

SOME ASPECTS OF PUBLIC DEBT : A SELECT STUDY

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INTRODUCTION

"Public Debt is a legal obligation on the part of a government to make interest and/or amortization payment to holders of designated claims in accordance with a defined temporal schedule."¹ In other words (public debt is government borrowing from individuals, corporations, institutions and other governments. It is a part of a bilateral exchange process in which lenders transfer funds to government and government in turn transfer to lenders claims on government revenue over a series of period subsequent to that in which the borrowing occurs). According to Bastable state borrowing is a "creation of the constitutional period, built upon the decay of the older method of state hoarding and having its germs in the Middle ages. It is the result of the credit system, combined with the increase of public expenses and the greater security of observance of faith to the state creditor."²

(In its essential respect public debt is not different from private debt. Both the cases are an alternative means of raising revenue to secure additional purchasing power in a particular period of time. But in many respects private debt is different from public debt. Private debt is more similar to external debt, because in both cases, repayment

means reduction of resources held by the borrowers. When an individual or a nation repays the debt along with the interest, there is a corresponding outflow of resources. On the other hand, in the case of internal debt, repayment means reallocation of resources among the people of a country. It is just a transfer of resources from one pocket of the economy to another!

(Classical economists did not give much importance to this source of financing. This is because they firmly believed that government functions should be limited to defence, providing justice and building those institutions that will facilitate commerce and welfare of the nation. But since then the importance of public debt as a means of financing government expenditure has grown. It has become a frequent subject of debate), not only among economists but also among politicians and the general public. In a study conducted by the Chamber of Commerce of the United States, the following five important functions of public debt have been identified.

- ✓ 1. It helps to compensate for discontinuities in economic process, e.g., a nation may borrow in order to acquire assets whose future services will provide the proceeds for retirement of the debt and to increase the welfare of its citizens.
- ✓ 2. It may channelize savings into productive use.

3. An economy characterized by debt, has greater mobility of resource utilization. Where saving, lending and borrowing mechanisms are well developed, resources can be more readily adapted to changes in tastes and technology.
4. Debt affords greater equality of consumption among individuals.
5. Debt facilitates growth of the economy.)

This dissertation deals not with the benefits of public debt but with the burden of public debt. (Burden means sacrifice of private goods and services made necessary by government borrowings. Is internal debt a burden to the present and/or future generations? Is internal debt a burden to private investors in the country due to crowding out of resources? Is external debt a burden to the residents of a country?) No attempt has been made here, to find answers to these questions. This is just a review of the answers given by different economists to the above questions.

Chapter I deals with the first question, i.e., the inter-generational transferability and/or non-transferability of the burden of public debt. Who bears the real cost of debt? Can the cost of public debt be transferred to the future? In the chapter debt burden is often spoken in terms of net burden. (Net burden is the difference between the cost of debt and benefits derived from debt. The cost of debt can be measured in terms of the amount of goods and

services forgone by the people during the period of their life-time. The benefits of debt can be measured either in terms of monetary returns from the expenditure or in terms of the welfare accruing to the society from the expenditure.)

Chapter II deals with the issue of crowding out of private spending due to government borrowing.

Chapter III deals with external debt. External debt is different from internal debt in only one sense. In the former government borrows from the citizens or governments and institutions of foreign countries; whereas in the latter the government borrows from their own citizens. In almost all other respects they are similar. Because of these similarities some points which have been dealt with in Chapter I and Chapter II have been reiterated in Chapter III.

Chapter IV deals with the current debt crisis. In spite of all the theoretical assurances given by economists, regarding the benefits of external debt, the experiences of the developing countries tell a different story. In this chapter, growth of the crisis, its causes and some of the measures taken to curb it has been explained.

Notes and References

1. Buchanan, James M. "Public Debt," in Eatwell, J. and Newman, Murray (ed.). The New Palgrave: A Dictionary of Economics, Vol.3, p. 1044.
2. Bastable, C.F. Public Finance. Macmillan and Co. Ltd., 1922, p. 627.