources in the Second Plan to 28.3 per cent in the Third Plan. In the original estimate, external assistance had been placed at Rs.2200 crores but the actual amount of net foreign aid utilization was Rs.2423 crores, being 28.3 per cent of the total outlay. Balance from current revenues, including additional resources mobilization was Rs.2473 crores. But net balance from current revenues (excluding ARM) became minus Rs.419 crores, mainly following the declaration of the emergency arising out of Indo-Pak war and the consequent increase in defence and other non-plan expenditures.

At the time of formulating the Third Five Year Plan, the Planning Commission observed that “in view of the rise in prices that occurred during the second Plan and the fact that unlike the Second Plan there is no cushion of foreign exchange reserves, it is proposed to limit deficit financing in the Third Plan to the minimum warranted by the genuine monetary needs of the country” [Planning Commission, 1961, p.99]. But deficit financing of Rs.1133 crores was more than double the original estimate of Rs.550 crores. The inflationary pressure resulting
out of the shortfalls in national products was aggravated by this heavy dose of deficit financing.

3.4.4 Financing the Annual Plans (1966-69)

The Annual Plans, 1966-69 spent an outlay of Rs.6625 crores. Out of this amount Rs.3539 crores were mobilized by domestic budgetary resources Rs.2410 crores by external assistance and Rs.676 crores by deficit financing. The share of domestic budgetary resources was 53.4 per cent in the Annual Plans as against 58.5 per cent in the Third Plan. The share of external assistance increased from 28.3 per cent in the Third Plan to 36.4 per cent in the Annual Plans and the share of deficit financing went down from 13.2 per cent in the Third Plan to 10.2 per cent in the Annual Plans. But the actual amount of deficit financing was more than double the estimated amount of Rs.335 crores.

3.4.5 Financing the Fourth Plan

The Fourth Plan proposed to mobilize Rs.4044 crores from balance from current revenues including ARM, Rs.1431 crores from surplus of public undertakings, Rs.2087 crores from external resources and Rs.2060 crores by deficit financing. Net balance from current revenues excluding ARM was (-)236 during the Fourth Plan. Large defence expenditure, relief to Bangladesh refugees, larger outlays on drought and flood relief were the main reasons behind it. In regards to external assistance the actual amount of Rs.2087 crores was much less than the estimated amount of Rs.3198 crores.

In the context of severe inflationary experience in the past, since the commencement of the Second Five Year Plan up to 1967-68, the Fourth Plan stressed the need for accelerating the tempo of development under conditions of stability. Therefore, the target for deficit financing during the Fourth Plan was set
at Rs.850 crores at the time of plan formulation. Later on, estimates of deficit financing were revised to Rs.2750 crores during the Fourth Plan while the actual amount was Rs.2060 crores.

3.4.6 Financing the Fifth Plan

The original Fifth Five Year Plan proposed an outlay of Rs39303 crores for its financing, but the actual outlay had been Rs.40712 crores during the periods. Out of this amount Rs.31943 crores were mobilized by domestic budgetary resources, Rs.5209 crores by external assistance and Rs.3560 crores by deficit financing (Table-3.1).

In view of the severe inflationary pressures in the economy since 1972-73 the Draft Fifth Plan Period laid utmost stress on non-inflationary development which was regarded as the central point of the scheme of financing. It specifically recommended that there should be no deficit financing in the first two years and for the remaining plan period “deficit financing will have to be kept down to the level at which the consequential increase in money supply does not exert any autonomous inflationary pressure on the economy” [The Draft Fifth Five Year Plan, Government of India, p.53]. The presentation of the Draft Fifth Plan in 1973-74 had unfortunately coincided with major upheaval in the International economic scene, namely the oil crisis which profoundly effected the developed as well as the developing countries. In India inflationary pressures were felt as a result of severe drought conditions in 1972-73 followed by shortages of various essential consumer goods and critical raw materials and other inputs. In 1973-74 conditions worsened due to power shortage, industrial stagnation and steep rise in prices of imports of oil, foodgrains and fertilizers. The price situation was aggravated by continued expansion in money supply partly due to large and continuous deficit financing and partly due to excessive expansion of bank credit to the commercial sector.
Thus, under these unfavourable conditions all the assumptions and calculations of the Draft Fifth Plan had to be reframed in the final Fifth Five Year Plan. Measures had to be devised urgently for containing inflation at home and for keeping the economy in proper alignment with the fast changing international developments. It was stated in the Fifth Plan that “in view of the paramount need to promote growth with stability the plan has to be financed in a non-inflationary manner. This will call for strict fiscal discipline. Monetary policy will have to be synchronized with fiscal policy in order to check undue expansion of the aggregate monetary demand” [Fifth Year Plan, Government of India, pp.30-31]. Accordingly the target of deficit financing was set at Rs.1354 crores for the Fifth Plan. It amounted to only 3.4 per cent of the total public sector outlay of Rs.39303 crores. However, the amount of actual deficit financing estimated was Rs.3560 crores, which came to nearly 9 per cent of the revised total outlay of Rs.40712 crores for the Fifth Plan.

3.4.7 Financing the Annual Plan (1979-80)

Out of the total outlay of Rs.12601 crores for 1979-80 plan, Rs.10160 crores were mobilized by domestic budgetary resources, Rs.1086 crores by external assistance and Rs.1355 crores by deficit financing. The share of domestic budgetary resources was 80.6 per cent in the Annual Plan as against 78.5 per cent in the Fifth Plan. The share of external assistance went down from 12.8 per cent in the Fifth Plan to 8.6 per cent in the Annual Plan and the share of deficit financing increased from 8.7 per cent in the Fifth Plan to 10.8 per cent in the Annual Plan.

Out of the total plan outlay of Rs.12601 crores in 1979-80, deficit financing was estimated at Rs.1355 crores which proved to be an under estimation because the revised estimates of budgetary deficits were Rs.2655 crores. While formulating the plan, deficit financing was less than 11 per cent of the total resources whereas the revised estimates of budgetary deficit was nearly 21 per cent or nearly double the original estimates. This increase in budgetary deficit had been necessitated
because of lower revenue collections from other sources due to severe drought conditions in the country. Despite the monetary and fiscal anti-inflationary measures deficit financing of Rs.2655 crores resulted in 15.6 per cent increase in money supply and 17.1 per cent increase in price level.

3.4.8 Financing the Sixth Plan

The financial resources coming from the budgetary sources stood at Rs.86608 crores being nearly 78 per cent of the total resources for the plan, out of which Rs.22039 crores coming from balance from current revenues (including ARM), Rs18634 crores from surplus of public undertakings and Rs.45935 crores from capital receipts, covering market borrowings, small savings, provident funds and loans from financial institutions among others. The financial resources stood at Rs.8529 crores and deficit financing stood at Rs.15684 crores. Total outlay at the prices of 1979-80 was Rs.97500 crores which comes to be Rs.110821 crores at current prices.

3.4.9 Financing the Seventh Plan

The Seventh Plan mobilized Rs.167385 crores (73.9 per cent) of the financial resources from domestic budgetary resources, Rs.38545 crores (17.0 per cent) from the unconventional method of deficit financing and Rs.20708 crores (9.1 per cent) from external resources. The external assistance increased from 7.7 per cent of the total financial resources in the Sixth Plan to 9.1 per cent in the Seventh Plan. The aggregate resources for financing the public sector outlay in the plan amounts to Rs.226638 crores. The details of the estimate are given in Table-3.1.
3.4.10 Financing the Annual Plans (1990-92)

The aggregate resources for financing the public sector outlay were Rs.61137 crores in 1990-91 and Rs.64698 crores in 1991-92. In 1990-91, the budgetary resources were Rs.43306 crores, external resources were Rs.6320 crores and deficit financing was Rs.11347 crores. In 1991-92, the budgetary resources were Rs.47664 crores, the external resources were Rs.7892 crores and the deficit financing was Rs.7032 crores. The balance from current revenues were negative in both the years. It was (-) 10997 crores in 1990-91 and (-)9000 crores in 1991-92. Surplus of public undertakings was Rs.10961 crores and capital receipts was 43453 crores in 1990-91. In 1991-92 these were Rs.13227 crores and Rs.43117 crores respectively.

3.4.11 Financing the Eighth Plan

The Eighth Five Year Plan was formulated with an approved public sector outlay of Rs.434100 crores at 1991-92 prices. Contrary to projections, the BCR of both the Centre and the States turned out to be negative during each of the five years of the Eighth Plan. Thus, the combined BCR of Centre and States turned out to be (-) Rs.39563 crores as against the positive BCR of Rs.35005 crores projected for the Eighth Plan (NABHI’s compilation of Ninth Five Year Plan, p.184). The deterioration in the BCR of the Centre was due to (i) decline in indirect tax revenue and (ii) increased interest burden. Excise revenue dropped from 4.4 per cent of GDP in 1992-93 to 3.7, per cent in 1996-97. Improvement in direct tax revenue from 2.6 per cent to 3.1 per cent of GDP during the plan period consequent on direct tax reform, however, only partly compensated the decline in indirect tax revenue. The Centre’s dependence on borrowings for financing the plan increased by 40 per cent over the projections. The deficit financing increased by Rs.33037 crores vis-à-vis the projection of Rs.20000 crores for the plan period.
Aggregate resources for public sector outlay was Rs.380524 crores in the Eighth Five Year Plan.

3.4.12 Financing the Ninth Plan

The Ninth Plan (1997-2002) envisages GDP growth rate of 6.5 per cent per annum. The public sector plan outlay is placed at Rs.859200 crores at 1996-97 prices. The share of the Centre’s plan and that of the States, including U.T.s would be 57 per cent and 43 per cent respectively. The balance from current revenues (BCR) is anticipated to be negative (-) 1406 crores. The surpluses from public enterprises is placed at Rs.340409 crores; capital receipts is placed at Rs.460179 crores. The Ninth Plan has proposed to mobilize Rs.60018 crores from external assistance.

It is seen from Table-3.1 that the financing pattern for the Ninth Plan is marked by different from the earlier pattern in as much as deficit financing has been kept at zero level and balance from current revenues has turned negatives. This has necessitated considerably higher percentage of borrowings and other liabilities.

3.5 OBSERVATIONS ON THE FINANCING PATTERN OF PUBLIC SECTOR PLAN OUTLAY IN INDIA’S FIVE YEAR PLAN

Huge amount of financial resources – domestic and foreign are needed for the implementation of the economic plans in India. An analysis of these sources does not show any regular trend in the pattern of financing economic plan. The contribution of various sources to total financial resources has been varying from plan to plan. From the observations it is seen that –
(i) For most of the plans the internal financing has been close to 90 per cent. It was so in the case of the First Plan (90.4%), the Fourth Plan (87.1%), the Fifth Plan (87.2%), the Sixth Plan (92.3%), the Seventh Plan (90.9%), the Eighth Plan (95.9%) and the Ninth Plan (93%). However, in the Second and Third Plans internal financing constituted 77.5 per cent and 71.7 per cent of the total plan financial outlay respectively.

(ii) Resources coming from external sources do not exhibit uniform pattern. The shares of external resources in the total financial resources in the various plans up to the Ninth Plan, including the Annual Plans (1966-69) and Annual Plan (1979-80) were 9.6%, 22.5%, 28.3%, 36.4%, 12.9%, 12.8%, 8.6%, 7.7%, 9.1%, 5.1% and 6.9% respectively. We find that the dependence on external resources was increasing from the First Plan to the three annual plans and then it was on the decrease till the Sixth Plan. In the Seventh Plan it again rose to 9.2% from 7.7% in the Sixth Plan. In the Eighth Plan it again came down to 5.1% and in the Ninth Plan it again rose to 7.0%. In the Second and Third Plans there was a great need for imports of machines and equipments for the establishment of heavy industries. While this need persisted throughout all the plans, there was also imports of maintenance goods, intermediaries, etc. in large scale during these two plans.

(iii) Surplus of the public sector enterprises which should have been an important contributor exhibited very poor performance. Its contribution ranged between 3.6 per cent in the Second Plan and 39.6 per cent in the Ninth Plan. Surplus from public enterprises as percentage of aggregate resources was very insignificant in First, Second and Third Plans being only 5.9%, 3.6% and 5.1% respectively. It increased to 8.8% in the Fourth Plan and then it decreased to 6.3% in the Fifth Plan. Since the Annual Plan 1979-80 the percentage share of surpluses of public sector enterprises has significantly increased as reflected in Table-3.1.
(iv) The trend in respect of 'current revenue balance' (i.e. revenue surplus on the basis of existing tax rates) is very unhappy.

The 'additional resource mobilization' (mainly tax efforts over and above the existing tax revenues) as percentage of total outlays has not been on the rising trend. "Among the tax revenues, while the indirect tax revenue exceeded the LTFP (long term fiscal Policy) projections, direct tax revenue has fallen short of the projection by a wide margin. The share of direct taxes in the gross tax revenue of the Centre has come down from 43 per cent in 1950-51 to just 16 per cent in 1988-89. The shift in favour of indirect taxes though inflationary and regressive in nature is continuing unabated" [Reddy, 1989, p.36].

(v) ‘Deficit financing’ being an unwelcome feature of the pattern of financing had exceeded the planned targets in almost all the plans, except for the Second Plan. It is seen in table-3.1 that deficit financing has been kept at zero level in the Ninth Five Year Plan.
Table-3.2: Ranking of various sources of finance from the First Five Year Plan to the Ninth Five Year Plan.

<table>
<thead>
<tr>
<th>Sl. No</th>
<th>Source</th>
<th>First</th>
<th>Second</th>
<th>Third</th>
<th>Fourth</th>
<th>Fifth</th>
<th>Sixth</th>
<th>Seventh</th>
<th>Eighth</th>
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<td>Balance from current revenues</td>
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<td>2473</td>
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<td>16939</td>
<td>22039</td>
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<td>Surplus of public undertaking</td>
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<td>167</td>
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<td>2583</td>
<td>18634</td>
<td>29627</td>
<td>131449</td>
<td>340409</td>
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<tr>
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<td>Capital receipts</td>
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<td>6538</td>
<td>12424</td>
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<td>124538</td>
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<td>1049</td>
<td>2423</td>
<td>2087</td>
<td>5209</td>
<td>8529</td>
<td>20708</td>
<td>19234</td>
<td>60018</td>
</tr>
<tr>
<td>5</td>
<td>Deficit financing</td>
<td>333</td>
<td>954</td>
<td>1133</td>
<td>2060</td>
<td>3560</td>
<td>15684</td>
<td>38545</td>
<td>33037</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Aggregate resources</td>
<td>1960</td>
<td>4672</td>
<td>8577</td>
<td>16160</td>
<td>40712</td>
<td>110821</td>
<td>226638</td>
<td>380524</td>
<td>859200</td>
</tr>
</tbody>
</table>

*Note:* Figures within parentheses imply ranking numbers.
3.6 STATISTICAL ANALYSIS OF VARIOUS SOURCES OF PLAN FINANCE

A. Rank Correlation Matrix

We have estimated the various rank correlation coefficients between the financial resources of every two plans coming from various sources. The volumes of financial resources of each plan coming from various sources have been ranked in order of magnitude in table-3.2 above. On the basis of the ranking numbers, the various ranked correlation coefficients have been worked out and furnished in the form of a rank correlation matrix below. This is obviously a symmetric matrix with all diagonal elements being unity. The symbols $P_1$, $P_2$, ..., $P_9$ imply respectively the variables corresponding to the ranking numbers of the financial resources in the First Five Year Plan to the Ninth Five Year Plan.

\[
\begin{array}{cccccccccc}
P_1 & P_2 & P_3 & P_4 & P_5 & P_6 & P_7 & P_8 & P_9 \\
P_1 & 1  & 0.9 & 0.5 & 0.9 & 0.8 & 0.7 & 0.1 & 0.1  & -0.4 \\
P_2 & 1  & 0.7  & \ast & 0.9  & 0.6  & 0  & 0 & 0.1 \\
P_3 & 1  & 0.7  & 0.9  & 0.1  & -0.7 & -0.7  & -0.5 \\
P_4 & 1  & 0.9  & 0.6  & 0  & 0 & 0.1 \\
P_5 & 1  & 0.5  & -0.4  & -0.4  & -0.3 \\
P_6 & 1  & 0.4  & 0.4 & 0.3 \\
P_7 & 1  & \ast & \ast & 0.9 \\
P_8 & 1  & 0.9 \\
P_9 & 1 \\
\end{array}
\]

Note: *, ** and + imply respectively significant at 1% level, 5% level and not significant.
For calculation of rank correlation coefficients we use Spearman's rank correlation formula without ties viz.,

\[
R = 1 - \frac{6\sum d^2}{n (n^2 - 1)}
\]

\(d\) being the difference between the corresponding ranking numbers of the financial resources of any two plans and \(n\) is the number of pairs of ranks.

For testing the significance of Spearman's rank correlation coefficient we use the following statistic:

\[
t = R \sqrt{\frac{n - 2}{1 - R^2}}
\]

where \(t\) is the Student's 't' distribution with \((n - 2)\) degrees of freedom (d.f.).

The rank correlation analysis indicates that the ranking variables of the financial resources of all the plans barring the Ninth Plan is positively related to the ranking variable of the financial resources of the First Plan. Although the rank correlation coefficient between \(P_1\) and \(P_7\), and \(P_1\) and \(P_8\) is positive yet it is very small being 0.1 only signifying a very weak positive correlation. The high values of rank correlation coefficient between \(P_1\) and \(P_2\), \(P_1\) and \(P_4\), \(P_1\) and \(P_5\), and \(P_1\) and \(P_6\) reveal that the pattern of financing in respect of the magnitudes of financial resources coming from various sources during the Second, Fourth, Fifth and Sixth plans were more or less similar to that in the First Plan. The negative rank correlation coefficient value of -0.4 between \(P_1\) and \(P_9\) shows that the pattern of financing in the Ninth Plan changed partially in the reverse order from the financing pattern in the First Plan. The very high rank correlation coefficient value of 0.9 between \(P_1\) and \(P_2\), \(P_1\) and \(P_4\), \(P_2\) and \(P_3\), \(P_3\) and \(P_4\), \(P_4\) and \(P_5\), \(P_5\) and \(P_7\), \(P_5\) and \(P_9\), and \(P_8\) and \(P_9\) reveal almost similar pattern of financing between the concerning plans. Finally, test of significance of rank correlations reveal that while rank correlations

\[
122
\]
between $P_1$ and $P_2$, $P_1$ and $P_4$, $P_2$ and $P_4$, $P_2$ and $P_5$, $P_3$ and $P_5$, $P_4$ and $P_5$, $P_7$ and $P_9$, and $P_8$ and $P_9$ are significantly different from zero, none of the other coefficients are significantly different from zero.

3.7 REAL PER CAPITA PUBLIC SECTOR OUTLAY DURING VARIOUS FIVE-YEAR PLANS

Although the growth of real aggregate resources of financing public sector outlay during the various five-year plans is found to be significant yet setting aside the distributional aspect, per capita real public sector outlay may be considered to be a satisfactory indicator of growth of public sector outlay. To get the per capita real public sector outlay during a five-year plan period we divide the real public sector outlay of the plan by the average population figure of the plan. It may be mentioned that the population explosion during the past five decades has badly affected the gains of economic growth achieved during various plans. India's rapidly growing population is affecting adversely many facets of development. From the table-3.4 we observe that excepting the Fourth and Eighth plan the per capita real public sector outlay is increasing in each plan over the previous plan. The percentage increase in per capita real public sector outlay is maximum at 100 per cent during the Second Plan over the First Plan followed by 71.4 per cent during the Ninth Plan over the Eighth Plan. The percentage increase in per capita real public sector outlay during the Fourth and the Eighth plans are negative being \(-5.4\%\) and \(-2.3\%\) respectively over the immediately preceding plans.
Table-3.3: Sources of plan finance in real terms with 1981-82 as base (Rupees in crores).

<table>
<thead>
<tr>
<th>Sl. No</th>
<th>Source</th>
<th>First</th>
<th>Second</th>
<th>Third</th>
<th>Fourth</th>
<th>Fifth</th>
<th>Sixth</th>
<th>Seventh</th>
<th>Eighth</th>
<th>Ninth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Balance from current revenues</td>
<td>3957</td>
<td>6109</td>
<td>11610</td>
<td>10959</td>
<td>27454</td>
<td>21050</td>
<td>9206</td>
<td>-14429</td>
<td>-426</td>
</tr>
<tr>
<td>2</td>
<td>Surplus of public undertakings</td>
<td>714</td>
<td>960</td>
<td>2042</td>
<td>3878</td>
<td>4186</td>
<td>17815</td>
<td>20631</td>
<td>47939</td>
<td>103217</td>
</tr>
<tr>
<td>3</td>
<td>Capital receipts</td>
<td>4261</td>
<td>8270</td>
<td>9920</td>
<td>17718</td>
<td>20136</td>
<td>43873</td>
<td>86725</td>
<td>87606</td>
<td>139533</td>
</tr>
<tr>
<td>4</td>
<td>External resources</td>
<td>1174</td>
<td>6029</td>
<td>11376</td>
<td>5656</td>
<td>8442</td>
<td>8146</td>
<td>14420</td>
<td>7015</td>
<td>18198</td>
</tr>
<tr>
<td>5</td>
<td>Deficit financing</td>
<td>2068</td>
<td>5483</td>
<td>5319</td>
<td>5583</td>
<td>5770</td>
<td>14980</td>
<td>26841</td>
<td>12049</td>
<td>0</td>
</tr>
</tbody>
</table>

Real Aggregate resources | 12174 | 26851 | 40267 | 43794 | 65988 | 105864 | 157823 | 140180 | 260522 |

Note: The aggregate real financial resource for each plan with respect to 1981-82 as base is obtained from table -3.2 by using the conversion formula: Real financial resource = [(Money or nominal resource of the plan) / (Wholesale price index for the mid year of the plan)] x 100.
Table-3.4: Per capita real public sector outlay.

<table>
<thead>
<tr>
<th>Plan</th>
<th>Real aggregate resources (Rs. in crores)</th>
<th>Average population</th>
<th>Per capita real outlay (in Rs.)</th>
<th>Percentage change in per capita real outlay</th>
</tr>
</thead>
<tbody>
<tr>
<td>First</td>
<td>12174</td>
<td>376020000</td>
<td>323.8</td>
<td>--</td>
</tr>
<tr>
<td>Second</td>
<td>26851</td>
<td>414480000</td>
<td>647.8</td>
<td>100.1</td>
</tr>
<tr>
<td>Third</td>
<td>40267</td>
<td>462240000</td>
<td>871.1</td>
<td>34.5</td>
</tr>
<tr>
<td>Fourth</td>
<td>43794</td>
<td>53158000</td>
<td>823.8</td>
<td>-5.4</td>
</tr>
<tr>
<td>Fifth</td>
<td>65988</td>
<td>617540000</td>
<td>1068.6</td>
<td>29.7</td>
</tr>
<tr>
<td>Sixth</td>
<td>105864</td>
<td>705300000</td>
<td>1501</td>
<td>40.5</td>
</tr>
<tr>
<td>Seventh</td>
<td>157823</td>
<td>781360000</td>
<td>2019.8</td>
<td>34.5</td>
</tr>
<tr>
<td>Eighth</td>
<td>140180</td>
<td>902620000</td>
<td>1553</td>
<td>-23.1</td>
</tr>
<tr>
<td>Ninth</td>
<td>260522</td>
<td>978700000</td>
<td>2661.9</td>
<td>71.4</td>
</tr>
</tbody>
</table>

Source: Population figures are obtained from 'Economic Services' 1999-2000, GOI (Table S-24).

Note: Real aggregate resources for various five year plans relate to 1981-82 as base, obtained from Table-3.3

REFERENCES


Government of India, Planning Commission, various plan documents.


