

An Essay on Fiscal Deficit

Raja J. Chelliah

I deem it a privilege and honour to be invited to deliver the Kale Memorial Lecture for this year at the Gokhale Institute of Politics and Economics. The Institute is a prestigious one which has rendered over the years yeomen service to the growth and development of social sciences. Rao Bahadur Kale, in whose memory, the Lecture Series have been endowed was a true servant of India and has to his credit many contributions to education, besides the founding of this Institute. I am grateful to Dr. Wadhwa, the Director of the Institute, for having invited me.

Introduction

In the context of macro-economic stabilization in India and many other countries, "fiscal deficit" has become an important variable and policy target. Reduction of the relative size of the fiscal deficit has been postulated as a basic objective of policy. Until the mid-eighties, in Indian discussions of fiscal policy, attention was focused mostly on the so-called overall budgetary deficit, or "deficit financing", which was equal to the withdrawal of cash balances and sale of short-term treasury bills, mostly to the Reserve Bank of India (RBI). The deficit measured thus was taken to represent the creation of fresh credit or reserve money. Officials of the Finance Ministry and government economists succeeded in convincing the public that that was the only type of deficit to worry about because the inflationary impact

* Text of Rao Bahadur R.R. Kale Memorial Lecture delivered at the Gokhale Institute of Politics and Economics, Pune, on 13th August, 1993. The September Issue is being printed in October 1993.