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 mobilisation of resources available for investment from various sources. The domestic saving at the pre-plan rates of taxes, tariffs and administered prices of goods and services of public sector enterprises contributes 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 Eighth Plan, such saving always falls short of the investment needed for achieving the desired rate of growth. Consequently, there emerges a saving–investment gap. This gap is broadly bridged by three means, viz., (a) Additional Resource Mobilisation which consists of additional taxation and additional resource mobilisation through raising of administered prices of goods and services of public sector enterprises; (b) External Assistance and (c) Deficit Financing. It may be mentioned that the anticipated domestic saving as mentioned above, the anticipated investment and the anticipated volumes of the three aforementioned saving–investment gap filling instruments may differ from their realised ones.

Inflation, it is said, results from 'plans to invest' exceeding 'plans 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 neutralises the benefits of growth to a large extent. The three saving – investment gap filling instruments as mentioned above may have different impact on price-level and growth of our economy. Additional taxation which is a component of additional resource mobilisation is usually considered to be a means of stepping up the saving ratio for financing investment expenditure through non-inflationary means. However, indirect taxation usually leads to increase in prices when they are levied on intermediate goods. On the contrary, the impact of direct taxes on the level of prices would be negative because it reduces disposable income of those on whom it falls. Again, the other component of additional resource mobilisation, viz; raising of administered prices of goods and services of public sector enterprises would have positive impact on price level.

The additional resources mobilised through additional taxation and raising of administered prices of goods and services of public sector enterprises divert resources from the private hands to the public sector resulting in the reduction of resources for private consumption and investment. If the resources so diverted mainly increase government consumption and expenditure then it will have adverse impact on output and growth. On the contrary, if such diverted funds are mainly utilised in investment then it will have favourable impact on output and growth.
Coming to the inflationary impact of external assistance on our economy we find that because of time-lag between investment financed through external assistance and the emergence of output resulting from investment there is a possibility that the prices of wage goods would go up. But if import covers both investment goods and wage goods then prices of wage goods might not be affected. As regards to the impact of external assistance on growth there are two opposing experiences in case of some developing economies in the world. In case of some developing countries it has been found empirically that a moderate volume of external resources makes substantial increase in the rate of growth through financing additional investment as well as through providing additional imports. On the other hand, in case of some other developing countries a negative correlation between growth rate and foreign aid has been established.

Deficit financing is resorted to when the gap between domestic savings (at pre-plan year tax and tariff rates and administered prices of goods and services of public sector enterprises) and investment cannot be bridged by additional resource mobilisation and external assistance. However, the idea of resorting to deficit financing for economic development has remained very controversial. Deficit financing is usually blamed for inflation in our country. There are two opinions regarding the evil consequences of deficit financing when adopted carelessly for capital formation for economic development. But the problem before our country is to choose between the two evils, viz; to adopt deficit financing for capital formation and face inflation and to go without development programmes due to paucity
of funds. Although Indian experience of economic development with deficit financing has not been a happy one yet one has to confess that it could not have been better without deficit financing due to so many other constraints in the economy. 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.

With this background, in our present work, we intend to study the joint effect of additional resource mobilisation, external assistance and deficit financing on inflation (as measured by the increase in the wholesale price index) and growth with multiple regression models in the context of Indian planning. We shall also study the individual impact of these saving-investment gap filling instruments on inflation and growth with simple regression models and thereby study their relative contributions to inflation and growth. We shall also make an empirical study on the implications of saving-investment gap on sectoral output and income in a consistency framework with the help of input-output model. We shall also make an attempt to study statistically the interrelationship between inflation and growth in the context of planning in our country.

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