CHAPTER - IV :: CONCLUSION AND SUGGESTIONS ::

There has been a continuous increase in public expenditure in India. In order to meet the increasing expenditure finance can be raised through domestic sources like taxation, market loans savings and deficit financing. The tax revenue in India is insufficient to meet the increasing expenditure. Therefore, there arises a wide gap between revenue and expenditure. The government has been trying to fill up this gap (deficits) through other sources like market loans and small savings. But, because of low income levels, savings are very low and due to backward capital market selling of bonds and securities (i.e.market loans) is also low. There is also heavy burden of payment of interest of these domestic borroowings. The government can also raise the financial sources from external borrowing i.e. from foreign governments and foreign private companies and the World Financial Institutions. The loans raised from foreign companies and governments are leading burden. The loans raised from IMF etc., are probably less burdensome but they are not available in large amounts, because of the politics of the leading member countries.

Therefore, the government has had to take recourse to get finance for the Plans from other domestic source i.e. deficit financing. It has played a very important role in financing Plans. There has been a good deal of discussion in India about the significance of deficit financing in relation to the Five Year Plans. This discussion has ranged between two extreme views. On the one hand, there are some people who regard deficit financing as essential for the purposes of the Plans and a healthy means of stimulating enterprise. On the other hand, there are those who regard any deficit financing as inflationary and a serious threat to the stability of the economy. Deficit financing which is used to secure an approximate money supply and redirect real resources to the government for its investments is clearly essential to the success of the Plans. If, however, deficit financing is undertaken without regard to its effect on the money supply and the availability of resources it will inevitably tend to inflation and hamper the achievements of the Plans. It is also wrong to say that inflation arises due to increase in money supply because there are many other factors leading to inflation. It also depends on the availability of consumer goods. If the quaantity of consumer goods decreases inflation takes place. Therefore, it has been suggested to create money to finance quick yielding projects. Whether deficit financing is desirable or not depends fundamentally on the amount, the environment in which it is undertaken, and the politics that go along with it.

The first consideration in any policy involving deficit financing is whether there are inflationary pressure. If the economy is inflated, then deficit financing can only add to the problem. Unfortunately, in the existing literature, there is no formula by which one may determine the amount of deficit financing that may properly be undertaken. As in most matters involving credit policies, this is ultimately a matter of judgement.

Clearly, some deficit financing is consistent with a sound credit policy designed to avoid inflation and facilitate economic development with stability. Clearly too, excessive deficit financing is not consistent with a sound credit policy and can lead to inflation even if it is for the purpose of undertaking development. Deficit financing is one aspect of credit policy and it is only the whole range of credit policy that a judgement can be made. Thepractical problem for the monetary authorities is to determine how much is proper and how much is excessive deficit financing within the framework of a sound credit policy.

In showing relationship betwen deficit financing, money supply and inflation deficit financing is considered to be leading to change in money supply and inflation rate. Though the inflation hamper economic development it is desirable as it transfers resources from consumption to financing investment expenditure. According to Sidney Weintranb "By inflation individual suffering can be relieved, lives could be better organised and resources more wisely used if the erratic price blips were subdued by acceptable means. To be sure, we will continue to 'live' regardless of the price rate. We can live with inflation, but we cannot afford a stagnant economy."

SUGGESTIONS

1. Deficit financing should be used as a last resort. The Government should try first to raise finance for the Plans from all other sources like taxation and savings as much as possible.
2. Deficit financing should not be adopted in large amount. It should be adopted in small

doses. As an injection to the economy and that to productive purposes.

3. The Government should fix the ceiling limit of deficit financing.
4. To eliminate inflationary impact, it should be used to finance for short-term (quick yielding) projects.
5. Prof. Porwall Misra gave a suggestion to avoid inflation in his book "Inflation Accounting in Developing Economy". That is the government should make provision of information about accountability of inflation depending on prevailing rate of inflation.
6. The Government should reduce expenditure. For this it should try to avoid all unnecessary expenditures like transfer of money to the people in the form of subsidies, pensions which makes the people lazy and much dependency on the government.
7. The Government should do only essential work and leave the 'non-essential' ones to the private sector.
8. Government expenditure should be reduced and private investment encouraged.

9. Encouragement to export promotion and selective import substitution schemes so as to reduce the need for external assistance.

10. Maximisation of public revenues at existing rates of taxation.

11. Prevention of evasion and avoidance of taxes.

12. Encouragement of private savings through the provision of appropriate facilities and fiscal and monetary incentives, particularly in rural areas of the country.

13. Check on the growth of non-plan expenditure both at the Centre and in the States.