Deficit Financing:

Deficit financing has emerged as an imp tool of financing the govt expenditure. It means as filling the gap caused by the excess of govt expenditure over its receipts through the creation of new currency. when the govt can't raise enough financial resources through donation it finances expenditure through

1) By running down its cash balances with the central bank.
2) Borrowing from the market.
3) Borrowing from central bank.
4) Issuing of new currency.

Objectives of Deficit financing:-

The main objectives of Deficit financing are:-

1) To meet the financial requirements of the govt during the ~~f~~ crisis period.
2) To mobilized surplus, ~~ideal~~ idle & unutilize resources for promoting rapid economic growth.
3) To act as an instrument of economic development & raising the level of output & employment
4) To raise the level of effective demand & stimulate private investment
5) To mobilize resources for financing ~~plants~~ plans
6) To divert undesirable & unproductive economic investment into the desirable & productive channels of the economy

Role / Justification of Deficit Financing

The importance of deficit financing can be justified from the following points-

1) **Deficit financing & war expenditure** - During the war period it becomes difficult for the govt to finance the war expenditure through its normal method of resources. Thereby making the government to resort deficit financing.

2) **Deficit financing & Depression** - During depression the public expenditure through public works project financed by deficit financing helps to promote opportunities which in turn push the total demand & employment in the economy.

3) **Deficit financing & economic development** =

Deficit financing is an imp method for financing developmental ~~plants~~ plans of UDCs & accelerating their rate of economic development as-

a) a method which makes available the surplus resources which exist in the economy & which can't be mobilized due to scarcity of financial resources

b) A method to generate new resources in the form of forced saving.

c) A method which has the capacity to increase the supply of resources as the economy develops.

4) Deficit financing & Employment - Deficit financing is vital for increasing the effective demand & removing the condition of unemployment in develope countries during the period of recession & depression

5) Deficit financing & distribution of Income

Deficit financing which is designed for development purposes increased net social goods which will lead to the distribution of income & wealth in a most socialy desireable manner. However, what will be the effect of deficit financing on prices income distribution & economic welfare depends on the mode of deficit govt. attitude & policies, reaction of private sector & growth of public sector

Q) Is deficit financing necessarily inflationary

There are 2 arguements regarding the question whether deficit financing is pro-inflationary or ~~or~~ anti-inflationary. This are brief summerised below

disadvantages of Deficit financing are

A) Deficit financing as pro inflationary.

1) According to this arguement deficit financing is pro-inflationary as its direct result is an increase in the total money supply with the public. Increase money supply raises

the ~~pursche~~ purchasing power in the hands of public but the supply of consumer good donot expand at the similar rate with the result that prices tends to rise.

2) Through deficit financing aggregate outlay increases. This in turn results in increasing the money income of the general public. Some part of expenditure is made to go in the form of wages, salaries, interest payments, cost of project etc. while other goes to the banking system on this basis they creat more credit then cash revenues & there by results in inflation. ~~Deficit~~ /

advantages of deficit financing

3) Deficit financing not as inflationary/

1) Deficit financing is essential to provide finance ~~for~~ for growing output at stable prices. In this case it is not inflationary as additional finance has properly been utilized for production purpose. The increasing activities in diff field require more & more money which can be met only by deficit financing.

2) In the absense of deficit financing, it may lead to decline in price making adverse effect on output & employment. under these circumstances deficit financing is essential for maintaing growth with ~~fair~~ stability.