INTRODUCTION AND METHODOLOGY
1.1 Introduction

Fiscal policy refers to the budgetary policy of the government at different levels. It includes tax-expenditure, and public debt policy and any other policy which is implemented through the budget. In a wider sense of the term it also includes related policies such as monetary policy in so far as it is interlinked with the public debt management policy of the government. Fiscal policy has undergone a radical transformation in the twentieth century because of the pioneering contributions of Keynes, Post-Keynesians and development planners. There seems to be a vast difference in the nature and role of fiscal policy between advanced market economies and underdeveloped economies. Although there is an apparent similarity in the goals of fiscal policies between countries, long-run economic stability and accelerated economic development are the overriding objectives of the former and latter groups of countries. In view of the problems confronting an underdeveloped economy in mobilising finance through taxation and inflationary potential inherent in deficit financing, borrowing appears to be a very attractive instrument in the hands of the government, since it is voluntary in nature and also a quicker mode of financing.

1.2 Need for Public Debt and Its Level

In the Third World Countries (TWCs), public borrowing plays a prominent role. It helps in the mobilisation of resources for economic development. In such countries revenue resources are inadequate and insufficient for the heavy expenditures that have to be incurred for the development schemes. Public borrowing is undertaken within the country as well as abroad. The scope for domestic borrowing in these countries is somewhat limited because internal resources are scarce. At the same time, most of the underdeveloped countries
face the shortage of foreign exchange. So the external borrowing remains the alternative to be resorted to by these countries.

The foreign debt of a developing country plays a crucial role in its economic affairs. A country borrows to finance development programmes in the hope of accelerating its economic growth. At the same time the growth of external debt necessitates adequate growth in the amount of foreign exchange earnings for debt servicing. Consequently, a country must weigh the economic benefits of foreign borrowings against the economic costs of servicing these debts in the future. Since 1980 the external debt of developing countries has been growing enormously. In 1980 the external debt of developing countries amounted to US $639 billion and increased to US $1265 by December 1988. Further it shot up to US $1381 billions in 1991 and finally the external debt of all developing countries is reported to have sky-rocketed to US $1826 billion by 1996.

As per the world debt tables 1994-95 debt stock of the heavily indebted poor countries (A group of forty countries composed of thirty one classified as severely indebted low-income countries) was US $207 billion at the end of 1994; more than doubled over the last decade largely out-peacing the 30 per cent increase in the debt of low-income developing countries during the same period. Taking into account the concessionality of the debt, the debt stock was still substantial: equivalent on average to 434 per cent exports and 111 per cent of GNP. By comparison the average for other developing countries was 130 per cent of exports and 30 per cent of GNP.
In 1994 scheduled debt service was equivalent on average to 59 per cent of exports compared with 23 3 per cent for developing countries as a group. Actual debt service payments were roughly half of those scheduled. Along with the external debt, internal debt of developing countries has also been increasing alarmingly since 1980. After the onset of external debt crisis in 1982 domestic public debt has become a matter of increasing concern in a number of developing countries. For the four largest debtors among developing countries in Western Hemisphere it rose from 12 per cent to 18.5 per cent between 1981-82 and 1987-88. The remarkable growth contrasts with relative stability in domestic debt ratio prior to 1981. The variability of ratios across the countries is substantial; it has declined over time. However, with ratio of the standard deviation to the mean has been falling between 1981-82 and 1987-88. These developments underscore the need to focus more attention on the evolution and the implications of domestic public debt in developing countries with high levels of external debt. The growth in domestic public debt occurred at a time when external public debt was also increasing.

Being a developing country India is no exception to this phenomenon. She has been continuing her borrowing programme before and after independence, both internally and externally to supplement her revenue resources. India, like other developing countries, is also caught in the cobweb of external debt and it is becoming exceedingly difficult to extricate the economy from the cobweb. The public debt (internal and external) of the Government of India (GOI) stood at Rs.2054 crores in 1950-51. By 1970-71 it had touched Rs.14,147 crores representing nearly a seven-fold increase within the span of twenty years. In 1980-81 the total outstanding public debt amounted to Rs.42,162 crores, which had gone
up to Rs. 4,40,936 crores by 1997-98 (RE) registering more than a ten-fold increase within a span of eighteen years. The reason behind the growth of public debt is ever-increasing public expenditure on both developmental and non-developmental counts. The share of public debt in total plan outlays had gone up from 45 per cent in the first plan to 51 per cent by the seventh plan. Further it was noted that during annual plans (1966-89) the share of public debt in plan outlays reached its peak at 66 per cent.

Internal borrowings of the GOI have been increasing at a faster pace since 1950-51 and picked its momentum with the plan objective of self-reliance from the fourth plan onwards and registered accelerated growth since 1960. The internal debt of India was only Rs. 2,022 crores in 1950-51, which had increased to Rs. 30,864 crores by 1980-81 registering more than fifteen-fold increase; and further it shot up to Rs. 3,86,694 crores by 1997-98 (RE). In the span of eighteen years it is recorded a twelve-fold increase. On the other hand the other internal liabilities stepped up from Rs. 810 crores in 1950-51 to Rs. 17,587 crores by 1980-81, registering nearly twenty-two-fold increase. Further it went up to Rs. 3,32,605 crores by 1997-98 (RE), recording around nineteen-fold increase. The total internal liabilities of the GOI amounted to Rs. 2,832 crores in 1950-51, which raised to Rs. 48,451 crores in 1980-81 showing more than seventeen-fold increase and further continued to scale new heights and stood at Rs. 7,18,299 crores by 1997-98 registering nearly a fifteen-fold increase.

There are many reasons and many compulsions responsible for this state of affairs. The lion’s share of these loans goes to meet the developmental expenditure, which has been increasing very fast during last four and half decades. The defence expenditure has also been increasing. The non-plan expenditure like
interest payments, subsidies, and increase in salaries and wages of employees are also the main causes behind this growth.

1.3 Effects of Debt

Development is not possible without debt, but debt becomes disastrous when it is not handled deftly. When it grows out of proportion, it becomes a formidable hindrance to economic progress. The causes can be attributed to a variety of national and international factors. Many developing countries have faced acute external debt-servicing problems because of inefficient use and control of borrowed funds. In many instances, returns on investment have not even covered debt servicing costs.

The sharp increase in both the domestic and external public debt of developing countries led to a corresponding steep rise in their total public debt. The growth of domestic debt in highly indebted developing countries was associated with the sharp increase in inflation since 1982. Price stabilisation programme have been successful in temporarily reducing inflation but soon thereafter and some times virulent outbursts of inflation have occurred.

1.4 Fiscal Imbalances

What is clear from the above analysis is that the rate of growth of internal debt has been much faster since 1980 than earlier. It is noted that throughout 1980s the fiscal situation was under strain and reached a critical situation in 1990-91 with sharp deterioration in deficits. Moreover, all the important indicators of fiscal imbalance were on the rise: the revenue deficit, the monetised deficit, the primary and gross fiscal deficits. The gross fiscal deficit of the central government
which reflects the total resource gap was only 4 per cent in mid 1970s. It increased to 6 per cent at the beginning of 1980s and more than 8 per cent of GDP from 1985-86 to 1990-91, but over the past five regular budgets the fiscal deficit has declined to an average of 6 per cent. The fiscal deficit was estimated at 5.7 per cent of GDP by 1997-98. Such fiscal deficits are unsustainable and would lead the country into a debt-trap. Internal debt-trap is a situation when the capacity of the market to respond to the governments borrowing being limited, the amount borrowed might be just sufficient to meet with the debt servicing burden.

As a proportion of revenue receipts, interest payments rose from 21 per cent in 1980-81 to 39 per cent in 1990-91 and further went up to 45 per cent to 1997-98 (RE). The high growth of revenue expenditure also throws up another challenge. Less money is available for capital expenditure. The share of revenue expenditure in total expenditure has increased from 65 per cent in 1980-81 to 70 per cent in 1990-91 and continued to rise and stood at 73 per cent in 1997-98. Revenue expenditure as a share of capital expenditure has fallen from 35 per cent, further 30 per cent to 20 per cent.

1.5 Importance of Debt Management

In the management of internal debt two considerations are usually of prime importance, the liquidity of debt and the cost of debt. All other aspects of debt management flow from these. The fiscal policy compulsions have rendered internal debt management in the years before 1991-92 essentially passive with a view to keeping the government borrowing cost down, the treasury bill rate being kept low while the low coupon rates offered on government securities remained negative in real terms for several years till mid 1980s. The Reserve Bank of India (RBI) had
little control over some of the essential facets of debt management. Internal debt management assumed significance in the light of new economic policy, which brought drastic changes in both fiscal and monetary policies, which in turn can influence management of debt. The monetary policy of April 1992 heralded a new approach to internal debt management by introducing market orientation in regard to absorption of GOI rupee dated securities. The question of internal debt management is crucial for the overall macro-policy. It is only in the recent past that it has assumed relevance for India. In the first four decades of post-independence era Indian economy had no real secondary market in the government treasury bills so that open market operations were not very meaningful. Yet another theme to this saga and that had to do with the historic agreement signed in September of 1994, by the RBI governor and finance minister, was to cap the adhoc treasury bills and to disband them completely in about three years of time.

1.6 Select Review of Literature

The literature on the problems of public debt, fiscal management and the aspects of internal debt burden and issues related to internal debt management is extensive. The Reserve Bank of India, Ministry of Finance and other financial institutions are publishing a series of reports and statistical documents which provide a treasure of information for any research scholar who would like to take up the job of investigation in the field of public finance. It is highly impossible to take a wide coverage of the entire literature which is available on the internal debt as it is a part and parcel of fiscal policy which is turned is linked up with other policies of the government. Hence a select approach is adopted to suit the needs of the study.
The existing studies relevant to this thesis may be divided into five broad groups:

1. Studies on fiscal management in the First World
2. Studies on fiscal variables in the Third World
3. Studies on fiscal management in India
4. Studies on debt stock in India
5. Studies on debt burden and management

1.6.1 Studies on Fiscal Management in the First World

Lindholm R M⁶ work "Public Finance and Fiscal Policy" has devoted to analyse the government spending, revenue and debt. According to the author, the foremost objective of public debt management in any country seems to be an appropriate formulations of interest rate structure so as to minimise the incidence of debt burden. He emphasised that debt management policy could be much more influential if there were no goals related to debt other than those making effective use of it as a fiscal tool.

Ursula K. Hicks⁷ in his book entitled "Public Finance" mentioned that there are three methods of implementing a general economic policy of stability and development: the fiscal instrument, the monetary instrument and the method of direct control. According to him, in England the fiscal instrument came to forefront with the deliberate anti-inflation budget of 1948 and latter it was only in the autumn of 1954, the monetary instrument might be fully restored. In fact during the 1930s a technique of debt management was evolved, which was extremely successful in lowering interest rates and keeping them low, and this technique was elaborated and supported by new direct controls, which was ultimately basis of borrowing.
in the Second World War. He further stressed the importance and the desirability of using the monetary instrument to support fiscal policy in the process of compensatory finance. Lastly he remarked that the monetary policy could be used more freely only in advanced countries where the banking habits are widespread and well established and where autonomous financial institutions exist. On the other hand majority of the countries fail to make use of the monetary policy to the fuller extent due to lack of above said conditions as in the case of advanced countries.

Ansel M. Sharp and Bernd F. Sliger in their work "Public Finance" have defined the meaning of debt management. According to the authors public debt management is concerned essentially with the terms under which the government securities are exchanged. These terms involve a gamut of things running from the major type of government security issued to the special characteristics of an issue, such as dates when interest is paid, whether they are issued at a discount, whether callable, and convertible. The authors are of the opinion that several principles of public debt policy presented are co-ordinating public debt policy with monetary and fiscal policy, meeting the needs of the investors, minimising the interest cost on the public debt conflicting with a monetary policy of credit restraint and reducing the near moneyness of the public debt conflicting with the desirability of meeting the needs of investors. At the end the economic impact of public debt was discussed in terms of primary and secondary burden and its repercussions. The authors jointly felt that it is not the primary burden but the secondary burden should be given more attention since it affects the economy in various ways like distribution of taxes and government bond ownership, promotion of inflationary
forces. Hence they arrived at a conclusion that the large public debt leads the economy to bankruptcy.

Taylor P. E.\(^9\) reviewed the concept of debt and also made a clear distinction between gross and net debt. To him, debt is a promise by the treasury to pay to the holders of promises a principal sum and in most instances interest on the principal. In his view, gross debt means the principal sum of all treasury debt obligations outstanding. Debt obligations are those represented by "securities," that is, actual contractual promises to pay. In reporting gross debt, the treasury includes accrued interest in some cases and excludes it in others. However, net debt involves subtraction from gross debt of funds in hand, which may or may not be dedicated to debt retirement. To Taylor P. E., the volume of internal debt as such is not the matter of concern but the burden of debt is assessed on the basis of growth of internal debt in relation to national income, tax policy, ownership pattern of debt and interest payment. Finally, his work made a successful attempt regarding the mechanics through which public debt may affect the money supply.

Guillermo A. Calvo\(^10\) studied models in which debt repudiation—openly—or through inflation—is possible. The government budget lies at the basis of political campaigns and plays a significant role in the evaluation of government policy. Recently, economic theory has begun to catch up with political reality by not only studying the optimality of fiscal and monetary policy but also going a step further by examining the time consistency of optimal policy. He further states price indexation and interest rate ceilings are to be possible solutions of the equilibrium multiplicity problem.
Richard A. Musgrave and Peggy B. Musgrave\textsuperscript{11} in their book "Public Finance in Theory and Practice" clearly discussed the growth and structure of US Federal debt. The authors classified the debt into marketable and non-marketable. Marketable issues are traded and are available to all buyers. The marketable debt which constitute major portion of Federal debt includes bills, notes and bonds. On the other hand the non-marketable issues are held only by the initial buyers. Having reviewed the growth and structure of Federal debt the authors turned their attention to the aspects like how the debt policies of the past affected the future economic conditions. Finally the term structure of interest rates and the criteria for optimal maturity mix were examined.

David, N Hyman\textsuperscript{12} in his master piece entitled "Public Finance: A Contemporary Application of Theory and Policy" remarked that the budget deficits have been common for the federal government in the United States and also the causes of the federal debt increase in federal deficit followed by increase in debt, ultimately contributes to higher market interest rates and inflation. According to him borrowing to finance public expenditure postpones the tax burden to the future. Besides federal debt, he also discussed the state and local debt and was of the opinion that these debts are more risky than federal debt due to lack of the power to create money. Finally, the author reviewed the tax theory and tax policy in detail and also the major forms and methods of taxation in the United States.

1.6.2 Studies on Fiscal Variables in the Third World

Tripathy's R.N.\textsuperscript{13} work explained the problems of public borrowing in underdeveloped countries, which are mainly due to the improper relationship between the organised and unorganised markets. The study also points out that the resources of the organised capital market may be too small to fulfill the capital needs of the economy.
Michael P Todaro\textsuperscript{14} in his book viewed that accumulation of external debt is common phenomena of TWCs at the stage of economic development where the supply of domestic savings is low, current account deficits are high and imports of capital are needed to augment domestic resources. Prior to the early 1970s, the external debt of developing countries was relatively small and primarily an official phenomenon, the majority of creditors being foreign governments and international financial institutions such as International Monetary Fund (IMF) and World Bank and Regional Development Banks. Most of loans were on concessional terms and were extended for the purpose of implementing development projects and expanding imports of capital goods, but since 1980s commercial banks began playing a large role in international lending for general purpose and to provide balance of payments support and also for expansion of export sector, quite naturally leading to increasing cost of borrowing. He further stated the main cost associated with accumulation of large external debt is "debt servicing". As the size of debt grows or as interest rates rise, debt service charges increase which ultimately creates foreign exchange problem.

Mishra D.K.\textsuperscript{15} book entitled "Public Debt and Economic Development in India" is a successful attempt to analyse and explain various aspects of public debt with special reference to India in the context of its economic development. The study has comprehensively presented the theoretical background of public debt policy and management with special reference to both internal and external public debt. Mishra also touched the controversial concept of burden of debt. Last chapter has completely devoted for New International Economic Order which mainly focused on international trade relations.
Dr. Rakesh Narain in his article focused light on issues which were discussed in the 43rd Annual Session of the International Monetary Fund and World Bank held in Berlin October, 1988. Debts of many developing countries were the dominating issues at the conference. The conference also felt that the debt problems of developing countries continue to be one of the main points causing conflicts in the international economic relations. Finally he felt that the solutions of the world debt problem depend upon the common approach and unity among the debtor nations.

Surendra Prasad Thakur's book analyses the complex role of foreign debt of a developing country in its economic affairs. A country borrows to finance development programmes with the hope of accelerating its economic growth. At the same time, the growth of external debt necessitates adequate growth in the amount of foreign exchange earnings for debt servicing. Consequently, a country must weigh the economic benefits of proposed foreign borrowings against the economic costs of servicing these debts in the future. The study also reviewed the issues of debt management.

1.6.3 Studies on Fiscal Management in India

Gill K.S. in his work outlines an alternative view of the budget deficit together with an alternative approach to reducing it. The study indicates that between 1985-86 and 1990-91 the annual budget deficit of the central government has been around 7 per cent of GDP. Author felt it was too much high and suggested an appropriate package of measures to bring down the central government budget deficit to more acceptable levels.
Anil Kumar Jain in his article admitted the fact that fiscal situation under strain throughout the 1980's and reached a critical situation in 1990-91. He divides his paper into three sections. The first section deals with the genesis of the fiscal crisis, section two outlines briefly the important steps required to solve the fiscal crisis and also the measures already taken by the government, and section three suggests some important administrative measures necessary to mobilise additional resources through taxes at centre to overcome the fiscal deficits.

Jeevan Kumar Khundrakpam in his article "Alternative Measures of Deficit and Inflation Impact" evaluates the alternate measures of government deficit in India with special emphasis on the impact of inflation on the ratio of fiscal deficit. This study reveals that fiscal adjustment criterion defined purely in terms of the ratio of fiscal deficit to GDP and without reference to price condition may not seem sufficient to assess the adjustment.

S Mohanan Pillai, Somnath Chatterjee, Bhupal Singh, Sangeeta Das and Anab Gupta in their study found that fiscal policy in India has been accorded a prominent role right from the day of independence in the attainment of development objectives such as growth, equity and social justice. In assessing the role of fiscal policy over the half-century the study draws a perspective on the fiscal policy developments and focuses upon three major issues namely (a) the role of inflationary finance in the planning process (b) the interaction between public and private investments and (c) the implications of the financial policies for fiscal stability. Besides this, they were much concerned over high level of public debt despite the recent attempt of fiscal stabilisation.
Kanagasabapathy, K Pattnaik, R K Ms Jayanth KA in their study reviewed the components and size of public debt of the central and state governments and also focused attention on the implications of large debt stock, cost of borrowing and bunching of repayments. Finally, the paper also reviewed the rationale for fixing a statutory limit and experiences of different countries on this issue and lastly it discussed the frame-work for placing limit on public debt.

Arun Ghosh in his article made an attempt to critical analyses on many aspects of interim budget 1998-99. He admitted that the economy has been in a recession for quite some time. Ghosh has real worries about the growing imbalance between revenue expenditure and increasingly financing the consumption expenditure, which is a sure sign of fiscal profligacy for developing economy.

1.6.4. Studies on Debt Stock in India

Dalaya has also attempted a descriptive study of the internal public debt of union and state governments with little discussion on the major theoretical issues. We also discussed the issues like debt creation and consequences thereof. He further stated that public debt creation and its management face some peculiar problems in underdeveloped economy like ours which have accepted a policy of economic planning.

Sreekantarahya's book is an in-depth study attempted to analyse the trends in the structure of union and state government's public debt and also an overview of failure of debt policy during 1947-48 and 1949-50 only due to the disturbed political and financial environment and stringent money market conditions, lack of definite expenditure policy.
Kiran Barman's work made a successful attempt to outline some of the theoretical issues of public borrowing and different issues related to the management of public debt. He says that there are two schools of thought on debt management policies. One school is the opinion that the debt should be managed in such a way that minimizes its effects on the economy. By comparison, other school, which is known as the broader conception of debt management, believes in using facets of debt management to utmost effecting economy in the manner desired.

Subhash Chandrasarkar in an attempt to explain the debt trap situation states that the important factor for consideration is not so much the quantum of loan raised by the central government but the point that deserves consideration is the use to which the amount raised as loans is put.

Subramanya, K N in his editorial column expressed his fear about vice-like internal debt trap is fast closing in the Indian economy and unless multi-pronged steps are adopted to stem it, the country is likely to reach the point of no return before the turn of the country. It is feared that the country will step into the 21st century with a back-breaking burden of internal debt.

Arun Ghosh in his paper summarised the rapid increase in public debt. Of late more speedy increase in the burden of interest on the government budget poses grave dangers to the orderly implementation of India's plan.

Vergheze, S K Wilson Vergheze in their joint article made an attempt to estimate the current magnitude of India's external debt and service obligations, the
evolution of the debt over service obligations, the evolution of the debt over time
and the factors that have contributed to the growth of the debt and service burden.
The policy options available to India at present juncture to keep the debt and debt
service burden within manageable limits are also briefly examined.

Jauhan B.M.31 has emphasised that when the government repays its public
debt from the income of those revenue yielding units or from its current revenue
yield or from its cash balances, it is quite satisfactory. But when the government
floats new loans or prints new money in order to retire the outstanding liabilities it
poses a serious challenge to fiscal policy, financial management and economic
discipline. He examined the growth of internal debt since 1950 and stated that the
lion’s share of loans goes to meet the development expenditure. He made clear
distinction between internal and external debt burden. Finally he cautioned the
country against excessive growth of internal debt which may lead to debt-trap
situation and suggested urgent corrective measures to avoid such dangerous
situation.

Bhattacharya B.B. and Srabani Guha32 in their paper analysed the growth
and composition of the internal public debt of the GOI during the period between
1970-71 and 1987-88. Discussing the concept and measurement of public debt, the
authors pointed out that the budget classification does not provide a proper
measure of the government’s internal debt, tending to over-estimate it in some
respects and under-estimate it in other respects. The authors noted a significant
change in the trend of public debt in the eighties as compared to seventies and
discussed the proximate causes and policy implications of this change.
Costa G C\textsuperscript{33} in his article briefly examined the magnitude of this indebtedness - both internal and external - which had led to this nature of indebtedness as also the implications for policy.

Pablo E Guidotti and ManMohan S Kumar\textsuperscript{34} in their joint article had discussed the positive relationship between increasing domestic public debt with higher levels of external debt and its implications both stabilisation policies and attempts to deal with the external debt.

Raja Chelliaiah's\textsuperscript{35} paper traced the causes of the rapid growth of India's public debt with special reference to internal debt. It then demonstrated that the growth of debt would become unsustainable by the end of the 1990s if the present trend continues. The study develops a methodology to iterate the path of growth of debt to discover the sustainable level of the primary deficit. Finally, it suggested concrete measures to bring down the primary deficit.

Abhay Pathe\textsuperscript{36}, in his work tries to collect some thoughts about the issues involved and the implications of the current situation and policies. He argues that the progress of India's internal debt both as far its size and its structure appears flawed and that on both counts there is need and scope for improvement in the light of liberalisation process. Finally he comments on the implications for the interest rate structure inflation and other crucial macroeconomic features.

Mala Lalvani\textsuperscript{37} in her paper talked about the anomalies in published data, poses an added problem which the researchers have to face besides the non-availability of the data essential for research purpose in economic discipline. In the
present study a long-term series of fiscal aggregates were subjected to microscopic scrutiny and an attempt is made to circumvent the problem posed by the inconsistencies in these time series

16.5. Studies on Debt Burden and Debt Management

Ghuge in his book, analysed comprehensively the various consequences following from India's national debt. Ghuge tried to analyse what he described as the allocatory and distribution burden of public debt in India. He defines allocatory burden of public debt as the unproductive use of borrowed funds by the government on the one hand and adverse effects of such borrowing on private consumption and investment on the other. In order to explain and evaluate the debt burdens and benefits, the author has evolved some scientific methods and new concepts, such as net, formal, effective and neutral debts and interest charges. The inter-governmental debt problems in India have been analysed in depth, and practical suggestions have been offered for their solution.

Upadhyya P C in his article says that being indebted is neither unusual nor a crime so long as the debt is fruitful and within manageable limits. However, if the debt grows out of proportion, when the servicing obligations become unbearable, the situation takes the form of a debt crisis. He states that the present Third World debt crisis reflects this situation. He also explains Brady Plan and its proposals for reducing Third World debt burden.

Ramachandran K.S. in his work, 'Drowned in debt' presented a comprehensive discussion with the then finance minister S.B. Chavan on growth of public debt. The study highlights the growth of internal and external debt and its servicing problems backed up with proper statistical investigation. The study also
reviews the growth of revenue and budget deficits. It further states that due to high level of borrowings, the liabilities of the GOI exceeded the assets. Finally, it concludes the debt is increasing and therefore, obligations for repayments and interest payments are increasing, compelling the government to borrow even more.

Dange A.A. 41 in his unpublished work explained the theories of public debt and the role of debt in economic development both in the context of developing and developed countries. The study also reviews the servicing problems of internal debt with special reference to Maharashtra during 1961-80.

Batra G.S and Narinder Kaur 42 examined the debt situation and pointed out the problem of debt, after the second half of eighties, has reached such Himalayan heights in the developing countries. The study explained the whole of the mechanism of debt-trap with the help of diagram. Besides this, the authors cautioned India that it is heading towards debt trap slowly but gradually.

Singh B.P.N. 43 in his book explained the role of public borrowing in the acceleration of tempo of economic development. It is an effective source of resource mobilisation and becomes inevitably the prime source, since taxation cannot create adequate resources for economic development of a developing country. The study also critically evaluates the debt theories right from the Classicals to Post-Keynesians. It also discusses the techniques of public borrowing. Finally, it spared a few pages to assess the growth of public debt since 1950.

Annand Reddy S, Mamatha S. 44 in their joint article much worried about the most threatening macroeconomic variable interest payments on India's accumulated debt. This is one variable which is growing much faster than all other macro-
variables. The interest payments as percentage of Gross Domestic Product (GDP) and specially interest payments as percentage of fiscal deficit have grown enormously since 1980. The study further stated that all the problems in social science area will have innumerable alternative solutions but there can be only one best solution. They also suggested immediate policy measures to overcome the growing menace.

1.7 The Problem

There has been a considerable discussion on the matter of internal debt of the GOI since 1980 and specially second half of the eighties due to ever increasing deficits followed by alarming increasing in public debt which is considered to be very attractive instrument in the hands of the government. The structure of internal debt has to be analysed to find out which component is contributing more to the rise in the internal finance. The servicing problems are to be estimated to weigh the burden and benefits of debt, taking the interest payments, GDP and revenue expenditure and fiscal deficit into account.

The debt management policy in India upto 1990-91 was essentially a passive with an objective to minimise the cost of borrowing. In the light of new economic policy many changes were introduced in the debt policy by providing greater autonomy to Reserve Bank of India. The problem has to be studied in relation to changes in debt policy and the implications are to be sought out. There is a greater need to study the debt policy in the context of monetary fiscal management in relation to debt policy in the context of monetary fiscal management, as debt management is the bridge between monetary and fiscal affairs.
1.8 Research Methodology

The present study is, by its nature, an exercise in secondary data interpretation. The study makes a macroeconomic analysis of public debt specially internal debt and its management. However, due attention is given to describe and analyse the individual components of the internal public debt of the GOI. For the purpose of empirical investigation the components of internal debt are taken account. A disaggregate approach is more useful in understanding nature and management of debt in the context of economic development of India.

1.9 Objectives

The specific objectives of the study are

1. To analyse the composition, trend and indicators of public debt in the Third World Countries,
2. To examine the growth and composition of India's internal debt since 1980,
3. To explore the relationship between different deficit measures and domestic debt, and
4. To assess the impact of economic liberalisation on issues pertaining to internal debt management

1.10 Hypotheses

1. There is no significant difference in the composition and indicators of public debt in the Third World
2. There is no significant change in Centre's internal debt stock in terms of its growth and composition.
3. There is a negative co-relation between internal debt and the government deficits,
4. The impact of economic liberalisation on internal debt burden is neutral.
1.11 Data Base

The present study is primarily based on secondary data specially drawn from official reports of Government of India and Reserve Bank of India. It is also obligatory on the part of researcher to rely on international publications to collect the necessary information regarding Third World Countries on public debt for cross sectional and time series analyses.

1.12 Tools of Analysis

The data collected from numerous sources have been subjected to statistical treatment. Measures of central tendency, dispersion, percentages, coefficient of correlation, regression time series analysis and analysis of variance are used. Linear and compound growth rates are widely employed mainly to assess the trends in composition of internal debt and other liabilities of the Government of India. The emphasis is on quantitative approach. Graphs and visual aids such as charts, bar diagrams, time series graphs and pie diagrams are used in order to illuminate the dry facts and figures.

1.13 Scope and Limitations

The present study is an undertaking that deals with the issues of internal debt management since the 1980s. This restriction is deliberately made because there are several studies dealing with India’s debt both internal and external in the context of economic development. The beginning of the sixth plan is a turning point in India’s development record. However, the debt situation has also become alarming due to a variety of factors. We have also taken note of the debt situation in the other Third World Countries to have a comparative assessment of the debt situation. There are some lag effects of debt on development indicators. Such
effects operate quite implicitly and are difficult to trace and quantify. Hence they are excluded from our study. The tools and techniques employed mostly belong to the realm of descriptive statistics. Advanced econometric tools are not employed due to several constraints on the part of the researcher.

1.4 Plan of the Work

The thesis is organised into six chapters. The first chapter is concerned with introduction and methodology. The second chapter deals with theories of public debt. The third chapter deals with the growth and composition, levels of Public debt in the Third World Countries vis-a-vis in India. The fourth chapter is devoted to an assessment of the growth and structure of internal debt and other liabilities of Government of India. The Impact of New Economic Policy on servicing of internal debt and issues related to debt management are discussed in the fifth chapter. Summary of findings and conclusions are presented in the last chapter.
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39 Upadhye, P.C., *Third World Debt Crisis and Brady Plan*, Yojana, June 16-30th, 1989, pp. 4-6


