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**1:1     INTRODUCTION:-**

India has followed planned economic development pattern. In the planned economic development, India has been facing one of the major problem of managing the available resources and mobilising the resources. Deficit financing is one such prime resource upon which Indian Economy has heavily depended from time to time. The Indian Government from very beginning of the planning has realised the source of deficit financing as a major source of filling the gap between revenue and expenditure of the Government and as a tool of resource mobiliser. In the span of time, the consistantly realisation upon deficit financing has become the matter of debate in economics thinkers and in politicians. The effects of excessive dose of deficit financing to Indian Economy economy have been explained by various experts in economics.

Here, the study of deficit financing in India, has mainly attributed to seek the exact contribution of deficit financing to Indian economic planning. So called various effects of deficit financing has examined at the macro level for

the period from 1971-72 to 1985-86. The period 1971-72 to 1985-86 is a period of up and downs in the amount of deficit financing and hence the above period has been selected for the study.

1:2 OBJECTIVES OF THE STUDY:-

The present study was undertaken with the following objectives.

- I) To explain various theoretical approach of deficit financing with its implications and overall all effects.
- II) To examine the trends in deficit financing.
- III) To gauge the relative significance of deficit financing in the context of certain variables.
- IV) To examine and explain the relationship of changes in deficit with some fiscal, monetary and non monetary factors.

1:3 METHODOLOGY:-

The present study is a macro level study, in which at first conceptual approach regarding the deficit financing has been illustrated. At that stage it has been shown that Indian approach to deficit financing is different from that of western approach regarding the deficit financing. The study of deficit fina-

ncing is mainly the study based on the secondary data regarding the deficit financing, non developmental expenditure of central government, money supply and price Index numbers for the period from 1971-72 to 1985-86. The relation among the deficit financing and non developmental expenditure, Gross Domestic product at current market prices and money supply as well as price Index is very important matter of debate in recent years. So present study foccusses the light upon the factual relationship among all above variables.

For this purpose the data has been collected from various issues published by Reserve Bank of India. The data regarding Gross Domestic product at current market prices has been mainly collected from central statistical organisation and currency and finance reports of Reserve Bank of India. At the same time while explaining the conceptual framwork of deficit financing secondary sources of information like books of eminent authors, articals, - papers, periodicals has referred from time to time.

After collecting reliable data about the -

deficit financing; non developmental expenditure; money supply and Index numbers, it has compared with various respects to each-other. While comparing above data to each other, various suitable statistical techniques have been applied. For getting meaning and proper results all the data of each respective head has processed through time series least square method of statistics. Then after achieving time series based trend values of deficit financing non developmental expenditure; money supply and Index numbers, it was properly subjected to next statistical process. The main intention of the study is to explain and analyse the relationship between the deficit financing and all the others above factors like non developmental expenditure; money supply and Index numbers etc. So the next statistical method of finding out coefficient of correlation between above various variables has applied. Thus the coefficient of correlation between non developmental expenditure and deficit financing has been found out. Then coefficient of correlation between deficit financing has found out

with that of money supply (M3); Index numbers and at last with Gross Domestic product at current market prices. By getting the trend values of each respective head and finding out true relationship of deficit financing with non developmental expenditure; Index numbers money supply and Gross Domestic product at current market prices, it became possible to interpret the data meaningfully. The result collected by applying above mentioned statistical techniques have then been produced properly. This helped in getting major findings from the present study.

#### 1:4 REVIEW OF LITEARATURE:

It is welknown that the study based on secondary sources of information has to depend upon various books; articals; papers published and reports regarding the statistical data presented in various magazines and bulletins. The study of deficit financing in India is also an outcome of such significant litearature upon deficit financing presented by acholars and eminent experts in their books and articals and papers. Here a short review of such valuable litearature is presented.

There are many books and published articles and papers on the deficit financing. In them distinctive book of Gangadhar Rakshit which is entitled as "Role of Deficit financing In The context of Indian planning. It gives the whole phenomena of theory, consequences and trends of deficit financing in general as well as with references to the Indian economy. In this book author has mentioned that, it is a complex phenomena to explain exact effects of only deficit financing on the various aspects such as money supply; inflation, behaviour of balance of payments and on the total national economy.

The deficit financing according to author is not a villain of the peace. Not deficit financing but failure of the plan targets has been regarded as the root cause of the inflationary rise in prices in India during the period from 1952 to 1967. By calculating coefficient of correlation of two above two variables he has highlighted that fact.

One more valuable and eminent scholarly written book "Deficit Financing And Economic Development with Special Reference To Indian Economic Development" by R.G. Kulkarni, has evaluated the sources and components of deficit financing as a fiscal measure in the context of India's five year plans. After explaining

the source of deficit financing as one of the important fiscal measures; that book further deals with certain general considerations - regarding the concept of deficit financing. The tool thus is applied differently in developing and developed countries. The book is written in 1966 and so it has taken account of only upto 3rd five year plan of Indian economy. As the review upto 1965 of deficit financing - on various spheres of economy. Still the - book contribute significantly in respect of evaluating the relative importance of deficit financing in the process of economic develop - ment with the experience of planned economic development in India. One significant consi - erable approach of then finance minister Shri. T.T. Krishnamachari has been purposefully - added in the book. To quote him "I am not against deficit financing; I recognise it can play a role in promoting development. But it is a medicine; to be taken in small doese; - it is not Food that could sustain the system -- -----" is quite honest remark which high - lights the need and bad effects of deficit - financing.



The J.N. Mongia's book "Impact of Deficit - Financing on Economic Growth In Underdeveloped Countries with special Reference To India" 2nd revised edition" has given outstanding - illustration of role of deficit financing in less developed countries with special ref - erence to Indian economy. The book step by step explains the overall theoretical and - operational sides of deficit financing. As according to him; deficit financing has al - ternatives in developing countries. If care- fully and watchfully applied; deficit financ- ing has gainful results in respect, of employ- ment generation and resource mobilisation. - The monetisation of the growing economy and starting of large scale plants have got prime attention in less developed countries and - deficit financing is one such tool which - fulfill above requirement.

The articals in periodicals and papers ahve also contributed a lot in respect of illust- rating the deficit financing differently. The artical of V.V. Bhat in 'Economic Weekly' - special Number June 1960; named as "Deficit Financing, Inflationary pressures and Economic Development" has attempted at first to take

theoretical approach of deficit financing. Author very brilliantly has drawn the conclusion that developing economies having with their ambitious plans for speedy developmental process, it is right to guide them that they should avoid inflationary pressures or take actions to correct inflationary pressures.

Dr. V.K.R.V. Rao has written the article in 'The Indian Economic Review', Feb. 1953, as a "Deficit Financing, capital Formation And Price Behaviour" The article is an output of his study in deficit financing would be inflationary or not for capital formation depends upon the behaviour of prices following the investment outlay by Government. It can avoid inflationary pressures by generating forced savings in the economy. The purpose of capital formation leads to additional money supply. Which ultimately leads to increasing deficit financing. To sum up, from Keynesian school; Scholars, Government and administrators are aware of the use of deficit financing. They have understood the implications; effects and need of the deficit financing in developmental process. And so that all have tried to focus light on the various angles of deficit



