CHAPTER-X

CONCLUSIONS AND RECOMMENDATIONS

The conclusions following from the preceding analysis are presented below. Similarly the recommendations based on these conclusions for improving plan financing methods are also made here.

1) On the basis of underdeveloped nature and backwardness of the Indian economy, Government of India, after independence formulated Five Year Plans for developing it. With systematic efforts, Government is trying to solve the serious problems of the economy. The Planning Commission has been established for tackling problems like hunger, illiteracy, poverty and unemployment, planning techniques have been pressed into service in order to utilise natural and human resources for economic development. Planning Commission makes decisions about the rate of growth, capital investment in various sectors and fixing prborities for various sectors in the economy. Further Planning Commission have adopted suitable strategies for economic development. These strategies are with regard to the allocation of investment in different sectors, mobilisation of resources, fiscal and monetary operations and foreign aid.

2) Mobilisation of resources involves obtaining of internal and external financial resources for the development plans in public sector. Among these internal and external

resources, taxation, borrowings, surpluses of public enterprises, deficit financing and foreign aid are the important sources of finance.

3) Taxation is the major source of resource mobilisation in India. The Union and State Governments have collected huge amounts of tax revenue during planning period. But very small portion of the same has been utilised for financing planned expenditure under Five Year Plans. The data reveal that overwhelmingly large reliance has been placed on indirect taxes compared to direct taxes. Among direct taxes, income and corporation taxes are solely depended upon, while taxes on property, wealth, gifts, estates, agricultural taxes have not made any significant contribution to tax revenue. In case of indirect taxes, excise, customs and sales taxation are mainly relied upon. It may be concluded that although per-capita burden of taxation has risen, very little of taxation was utilised for financing economic development. In India demand being always in excess of supply, excise duties and other indirect taxes are generally born by the consumers.

So it can be observed that direct taxes being inadequate, financing of development expenditure has been increasingly done mainly through indirect taxation. This clearly indicate that the burden of financing Government activities is increasingly born by middle and lower income groups as these taxes are generally shifted to these classes of persons. Thus, indirect taxes generally add up to the prices of goods and services.

To lessen the burden on poor and reduce inflationary impacts, it is therefore, necessary to reduce excise and sales taxation of mass consumption goods, industrial raw materials and impose taxes on urban property, rural incomes, etc.

4) The non-tax current revenues can be a potential big source of revenue. Non-tax revenue receipts of the Government are big in amount but they are not utilised properly for the plan purposes. Interest charges contribute larger revenue followed by administrative receipts, while the surpluses of public enterprises were found to be insignificant. Further, it seems that some of the sectoral problems of public enterprises are responsible for a fall in their savings. Public sector should improve their operational efficiency and adopt appropriate change in price policy and try to contribute more to the plan finances. Moreover, efforts are needed to improve the financial returns of irrigation, State Electricity Boards and road transport corporations. It is equally true that all public enterprises are not functioning in a proper and profitable manner. The public sector should consider its own experience as well as that of private sector to improve its efficiency.

5) Borrowings are another source of financing schemes of economic development. In fact, it is the biggest source of plan finance in India.

Market loans, small savings and other unfunded debt receipts have been utilised for plan purposes on increasing scale. Consequently internal public debt of Union and States has increased by leaps and bounds. However, these loans are generally charged with low interest rates, which lessen the burden of public debt. Low interest policy was successful in getting required loans for the Government of India due to existance of 'Captive Market'. It may be suggested that small savings should be depended upon more. Government should also try to borrow more from the general public. It is also desirable to increase the maturity pattern of loans. The rational use of borrowing for financing plans bring about economic stability and have favourable effect on the prices of goods and services. It should become important part of our fiscal policy. The State Governments borrow too much from the Union Government as a result of which become less responsible in using loan proceeds and also their autonomy is undermined. The states should themselves borrow more and utilise loan proceeds for self-liquidating projects only. They should finance their other plan expenditures (social and economic) out of their tax and non-tax current revenues (including revenue and grants received from the Union Government).

6) A country like India, which has embarked on a path of economic development, does require foreign aid. It is an important source of financing of plans and accelerating economic development.

The data given on foreign aid showed that the external aid available from various countries and international agencies rose very rapidly. But aid utilisation lagged far behind the aid available during the planning period. Aid utilisation during the planning period was not found satisfactory.

The rate of interest on external loans should be minimum so that burden of debt service may not increase fast. Further, the external loans should be of long-term maturity period, so that it would be helpful to minimise the repayment burden. Short term loans are not advantageous to the debtor country like India, because they create balance of payments difficulties and do not help much to increase exports. Now, India should reduce its excessive reliance on foreign aid. It is necessary that repayments of foreign debts be made as far as possible in our currency. The acceptance of tied loans be based on the condition that repayments are accepted in terms of our goods and services. The projects for which foreign loans are utilised should help to increase exports.

7) For the country like India, it is hardly possible to finance the process of development with resources like taxation, borrowing and foreign aid only. Therefore, Indian Planning Commission have given important place to deficit financing in the financing of Five Year Plans.

Deficit financing by Centre and States increased largely during the planning period. It is evident from the data that Governments were unable to control the amount of deficit financing within the safe limit. The unauthorised overdrafts of the States have also increased every year adding to deficit financing in unplanned manner. The result was that it was one of the most important factor which caused expansion in money supply and price level. It may be stated that, deficit financing has been utilised to some extent for non-plan purposes which is very bad. This is more inflationary. It is really disheartening to note that actual deficit had always exceeded the planned amount of deficit financing or targets fixed by the Planning Commission.

It may be suggested that actual deficit should not exceed planned deficit. Moreover, planned deficit should be fixed both for States and the Centre within 'safe' amounts. Overdrafts of the States should be totally banned or else they should be in every year recovered by the Union Government from its development grants made to the States, (since current account grants under Article 275 are received by very few States). This will avoid sharp inflation rise in prices. Deficit financing should be utilised only for productive purposes. Similarly, for controlling undue rise in prices, the policy of controls and public distribution system should be effectively managed.