CHAPTER - VII
CONCLUSIONS

(1) Economic development means enhancing the productive capacity of the people so that the per capita output increases substantially. Enhancement of productive capacity implies creation of human capital as well as non-human capital goods which include the economic and social infrastructure also. Anything that is created by Man with the help of Nature (and other goods) which helps in the production of other consumer goods or capital goods is called capital. So the problem of economic development is to endeavour to maximise the quantum of capital (human as well as nonhuman) per man. But when people are busy producing capital goods, they have to consume consumer goods like foodgrains, cloth, housing facilities etc. in order to survive and keep fit so that they can continue to produce capital goods. Thus other people should consume the lesser quantity of the consumer goods that they have produced and save some portion of their income or output which can then be made available to the producers of these capital goods. Thus saving is required for capital formation i.e. for investment and it is these savings which are called resources for economic development. Thus it becomes obvious that saving and investment should be maximised if rapid economic development is to take place. Thus for maximising investment, maximisation of saving is required.

(2) When the government resorts to centralized planning, it imposes taxes, borrows from the people and incurs foreign debt in order to maximise its total revenue for investment. But the
five year plans of the Government being larger or the net amount of foreign aid becoming smaller, the resort to deficit financing by the Government (i.e. borrowing from the banking system) becomes ominous which, by adding enormously to the total money supply, gives rise to inflation. If the degree of inflation at home is greater than the degree of inflation in other countries with which this country is trading and if the external value of the currency is not changed, there arises a trade deficit which lessens the scope for the servicing of foreign debt.

(3) A private person or a private company can incur debt for productive purposes, but incurring of debt by the Government for developmental purposes is actually found to be counter-productive after some time. This is because in the government sector, errors, delay and inefficiency cannot get rectified automatically as it happens when the private enterprises are functioning freely in the market. So mistakes accumulate and many public enterprises incur losses or their rate of profit is found to be very low. So their capacity to service the foreign debt or internal public debt becomes very limited. So in order to meet past debt, they borrow more and more and ultimately a stage arrives when the new loans incurred are all spent to service the past debt only and then loan resources dry up or the net amount of foreign aid and net amount of even internal loan also become very small indeed despite their larger absolute amounts. Thus the debt-incurring country sooner or later enters into a debt-trap and the process of economic development gets retarded. Thus efforts to develop with loan finance are found to be self-defeating.
We have also come to the conclusion that there is no basic difference between private debt and public debt as such, no basic difference between internal public debt and external public debt and as regards the fact of the burden of loan being shifted to the future generation which may be taxed to meet this liability. Of course, Keynesians have disagreed on all these three points. But the classical economists and Prof. Buchanan are right and the Keynesians are found to be wrong in all these three respects, as we have shown in the thesis.

But Keynesians thought that there was a basic difference between private debt and public debt in the sense that the lenders and the taxpayers (servicing public debt) belong to the same society and hence there was no burden for the society as a whole while in the case of private debt, there is a burden on the private debt-incurrer. In our discussions, with the help of Buchanan's analysis, we have exposed these fallacies and have arrived at commonsensical conclusions from which many economists were dislodged by the apparent (but not real) brilliance of the arguments of the Keynesians. So it becomes obvious that the burden of the future taxpayers is to be compared with the productivity of the projects that are financed by debt finance.

But almost in every country wherever public debt is incurred, it is mostly found to be used for meeting consumption expenditures of the Government or utilized for very low productivity projects or for loss incurring projects so that the total public debt with its interest burden goes on accumulating
with increasing speed and ultimately the country concerned relapses into debt trap. In case of India and Jordan, the same fate has befallen them.

(6) Jordan's natural resources are very limited and for the fulfilment of its ambitious projects and plans, it has remained dependent mostly on foreign borrowing. Its export capacity has been found to be very low while its import needs have been kept high thus having chronic trade deficits. It is true that trade deficit can be due to prevalence of higher rate of domestic inflation or it may be deliberately created to absorb more foreign aid. In case of Jordan, it is due to the working of both the factors. But this kind of ambitious planning based mostly on the support of foreign borrowing will create uncertainty and consequent difficulties on two counts. Whenever the capacity and willingness of the aid-giving countries to provide loans is lessened, it will require pruning the plan and lessening of Government expenditure which it will find most difficult to do. Secondly, as revenue from foreign loans and from internal loans is mostly used for consumption expenditures or low productivity imparting concerns or loss incurring projects, the capacity of the Government to service the public debt gets more and more compromised and hence the Government is tempted to resort to more and more borrowing with fast accumulating debt and interest burden which ultimately land the Government into debt trap. When the net amount of borrowed amount diminishes much despite its big absolute amounts, the Government starts borrowing more and more from the Central Bank and the commercial banks of the country.
which increase the money supply enormously thus giving rise to rapid inflation. This is what has actually happened with Jordan which bespeaks of faulty policies of development based on public debt.

(7) Role of public debt in the economic development of any country is likely to be negative and we are constrained to observe that it has been most likely to be so in case of Jordan also if we take into account the phase of rapid inflation that has overtaken Jordan for the last two years with dire consequences in respect of economic and social stability.

(8) Therefore, we suggest that (1) the five year plans must be pruned considerably, (2) the economic responsibilities of the Government should be reduced appreciably, (3) direct and indirect taxes should be minimised, (4) price controls and export and import controls and export subsidies and other subsidies should be removed completely, (5) a completely freely flexible exchange rate system should be adopted, (6) private foreign capital from many countries should be invited to invest in Jordan in order to meet the paucity of savings, foreign exchange and the technical know-how with local private participation and with the conditions of training the local people and (7) foreign borrowing can be had only if the rates of interest are fixed very low, the grace period is long and if the finance is to be utilized for the creation of infra-structural facilities only.