

PUBLIC DEBT OF INDIA

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PUBLIC DEBT OF INDIA.

A thesis submitted for the M.A. Degree

By

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A list of abbreviations used in the body of the thesis

- p. D. - Public debt.
- F. S. - Financial statement.
- P. G. - Provincial government.
- C. G. - Central government
- S of S - Secretary of State for India.
- P. C. R.- Paper Currency Reserve.
- G. S. R.- Gold Standard Reserve.
- U. K. - United Kingdom.

I

SYNOPSIS.

Introduction

(1) The Importance of the Problem -- Historical development -- Its relation to other subjects -- The Future of the Problem.

(2) Indian Condition - Significance of the period selected Importance of the Problem Today - Economic , Financial and Political.

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Examination of the arguments.

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Dangers of external debt - effects on trade - the association of politics with government's external loans - India's peculiar position as an international borrower - criticisms by Indian Public men .

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The position of the Government and how it is affected - by the amount to be issued - the time at which it is issued - the time of repayment. Examination of the position of the Government of India.

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The Indian condition - some confusion in the classification of Indian public debt into productive and unproductive.

Changes in denominations and basis of classification.

The distinctive feature of the whole public debt of India - The constituents of the productive debt - the biggest block on account of Railways - an apparently anomalous position.

A brief history of the classification of public debt into productive and unproductive - An examination of the arrangement by which surplus was applied to the reduction of ordinary debt with a corresponding increase shown in productive debt.

Strain on general finances due to their connection with Railway finance.

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Repayment - the types of Sinking Fund.

(The period of repayment - productive debt - unproductive debt - other categories of debt).

The history of Indian Public debt from the view point of redemption - shifting notions regarding sinking funds etc.

Examination of the same.

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(1) Impressions.

(2) A glimpse into the future.

INTRODUCTION.

The Importance of the Problem in the present organization of the society:-

The problem of Public Debt had its origin in the middle ages. During the subsequent centuries, for wars during the 18th century, and owing to the development of social consciousness from the middle of 19th Century, states were forced to adopt a very high standard of expenditure. This led to the enormous growth of public debts during those periods. To-day, both in the national and international affairs, public debts occupy a position which is at once interesting and embarrassing.

In early stages of the evolution of the state, the autocrat possessed ^{up} hoarded wealth to be drawn upon when necessary. After, in the middle ages, kings at times depended upon hoarded resources, and at others, upon indebtedness. The device of hoarding was subsequently discredited and discarded. The king was thus left with the only alternative of borrowing. From the middle of the 19th century, social consciousness has been developing at a rapid pace and the state has been called upon to perform duties and undertake works, which hitherto were left to private enterprise. All these required money on a huge scale. Side by side with this, political evolution ushered in larger democratic control of public finance. Owing to this the Government could not raise money in any arbitrary way they liked. The machinery of tax could not be strained except within limits. All these made a resort to borrowing an inescapable proposition.

The huge costs of European wars in the 18th and 19th centuries greatly contributed to the growth of public debt. The closing part of the 19th century and the pre-war period of 20th century especially gave rise to what are called the productive debts.

But the great war introduced a very great change in the problem of Public debt. Huge funds were required for financing the wars. All these could not be raised inside the borders of the countries engaged in the war. A resort to loans from foreign Governments became inevitable. This resort became all the more necessary for purposes of reconstruction, after the cessation of hostilities. Thus the problem of intergovernmental debts after the war has attained a scale and variety almost unparalleled in previous history.

This problem affects other problems of domestic finance international trade, exchange, banking etc.

Domestic finance is affected because the debtor country has to obtain command over the necessary resources either by reduction in expenditure or enhancement in taxation, ~~and~~ similarly the creditor country has to reduce taxation or enhance expenditure.

The exchanges are influenced, because the currency of the debtor country has to be transferred and converted into that of creditor country at the time of payment of interest and repayment of principal.

International trade and industry are involved in so far as the payments are to be made in forms of goods. This may have repercussions upon the industries of the debtor and creditor

1 Refer to Dr. Hugh Dalton's "Public Finance" p. 282.

countries and of the countries where the borrowed funds are expended . This aspect is made all the more difficult and intricate by the imposition of tariffs upon the goods flowing to and from the countries.

But if on account ^{of} certain difficulties, the export of goods becomes impossible, then the payment has to be made by the export of gold drawn from the banking reserves, and this, when reduced to a dangerously low point may shatter public confidence in the stability of local currency, caused a flight of capital ~~from~~ the country and bring about a banking crisis. This was a main factor that contributed to the German crisis which threatened the economic stability of some other countries of the world.

Thus to-day the economic stability of the whole world which is closely knit together, hinges, to a very large extent, upon the effective solution of the problem of intergovernmental debts.

But public debts, especially the productive debts have proved to be in the interest of the society, in so far as they conduce to the economic development of a community. The development of the money market and the quickness and the cheapness of telegraphic transfer have contributed to the growth of public loans especially for investment in public institutions. Now it has become the fashion of Governments and municipalities and other public bodies to possess a more or less extended list^s of debts. This is mainly due to the fact that today the borrower^s instead of going, cap in hand, to the lender, frequently conducts an informal auction in which the right of raising a loan for him goes ¹ to the lender, who will promise to float it at the highest price.

1 Refer to Hartley Wither's "Stocks and Shares". p. 14.

In short, the process of borrowing has become comfortable to the borrower, profitable to the financier who handles the loan, and a boon to the investing classes; and if the sums so raised are well spent, it is very valuable convenience to the community as a whole.¹

But the two advancing currents of political democracy on the one hand, and socialism on the other, have made the problem greatly perplexing. Under modern democracies, in order to escape the odium of the electorates, and to that extent, ensure his place in the next election, the finance member may be tempted to borrow where he ought to raise funds by taxation. In this he is helped by the richer section of a community which stands to benefit more by Government's borrowing than by its taxation. On the other hand, if the funds are raised from the rich and spent mainly for the benefit of the poor, while for the payment of interest and repayment of principal, the bond holders are taxed more than their share of the interest, then the institution of public debt can be made to serve as one of the planks in the programme of a socialist; i.e. it may be used to reduce the existing inequalities of wealth and income. Thus while under modern democracies, greater reliance will be placed on loans than on tax, under socialism, greater stress would be laid on the tax than on the loans. As these two forces exercise their pulls in opposite direction, the problem of public debt is likely to be more complex in future.

1 Refer to Hartley Wither's " Stocks and Shares " p. 14.

INDIAN CONDITION.

Significance of the period selected:-

In dealing with the problem of public debt of India, we have selected the period from 1860. One reason ~~for~~ why 1860 is chosen as a starting point is that modern Indian finance dates from after the quelling of the mutiny in 1858 i.e. from 1860. Besides all the accounts as they were kept before 1860, were in a confused state, and an attempt to scan and sift the necessary data is almost bound to prove futile. The whole period is divided into different sub periods; reasons for the divisions are given at the proper places.

Importance of the Problem To-day:-

To-day the problem of Indian public debt has become absorbingly interesting from many points of view, economic, financial and political. The economic importance of the subject would be manifest, if we just look at the following figures of the amounts of productive debt which means debt incurred for economic development of the country.

Figures in Crores of Rs.

Years :	Total Debt Rs. in crores:	Productive Debt. :	Year :	Total Debt:	Productive
1923	: 881.74	: 633.04	1929	: 1074.46	: 875.51
1925	: 970.02	: 716.64	1931	: 1169.90	: 938.90
1927	: 1006.19	: 786.90	1932	: 1212.05	: 963.20

1 Refer to Welby Commission Report p.31

2 (a) See P.K.Wattal's "The Financial System of British India" p.226

(b) Refer to Prof; E.T.Shah's Annexure to Congress Committee Report. paras 34-35.

The importance of the subject from the financial point of view ^{would be realised} when it is remembered, that on 31st March 1931-32, the revised accounts showed that Rupees 13.14 crores were required for payment of interest on ordinary debt. The figures of revenue and expenditure on the same date stood at Rs. 120.77 crores and Rs. 134.43 crores respectively. The percentage proportion of the ordinary debt interest to the total revenue comes to 10.8 and to the total expenditure, to 9.7. This is sufficient to reveal the significance of the problem from the financial point of view.

As regards its importance in the domain of Indian politics, ever since the Lahore Congress in 1929-30, the attention of the people has been focussed on the problem. The articles in the press, the Congress Committee's Report and Prof. K.T. Shah's annexure to it, coming after one another in quick succession aroused the public interest on the topic. Even in the peace negotiations carried on between Congress Representatives and the Government through the intermediary of Messrs Sapru and Jayakar, the question of Indian Public debt figured prominently. So also in all the discussions at R.T.Cs, the protection of the interest of the British investors in India, formed the main plank of the financial safe-guards which are mainly instrumental in causing so much of disappointment about the white paper, among Indian politicians of all shades of opinion.

The Scope and Method of Treatment followed:-

- The treatment followed in this study is (a) Historical
(b) Analytical.

The work is divided into these two parts, because they are considered to be complementary and supplementary to one another. The Historical part relates merely to the growth and development of the public debt. Standing by themselves, the Historical chapters are not so interesting from the point of view of a student of

economics. This interest is infused into them only by the analytical part of the study. In this way is the analytical part complementary to the Historical part. Similarly the mere analytical discussion of the particular topic without knowing its historical bearings is of little avail. A particular topic can be critically and usefully dealt with only in relation to its surroundings.

In this respect is the historical part complementary to the analytical portion. The historical part serves as a background to the analytical part which, with its various aspects, completes the picture of the subject as a whole.

(a) In the Historical part, we have given in brief, the general history of the growth of the public debt, and mainly dealt with the developments of different administrative problems in connection therewith. In this part, we have refrained as far as possible, from offering any criticism on different aspects of the growth of the problem and ^{the} Government policy in relation to it. This is reserved for the analytical part. The Historical part consists of three chapters namely (1) The Period of Experiments - 1860-1880 (2) The History 1880 to 1914 (3) The War and After 1914-1932.

(b) The analytical part, as its title shows, discusses critically the details of different aspects of the problem. The whole discussion is carried on in the light of modern principles of Public Finance. But the principles are not discussed in abstract; they are dealt with in relation to the peculiar ~~at~~ conditions obtaining in India. The analytical part consists of six chapters.

- (1) The Machinery and Administration.
- (2) The Internal and External Debt.
- (3) The Long-term and Short-term Debt.
- (4) The Productive and Unproductive Debt.
- (5) The War Finance and Public Debt.

(6) The problem of Redemption.

Thus (1) deals with the detailed simplification of Machinery and Administration of the problem. (2) & (3) are about the ways or kinds of public debts. (4) & (5) rather discuss the purposes for which the debts are incurred, and their significance in the economic organization of the society. The (6) deals with the Redemption of Public Debt.

Attempts have also been made to institute comparisons between Indian and foreign conditions in relation to the subject matter of our study.

Sources of Information and Difficulties connected therewith:-

Considerable difficulties were encountered in the course of the ^{preparation of the} Thesis; first in collecting the necessary information, and secondly, in collating the information collected. As regards the first namely collection of the material, in the first place it may be pointed out that with the solitary exception of one book namely "Indian Public Debt" by Dr. D.L. Dubey, there is no other book written on the subject. Secondly Dr. Dubey's Book ~~has~~ saw the light of day almost a year after the present work has been undertaken. Moreover the book deals only with the 20th century while this thesis covers the period dating from 1860. Again when compared with the chapters of the present thesis, it would be seen that the ground covered by Dr. Dubey's book is altogether different from the one covered by this thesis. As such, the book could not be of much use.

There are other sources of information namely books written on the financial problems of India, where general information is available on the very broad and a few features of the problem. Chief among such works are "Financial Developments in Modern India" by Prof. C.N. Vakil, "The Sixty Years of Indian Finance" by Prof. K. T. Shah, "The Financial System of India" by Gyan Chand and

and "the Science of Public Finance" by Findlay Shirras. But these studies on the general public finance of India, do not supply information adequate for the type of detailed study of the problem of Public Debt, which has been made in this thesis. Mention may be made of the Congress Committee Report and the Annexure to it by Prof. K.T. Shah. But these works approach the subject mainly from a political point of view, while the present work is an economic study.

In the absence of good studies on the subject, the writer of the thesis had to rely upon first hand sources of information. The information has been gathered mainly from the financial statements of the Government of India, the budgets, the Finance and Revenue Accounts, Reports on Moral and material Progress of India, the Reports of the Controller of Currency, the Reports and evidences of Commissions and Committees appointed to enquire into the finance, Currency and Banking Problems of the country, at different times, ^{the} and the Reports of East India Finance Committees etc.

The difficulties connected with the collating of the material were equally great. The defective nature of Indian Statistics led, in the beginning, to a good deal of confusion and misunderstanding which made much of the data useless. Also a mentionable part of the data collected, proved superfluous and irrelevant and had to be cast aside. In the later stage of the work, we had almost to thread our way through the labyrinthine mass of confusing statistics in-order to arrive at correct figures.

A few tables of these statistics are given at the end while the rest are enclosed, at the proper places in the body of the thesis.

The lack of any previous book written on lines followed in this work, relating not only to Indian conditions but the debt problem of any other country, was the second cause of the difficulty experienced in collating the information and building up the general scheme of the work. The Scheme in the analytical portion has mainly come out of a close study of the Colwyn Committee Report on National Debt and Taxation of Great Britain (1927).

B I B L I O G R A P H Y .

(A) Theory.

- | | | |
|------------------|---|--|
| Adams | - | Finance. |
| Bastable, C.F. | - | Public Finance. |
| Bullock | - | Selected Readings in Public Finance. |
| Brooks, W.C. | - | Theory and Practice of Finance. |
| Dalton, H. | - | Public Finance. |
| Hartley Withers | - | The Business of Finance. |
| " | - | Our Money and the state. |
| " | - | Stocks and Shares. |
| Hobson, J.A. | - | Economic Interpretation of Investment. |
| Jones J. A. | - | Economics of War and conquest. |
| Lavington F. | - | The English capital market. |
| Lutz H. L. | - | Public Finance. |
| Matsasushita | - | Economics effects of public debts. |
| Pigou A. C. | - | A study in public finance. |
| Pigou A. C. | - | Economy and finance of the War. |
| Pigou A. C. | - | Political economy of War. |
| Plehn C. C. | - | Introduction to public finance. |
| Robinson M.E. | - | Public finance. |
| Sir Salter S. A. | - | Recovery. |
| Selagman E.R.A. | - | Essays in Taxation. |
| Selggman E.R.A. | - | Studies in public Finance |
| Selagman E.R.A. | - | Currency inflation & public debts. |
| Shirras F. | - | The science of public finance. |
| Silverman H. A. | - | Taxation, its incidence & effect. |
| Stamp Sir J. | → | Studies in current problems in Finance and Government. |

B Comparative study.

Angas	-	Germany and her debts.
Coons A. G.	-	The foreign public debt of China.
Fels Herbert	+	Europe the World's Banker 1870-1914.
Fisk F.E.	-	Inter Ally debts.
Hargreaves F. L.	-	National debt.
Hilton Young	-	The system of National Finance.
Pathiek Lawrence	-	The National debt.
Pasvolsky & Moulton		Russian debt and Russian reconstruction.
Shann & Copland	-	Crisis in Australian finance.
Shults	-	American Public Finance & Taxation.
Gordon Wood	-	Borrowing & Business in Australia.

Year Books

Australia Year Book, 1931.

Canada Year Book. 1932.

New Zealand Official year Book, 1931.

The South & East African year Book & Guide for 1931.

Reports (Great Britain)

Britain's Industrial Future - Report of the Liberal Industrial Enquiry 1928.

Colwyn Committee Report, with evidences on National debt and Taxation - 1927.

Monetary policy - Report of the sub-committee on Currency and Gold Standard.

Reports (Great Britain)

Mac Millan Committee Report on Finance and Industry, 1931.

May Committee Report.

Miscellaneous.

Income taxes in the British Dominions 2nd edition.

International financial position of America.

Statistical year Book of the League of Nations, 1931-1932.

Statistical Abstract for the United Kingdom 1913-17 to 1930.

C. Indian Conditions.1. BOOKS

- Leonard (Alston) - Elements of Indian Taxation.
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