Chapter IV
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Government and Economic Justice

4.1: The scope of Government activities.

In this chapter, economic basis for governmental activity and the consequences of alternative public policies are analysed. More traditional principles of public finance and expenditure are followed by development in welfare economics, the theory of the state, the choice of political institution and public policy.

The allocation of resources, distribution of wealth and Government activity are interconnected, as all social problems have a vital economic aspect and government supplies services to citizens in order to find acceptable solutions to the problems.

In so far as governmental activity required real resources to achieve its objectives, the private sector of the economy will have to surrender resources for its use. But certainly in some cases the government merely serves as an agent to redistribute command over private goods and services among households, redistribution of purchasing power as transfer payments, actually divert resources away from private uses to public services.

A number of questions must be posed to study governmental activity in any society, these include the following:

1. How do citizens of a nation collectively make choices among issues of common interest to all of them?
2. How many and what kinds of activities should government undertake?
3. What effects do alternative governmental policies have on social objectives?
4. What effect does the financing of governmental activity have on social objectives?
For answering all these above questions we can quote the categories of governmental activities advocated by Adam Smith.[1]

1. Protecting the community from violence and invasion by foreign powers.
2. Establishing an exact administration of justice.
3. Providing certain public institutions and public works that would not be profitable for private enterprise to supply and therefore not undertaken by the private sector.

Many services generally have externalities either in production or consumption and are more efficiently supplied through market institutions. But the fact that private action is not more efficient in undertaking any particular activity leads to collective action through political institution.

When there is great deal of inequality and concentration of wealth then the government is required to rake several measures to eradicate poverty, reduce inequality and control concentration of wealth. The measures may be:[2]

(a) Heavy investment are made to increase the process of growth i.e. investment in industry, agriculture, power, transport and communication for changing the economic structure of the country.

(b) Undertaking of social expenditure for the development of human resources through provision of education, health, family planning and social welfare, to ensure social justice.

(c) Efforts are also directed towards the reduction of concentration and wider diffusion of wealth, income and economic power.

(d) Both budgetary and extra budgetary methods have to be combined to attain economic growth with social justice.

Public sector growth has been evident in both absolute sense and relative sense which would be expected in an environment of expanding population, output and complexity in economic activity. In the absolute sense when both
public and private sector allocate the resources at increased rate, a higher proportion of total resources gets allocated through the influence of government.

Adolph Wagner [3], the famous German political economist (1835-1917) believed that a functional “cause-and-effect” relationship exists between the growth of an economy and the relative growth of its public sector. According to Wagner, relative growth of the government sector is an inherent characteristic of industrializing economies; as per capita income and output increase, the public sector of these economies grows as a proportion of total economic activity.

The social progress is the basic cause, and Wagner described this as ‘chain-reaction’ because social progress leads to a growth in government functions leading to absolute and relative growth of governmental economic activity. He justified the activities of the government in providing law and order with foremost preference, followed next by the ‘social products’. Centralization of administration results in an impersonalisation and automation of many social and economic institutions. This in turn increases labour specialization and causes greater complexities and interdependencies in economic and social life.

While discussing government corporations, Wagner suggests that they must produce certain economic goods requiring large fixed investment on a profitable basis.

Wagner has not considered interdisciplinary phenomenon because of the cultural characteristics of a society. He argued on the basis of organic self-determining theory of the state for long term, and emphasised that industrialized economies require increasing governmental activity causing expenditure growth.

Peacock and Wiseman[4], in a work published during the early 1960’s stress the time pattern of public expenditure trends. They concentrated on three important aspects. I) Displacement effect II) Inspection effect and III) Concentration effect. They observed that most of the absolute and relative increases in taxing and spending by government take place during major social disturbances such as war and depressions. Here displacement effect takes place,
by which the previous tax and expenditure levels are replaced by new and higher budgetary levels. After the social disturbance has ended, new levels of 'tax-tolerance' emerge to support the higher plateau of public expenditure since the society realizes that it is capable of carrying a heavier tax burden than it previously sustained. Thus, when the major social disturbances occur, greater revenue magnitudes are used to support higher level of public sector economic activity. This situation paves way to seek solutions to important problems which previously had been neglected, that is inspection effect. Peacock and Wiseman also discussed concentration effect. It occurs when economic growth swings in a positive manner and governmental economic activities require increase concentration of decision making.

Colin Clark [5], a British economist, developed Public Sector Hypothesis concerned with the tolerance level of taxation i.e. 'critical limit hypothesis'. It occurs when the aggregate economic activity of government increases beyond 25% of GNP as measured in terms of taxes and other receipts. This causes inflationary pressure also.

Critical -limit hypothesis depends on institutional factors -

a) As the taxes collected by government reach a critical limit, changes in the behaviour pattern of community and people become 'less productive'.

b) People become less resistant to various inflationary means of financing government expenditures Inflation tends to result from—'aggregate supply-aggregate demand disequilibrium", under conditions of high resources employment.

In recent years, there has been a tremendous increase in the functions of government in almost all types of economies, as need for government activity and scope in (i) Capitalist economy, (ii) Mixed economy and (iii) Socialist economy, show definite expansion.
Nowadays, though capitalism in its pure form does not exist anywhere. However, some countries have a preference for a free market economy based on private property. And government takes steps to maintain economic stability, promote social justice, and provide public services. Private sector and the need and scope of governmental activities have interchangeable characters. The reasons may be:

(a) Laisser-faire: as argued by Adam Smith [6] believed in invisible hand so minimum role for government action where the productive system was not geared to produce goods and services on the basis of demand implying thereby, an inherent inequality in the system. In other words, the competitive system perpetuated inequality. Thus, the capitalist system failed to promote equality, which necessitated the government to intervene and promote equitable distribution of by means of taxes, expenditure, and social security law.

(b) Galbraith in his 'Affluent Society' observes that the quality of life suffered due to concentration of production of saleable goods as a social goal and capitalism fails to supply the public goods. Therefore, the government intervenes in the market, and makes an effort to fill up the gap by producing the public goods.

(c) Pigou in his 'Economics of Welfare' has shown how there is divergence between private interest and social interest under a capitalist system.

(d) Monopoly occurs due to economies of scale, which leads to economic imbalance, so government regulates and ensures an economically efficient output with reduction in economic inequality.

(e) There is no certainty that private economy will attain a desirable rate of growth. Fiscal policy of government is considered an important tool in capitalist countries for preventing economic instability.
All this implies that even though the government can do little to alter the natural rate of growth or equilibrium rate of growth it can do a great deal to ensure that the actual rate of growth coincides with the long run equilibrium growth rate.

(ii) Mixed Economy And Governmental Activities - Need And Scope [7]

Both public sector and private sector are partners in the process of economic developments. In a mixed economy, public sector ascends to 'Commanding heights', which determine the trade and pattern of economic growth.

Government has direct responsibility in many cases for economic change, where no uniformity in the pattern of economic development; can take place because of low level of income and low capital formation, under employment, low resource utilization, price spiralling etc. Need and scope of government activity is very wide in a mixed economy for following reasons.

(1) The government can nationalize key industries, tries to raise resources by increasing level of aggregate saving with reducing the actual and potential consumption, by using "activating finance" policies.

(2) Due to wide differences in income and wealth between rich and poor, social justice as a goal can be attained through government instrumentalities only. Government is tries to reconcile growth and social justice by formulating a well-balanced fiscal programme and also follows extra budgetary programmes.

(3) Growth with stability is a more challenging problem in developing countries. Fiscal policy in these countries is used to make existing resources gravitate towards the desired areas of investment, price controlling rationing and public distribution of essential commodities is under taken in order to prevent fluctuations in prices and income i.e. the balance can be maintained by government intervention.
A socialist economy is fundamentally different from that of capitalist or mixed economy. Socialist economies are based on a belief that private ownership of the means of production leads to inevitable exploitation of workers, so beside some minor fields of economic activity, there is all state ownership of means of production. The state is directly responsible for controlling the bulk of economic life, the budget is subservient to the economic plan, which determines the pattern of investment, economic growth and priorities. The account of the inadequacies of the private pricing system helps to put a discussion of the public sector in perspective. Three questions are frequently posed:

1. How big should the government sector be?
2. How to determine how much to produce when the price system is inoperative, either through necessity, or a deliberate choice to meet the cost out of general taxation?
3. How to ensure that expenditures are efficiently incurred?

We can attempt to give answers to these questions, so that we can come to some broad conclusions, regarding the scope of government activity.

1. On the first question, a level of activity cannot be specified which will be valid over time under varying conditions and which does not admit of a unique solution. ‘Public goods’, are not constant over time because of large externalities. The growth and population concentrations lead to problems of health and amenities which have more externalities; and if size is measured by the amount of government expenditure, different decisions emphasise on the way to achieve a particular object will involve different levels of government expenditure and the level of government activity at any one time (in a democracy) is essentially decided by political means.

2. The question of how much to produce, say of defence or public health where the price system is inoperative, is an important one, that admits of no easy solution. The principal of achieving equal marginal benefits from various
expenditure needs to be borne in mind; it may avoid crude waste of expenditure. So one possible way out of the difficulty of weighing up expenditure in disparate activities is to set up minimum standards of service.

On the question of deciding how much of a particular good should be produced in the absence of price guide-lines, answers can be given only by intuition, judgment and flair as they play a very important part in such decision making.

(3) The question of ensuring economy in public affairs, in the sense that after expenditure decisions have been made the money is used efficiently and not wastefully, is important. It may be noted in passing that 'extravagance' may be an indication of too little rather than too much administrative expenditure in the sense that the misallocation of resources might have been avoided if better trained government officials were available.

By discussing all questions related to government activity, its scope and need we are now able to discuss the minimum level of government activity which is agreeable to all reasonable people. Collective goods such as the administration of justice and defence of the realm, which are non-rival, and where operation is monopolistic in nature for obvious needs of efficiency and presence of strong externalities, the government action is needed - e.g. Some form of aid for the unfortunate, justice, defence, the regulation of natural monopolies, is the minimum scope of governmental activity. Government activity at this minimum level, involves some redistribution of resources from the 'better off' to the 'worse off'.

We come to a broad conclusion that government plays a vital role in all types of economies, as in capitalist economy, it operates through budgetary and financial methods but in a mixed economy the government in some fields become the organizer of economy by directly taking over some important industries, trade and occupation but since the private sector also occupies a strategic position in the economy, the government exercises control not only
through budgetary and financial methods but also by extra budgetary and extra financial one which are called 'operational controls'. In Socialist economies the state enters production of goods and services and distributes them among different sections of the community; as an innovator, organizer and supplier of goods and services.

At this juncture we have reviewed in a very general manner the scope of government activities in economic development to a great extent which has its own role with its limits and boundaries. It is for others, who know the facts of scope of government activities much better than we do, to assess the role of government, these circumstances are just reviewed in understanding and guiding scope of government activities.


There is a functional relation between growth of economy and growth of government activities. They are highly correlated i.e. the myth of the equity / efficiency trade-off regarding government economic activity needs to be carefully examined. It is argued that macro-economic factors explain much of the differentials in growth performance for various countries. It is believed that high taxes and 'generous' welfare states are consistent with good economic performance due to -Choice between deliveries of services neutrally in terms of efficiency through public sector as opposed to the market and due to high efficiency costs of progressive taxes which tend to be greatly exaggerated.

There may be a positive linkage between low levels of inequality and economic growth. The high tax burdens needed to finance income redistribution and high levels of public and social services reduce growth. It is therefore suggested that social decision to maintain or not to maintain a relatively large public sector is neutral. There are plausible and well-documented links between high levels of public spending on health and educational programmes etc. And all payments for public services carry a cost in terms of economic efficiency
through taxes, which is socially just. Higher taxes simply represent a choice to finance social security and some services from taxes rather than from after-tax income, the ‘burden’ is simply a reallocation of funds from private to public consumption. [10]

High taxes are considered in the case for an equity / efficiency trade-off and particularly progressive income taxes. High income taxes reduce incentives to work and to save which creates obstacle for growth. It is assumed in free market proposition that taxes distort market signals and cause efficiency losses. Most of the supporters of tax cuts argue that a lower level of taxation will boost longer-term economic growth by creating competitiveness in the economy along with dynamism and efficiency. [11]

It is not accepted that general tax reductions pave way to large efficiency impacts. While discussing taxation of labour income via personal income taxes and social security contributions which create a ‘tax-wedge’ between the total wage costs of the employer and take-home pay of workers i.e. higher average and marginal rates will reduce the workers willingness to supply more labour but conversely tax-wedge will actually increase the willingness of workers to work longer hours in order to get the same or more amount of after-tax income.

On the other side, the increased taxation of property income in the hands of individuals will lead people to save less or lower after-tax returns from savings will lead people to save more in order to reach the same savings target. The channel from the cost of capital to business investment it, is agreed that high levels of business investment contribute to faster labour productivity growth by increasing the capital stock which is the important source of growth in a ‘knowledge-based economy’ and it is believed that a high preferences for education, training and research investment is important, particularly when the importance of public investment in growth is considered. [12]
There are positive linkages between equality and growth through investment in human and social capital. The economic literature on development, such as recent World Development Reports from the World Bank has shown some positive, empirical and theoretical linkages between equality and economic growth by emphasizing issues as access to credit, basic education for the poor, and ultimately it gives the message that marginalization of a large part of the population in deep poverty is negative for economic development. [13]

New thought is that long-term growth is driven less by investment in physical capital than by innovations and advancement of knowledge and learning which contains high intensity of investment in human capital in production and intergenerational transmission of human capital.

Based on the result of the International Adult Literacy Survey (IALS)[14], the low-income inequality countries tend to have a very narrow spread of literacy scores. So there is a direct link between inequality and human capital as measured by literacy report of IALS. There is a positive link between levels of literacy and rate of growth. Saying that higher skill production models in Europe are linked to the higher literacy and numeric level of production workers concludes strengthens it. Most economists recognize that public investment has positive impact on growth and high inequality is associated with low growth.

4.3: Taxation And Economic Justice

While defining the proper scope of Government activity Adam Smith [15], founder of classical economics, listed defence, the administration of justice, certain public works and certain economic situations where market mechanism fails and government takes some actions, such as collective goods, divergence between private and social costs or benefits, works requiring extraordinary risks, natural monopolies etc as areas for government action. The government, in such cases, may work as source of initiative, be responsible for changing the consumption pattern and function as an agent for redistributing income.
As fiscal policy operates through public expenditures, taxation and public debt for stabilization objectives of full employment, relatively stable price level and social justice, which are also the objectives of monetary policy and greater the extent to which these objectives are fulfilled, more is the economic justice available to the people of a nation.

A good tax system [16] must have certain administrative qualities as certainty, low collection costs, convenience, certainty, acceptability and productivity. When the feeling of fairly levied taxes being paid by everyone becomes wide-spread, then people work successfully for voluntary compliance, otherwise the morale declines when a taxpayer sees his equally prosperous neighbours pays substantially less or enjoys tax-free expense account living. So willingness to pay taxes is one of the sources of national strength.

Revenue receipts of government are needed for financing its activities. Revenue receipts include taxes, income from currency, market borrowings, sale of public assets, income from public under-takings, fees, fines, gifts and donations etc. Tax-revenue and non-tax revenue are two broad parts of revenue receipts. And tax revenue consists of taxes on income and expenditure, taxes on commodities and services; on the other hand non-tax revenue includes currency, coinage and mint, interest receipts, dividends and profits and other non-tax revenue.

Every tax [17] is composed of a base which is a legal description of the object to be taxed. And a good tax system is one, which is designed on the basis of an appropriate set of principles, which has characteristics of equality and certainty, for increasing productive capacity of the economy and achieves the goal of economic growth. Practical criteria for tax systems both for the sake of fairness and for minimum damage to economy are administrative qualities as certainty, compliance and minimum collection costs, enforceability and acceptability.
Fair tax [18] system is not the matter of technical economics but a matter of personal philosophy. Some principles have been developed over the years as 'ability-to-pay' and 'benefit', which provide a useful framework. Benefit principle is applied in the social security field and fairness is the basic idea behind the application of this principle where the beneficiaries are clearly identified. So benefit principle can provide a partial solution to the problem of fairness in taxation. Ability-to-pay is the other standard of fairness, Adam Smith[19] back in 1776, listed this as the first canon of taxation. It is general reading that a fair tax system calls on the richer members of the community to pay more taxes than the poor.

Ability-to-pay can be split in two sections as – first, vertical equity where rich should pay more, (Similarly situated should pay the same taxes) and second one is called horizontal equity i.e. 'equals are treated equally'. Vertical equity, ensures that tax is divided properly among people of different ability. How is ability measured. Henry Simon [20] of the University of Chicago has given the answer, as all taxes on perfect horizontal equity in which the people of the same income would pay the same taxes. Here income is considered as the best measure and the tax system will be ideal, which will get rid of most of the taxes other than income taxes and makes definition of income most comprehensive including gifts, inheritances and transfer payments.

Nicholas Caldor [21] of Cambridge, England, advocated an expenditure tax. He took consumption as a base which measures resources with drawn by an individual from the economy for his personal use, his savings are added to capital stock of country which is adding to total productive capacity. As more is consumed than income, then an individual he has to pay higher taxes as he is depleting productive capital. Such a tax is a progressive.

Although Adam Smith [22] argued that taxes should be proportional, now-a-days as a step further, the progressive taxes are recommended, as the fraction of income paid increases as income rises, so that the increase in tax
payments is more than proportionate, because it is implicit that marginal sacrifice due to tax paid goes on decreasing with high levels of income.

The tax system is made up of all three kinds of taxes as proportional, progressive and regressive taxes. It recognizes that income is not the only factor in economic welfare. There are certain deductions of numerous items from adjusted gross income, They are:

i) Taxes paid to local governments.
ii) Interest payments.
iii) Medical expenses above 3% of income.
iv) Contributions to charity.
v) Casualty losses (theft or fire).

Many of the issues of fairness relate to the personal income tax, the major policy instrument for changing the distribution of income.[23] These issues relate to the use of various exclusions, exemptions, deduction under the tax. This leads to erosion of tax base and the erosion leads to higher tax rates to meet the financial needs of the government.

Other issues of fairness are related to estate and gift taxes which are rather ineffective, and provide favour to industries and business organisations under the corporation income tax, as they are taxed twice as receivers of corporate income and of individual income.

For avoiding these obstacles and using tax system as an even more powerful instrument to promote a fair distribution of income, proposals are made for negative income tax, which provides initiatives for reducing the poverty and therefore income gaps substantially.

4.4 Public Expenditure and Economic Justice.

Public expenditure accounts for steep increase as the German economist Adolph Wagner,[24] (1883) discussed the Law of Ever - Increasing State Activity upon surveying the public expenditure records of several advanced countries in
the 19th century. The basis for this law was pressures for social progress, and changing spheres of private and public economy.

Peacock and Wiseman [25] at the London School of Economics found the existence of the Wagner’s law with other complications as expenditure grows because of growth in revenue, and the cost of providing public services also grows simultaneously.

Besides gradual growth of expenditure with revenue, the necessity to finance a war, leads to broadening of the tax system once in few decades. Once the war is over, the system does not re-stretch but remains as it is. As a result of this displacement effect, government’s responsibilities for adopting new social welfare programmes increase.[26]

There is always efficiency expected in Government expenditures while it is the general political process, which determines government expenditures and budgeting, which is preferred to reach the specific decisions. As budget is a detail statement of expenditure and revenues, can economic analysis be applied to budget decisions? As it is said, greater expenditure yields greater benefit than cost, but it also generates the drawback of the existence of law of diminishing returns. If unfortunately marginal benefits equate the cost then it will be helpful to solve problems related to resources allocation as it ensures that every expenditure yields a benefit at least equal to the value of goods foregone in the private sector; and an expenditure does not prevent a more valuable public expenditure in some other field. Thus the principle assures that benefits of marginal expenditures exceed opportunity costs both in the private and the public sectors.

Government provides certain public services in limited range freely which are marketable and assure maximum use, but it may also lead to waste; so the pricing is necessary which can be used to improve resources use in public sector. It is a question of economic efficiency but practically government frequently underestimates these services; because of pressure or philosophy.
Government activities and revenue programmes inevitably alter the overall pattern of distribution of real income in the economy, because welfare programmes seek to increase the real incomes of the recipients at the lower income levels and progressive taxes are designed to lessen the relative real income of the highest income groups. [27]

Direct distributional effects result from receipt of benefits of government services. Indirect effects on income distribution are created by the influence of governmental expenditure of revenue programmes upon relative factor prices and upon the level of employment in the economy.

In other words expenditures, of a welfare nature directly increase incomes; because government provides a variety of forms of assistance, like direct relief, old-age assistance, aid for dependant children, other antipoverty programmes and family allowances.

Some times a situation of direct burdens of the governmental activities occurs due to government expenditure, not by revenue but revenue measures. However to control the patterns of distribution of burden - that is, of reduction in real income, it may take several forms as reduction in factor income, fall in disposable income or real income may also decline. Governmental activities also redistribute real income in several ways that are indirect distributional effects, here both expenditures and revenues of governmental activities are considered.

Public expenditure plays an important role in economic growth in a developed country, through economic stabilization, stimulation of investment activity and so on. In an under-developed economy public expenditure is used to reduce regional disparities, developing social overheads, creation of infrastructure for economic growth in the form of transport and communication facilities, education and training, growth of capital goods industries, basic and key industries, research and development and so on; it is nothing but a source of stimulating saving and capital accumulation.
Public expenditure is expected to affect the pace of economic growth by improving the savings and investment range which will lead to increased working capacity of the people, by narrowing down the difference between social and private marginal productivity of certain investment.

While discussing about inequalities of income and wealth as important aspects of market mechanism, we recognize that such inequalities cause social and economic injustice. To reduce these injustices, it is necessary to reorganise production and employment patterns. Lesser inequalities of income and wealth contribute towards economic stability and economic justice.[28]

Welfare considerations also favour a more equitable distribution of income and wealth; and the purpose of the government expenditure should be towards achieving the maximum social benefits. Because any movement towards equitable distribution of income and wealth, would increase the aggregate satisfaction of the community i.e. economic justice.

4.5: Public Debt and Economic Justice

When expenditure exceeds revenue, government borrow money i.e. called government debt. National debt is nothing but debt of all citizens as they are not only taxpayers but also bond holders; because interest has to be paid on this borrowed debts by the taxpayers, and when these bonds complete their maturity, expires they have to be repaid or refinanced through new borrowing.

There are different dimensions related to debt as –

1) The ratio of the national debt to GNP, which is the tax base out of which the interest -cost must be paid.

2) The national debt must also be calculated through the size of total debt in the economy.

3) The volume of interest payments considered as extra taxes have to be imposed.
To finance the interest payments, which may be a loss to real output with redistribution of income from the taxpayers to the interest recipients, it is only a transfer payment. Public debt may be internal, external, interest bearing, non-interest bearing. While borrowing, the government considers public purposes.

Ultimately, public sector debt is interrelated with the base of governmental fiscal flow of taxation and spending. If the volume of governmental expenditures exceeds the volume of tax and other (non-tax) revenues, a deficit budget emerges, which provides the fundamental precondition for debt creation.

Debt creation ability of the public sector is the final primary source of governmental revenue. Because of the nature of series of transfers from tax payer to public creditors, the debt will involve a direct real burden or benefit to the community and causes inequality of incomes either to go up or to decrease.

The classical economic viewpoint considered the intergeneration transfer of debt burdens, which was later adapted to Keynesian [29] Economic theory. The orthodox position holds that a debt burden may be shifted to future generations only if the present generation reduces its rate of savings as a result of the debt-creation activity. This argument, descends from Ricardo and continues with Pigou, Keynes, Lerner and Samuelson.[30]

The traditional argument suggests that the present generation bears the real burden of debt, but Richard A. Musgrave [31] argues that the debt finance necessarily spreads the burden among different generations while tax finance causes the present generation to bear the burden. Then the question of intergeneration justice occurs, whether it is justifiable to spread the burden of debt between present and future generation or to keep it to the present generation? So while discussing this situation Musgrave’s approach is based upon the benefit principle of equity as applied to the financing of durable capital items, which will last through several generations of tax payers.
Traditional thinking on debt redemption prescribes the policy of paying off the public debt as soon as possible. Current thinking, however, considers debt retirement in the context of over all debt and fiscal policies of the government and would favour the repayment of the debt in terms of circumstances attending upon such repayment. One simple way of ending the debt obligations is to replicate the debt. It can be done through

a) Sinking fund approach where government regularly saves for the retirement of the debt and uses the fund for this purpose when funds accumulated are enough.

b) Through regularly retiring a small portion of the debt every year which makes it necessary to budget for the government to have it.

So sinking fund approach is applied in most of the countries. Debt management is practised to achieve certain objectives. According to the traditional philosophy the debt management was to consist of raising the necessary debt at the cheapest interest cost and paying it off as early as possible. However, with the development of the concept of a welfare state other objectives were brought in to consideration i.e. anti-cyclical or stabilisation, economic growth and refunding objectives.

Debt management policy has to run in harmony with the monetary management of a country because they both influence stabilization and economic growth. Through general and selective credit controls monetary policy tries to influence the volume and directions of the flow of funds and thereby guide the working of the economy. The aggregate volume of debt is the result of fiscal action, that is the budgetary policy of the government. The volume of debt will increase or fall in line with the deficit or surplus budgeting. In monetary policy, there are no such limitations. The volume of money and credit in the market may be regulated quite independently to a large extent. In the case of public debt, the management part would mainly consist of changing its maturity.
composition so as to affect its yield structure and the liquidity content. But it
must be emphasized that the monetary policy and public debt are closely linked.

In a big country, where the government has more than one layer there can
be problems of co-ordination between debt operations and indebtedness between
these governments.
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