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Topic - Public Debt

Expenditures of the government have increased rapidly during recent decades despite role of state in economic activities decreasing considerably. However there are limits to which revenues from taxes can be raised to meet continuous increasing expenditures. Government usually borrows by issuing securities such as government bonds and bills. As Mentioned in Encyclopedia Britannica, public debt refers to "obligations of governments, particularly those evidenced by securities to pay certain sums to the holders at some future date."

P E Taylor has defined public debt as "Government debt arises out of borrowing by the treasury from banks, business organisations and individuals. The debt is in the form of promises by the treasury to pay holders of these promises a principal sum and most instances interest on the principal. Borrowing is resorted to in order to provide funds for financing a current deficit."

The borrowing of the government may be from within the country or from out side the country or both. Public debt can be categorised as internal debt, owed to lenders within the country, and external debt owed to foreign lenders. Another common division of government debt is by duration. short term debt is generally considered to be one year or less, long term is more than ten years. Medium term debt falls in the middle.

Public debt or public borrowing is an instrument of fiscal policy. The purpose of borrowing may not always be for obtaining revenue resources only. It may be for influencing aggregate demand, i.e, to influence the investment and consumption expenditures for maintaining stability in the economy. Modern wars and growth of defense expenditure have also led to increase in public expenditure and therefore increase in public debt.

The government of India's total debt obligations were only Rs, 2865,4 Crore in March 1951 but shot to Rs 15,61,876 Crore in March 2003 and were budgeted to reach Rs. 17,80,064 Crore in March 2004. It is ~~note~~ ~~wor~~ noteworthy that as proportion of country's G.D.P, GOI's debt liabilities were less than 3% in March 1951 but shot up to around two thirds in March 2004.

Views Regarding public debt: David Hume, Adam Smith and David Recardo had identical views about the consequences of public debt. Their opposition to public debt was on the ground that public expenditure is wasteful and unproductive.

David Hume opposed public debt and said that, "nations once they began to borrow, would be unable to ~~be~~ resist, until they reached the point of bankruptcy."

Adam smith thought that once the sovereign started to borrow, his political power was increased because he was no longer dependent on tax exactions from his subjects. Therefore, borrowing encouraged the sovereign to wage need- less ~~wars~~. wars. On the ~~speedly~~ other hand, if taxes were raised to meet current costs, war would in general be more speedily concluded and less wontonly undertaken. In short, the ability to engage in loan finance makes for irresponsibility in sovereign."

Recardo characterized national debt as 'one of the most terrible scourges which was ever invented to affect a nation.

However, Subsequent thinkers like Malthus, Mill, Sidg- wick and Cairnes had some liberal view about the conseq- uence of public debt. As Malthus said that, "The materi- al debt is not evil which is generally supposed to be. Those who live on the interest from the national debt, like statesmen, soldiers and sailors..... contribute powerfully to distribution and demand.... They ensure that effective consumption which to necessary to give the proper stim- ulus to production..... therefore, the debt, once created, is not a great evil."

The Modern theory of public debt is an offset of the Keynesian economics. The economics of depression or the Keynesian economics. The economic anomaly created by the Great Depression of the 1930, gave way to the development of the new theory of public debt.

The classical theory of public debt assumed full employment and unproductiveness of public expenditure and the classical antagonism towards public borrowi- ng was based these assumptions. But SE Harris observes that once the economists allowed for unemployment, assumed elasticity in monetary supplies and agreed that that Government expenditures could be productive and need not necessarily be wasteful, the case of

Public borrowing was strengthened." Prof. A H Hansen the exponent of modern fiscal theory said that public debt is an essential means of increasing employment and has become an instrument of economic policy today.

Thus the modern theory of public debt is concerned with macro economic variables and not with individual utilities. It assumes the whole economy as a unit. Modern economists believe that internally held public debt involves no burden since we owe it to ourselves.

According to them external debt is regarded as definite burden as since repayment of principal and intrest to foreign countries are entailed, such repayments involves a transfer of real goods and services from the debtor to the creditor country in payment of interest and principal amount.