Chapter Three

Public Debt - A Theoretical Foundation and Public Debt in Indian Context
As we have shown in the previous chapter the internal public debt has grown manifold since the commencement of the Five Year Plans. It is likely to grow further in the years to come. This outcome is attributable for initiating the process of economic development. Most of the analyses in economic literature of the growth and role of public debt have been conducted in terms of the situation obtaining in economically developed countries of the west. The important role of public borrowing in economic development is a relatively recent phenomenon and has much to do with the collapse of the principle of laissez faire, the rise of modern welfare states and the imperatives of accelerated economic development of a considerable part of the world. An attempt would be made in this chapter to review the controversy about the burden of the public debt. It may not be a digression but a stopover on the main track in so far as it is concerned with the history of ideas, the clash of ideas, and finally a tentative movement towards a synthesis of conflicting views. Besides, such a study becomes important for two reason:
(1) it may enable one to develop criteria with reference to which an assessment can be attempted of the burden of India's internally-held public debt,

(2) a great deal depends on how people feel about the public debt and that the real limits to its expansion are possibly as much psychological and social as economic.

There is broad agreement on the institutional elements of public debt among economists but the theory or principles of public debt has been a matter of controversy for the last two hundred years. It is widely believed that the resurgence of the "transfer hence no burden" argument followed the Keynesian Revolution of the 1930s and was strengthened by the post Keynesian emphasis on deficit financing. It is largely true that Keynes himself gave expression to his views on the subject about ten years before the publication of the General Theory of Employment Interest and Money, in his evidence to the Golwyn Commission in the following words, "I think it is a matter almost of indifference.... it looks nice to have a clean balance sheet, and I think it is partly false analogy from private account keeping; an individual likes to be out of debt. But for the nation as a whole it is merely a book-keeping transaction". However, in 1958 Professor J.M. Buchanan in his book 'Public Principles of Public Debt' summed up the basic tenets of what he called the 'new orthodoxy' and proceeded to demolish them one by one. The controversy relating to the burden of the public debt thus once again became a subject of lively debate in the late 1950s and
1960s and the position as of now is best stated in the words of Buchanan: "Prediction as to the development of analysis or the acceptance of ideas are risky at best but it seems reasonable to suggest that the Principles of public debt are on the verge of synthesis. Undue optimism is, however, surely to be avoided, especially if the history of debt theory is to be used as guide4."

**The Concept of Burden**

The concept of the burden of public debt is a complicated economic issue. To begin with there is the primary gross burden in the form of the tax financed interest payments. The primary net burden allows for the fact that the debt-financed expenditure is 'productive' in the sense that it raises the future real income to a higher level than would otherwise have taken place. Primary gross burden is also termed as the financial burden of the national debt. According to David McCord Wright, "the financial burden of the national debt is... to be measured by the effects of the interest charges and the taxes levied to meet them. The relation which the taxes for interest bear to the national money income is the question of primary importance"5. It may, however, be pointed out that the extent to which interest paid to the banking system simply reimburses them for their services in providing the economy with the medium of exchange the interest charge only represents an expense which must be met any how and which cannot be considered a part of the burden of government finance6. This
interpretation of the definition of burden of the debt is a narrow one in as much as it relates to the primary effect on the net worth of individuals. The concept of burden involving the notion of abstinence or the pain-cost doctrine is manifestly inapplicable to situations in which the lender substitutes at the margin between cash, goods and interest bearing obligations, including government securities. In terms of opportunity cost an individual who buys government securities can be said to have "improved not worsened his lot by the transaction."7 As distinguished from the financial burden of the public debt which focuses attention stocks as opposed to flows there are certain wider and vaguer effects of debt-creation on the incentives to work and save and on income distribution8. These secondary real costs or derived burdens also include the capital-bequeathed burden which is reinforced by the wealth stimulus to consumption at the expense of investment, effects on interest and money policy and effects on discipline, and ideology9. These wider and vaguer effects of debt creation are regarded as the real or "genuine" burden of public debt. Thus talk about the future being obliged to pay for the debt-financed expenditure of the present is a metaphor, no more. All that can legitimately be maintained is that we are bequeathing to posterity a changed form of society. In a developing country like India floating a public debt for purposes of capital formation is as legitimate, if not more, as floating a private debt to build useful private capital because in either case the new paper assets are matched by real income-generating assets.
Early Views

Nine years before Adam Smith’s publication of The Wealth of Nations Sir James Steuart discussed the subject of public credit in his Principles of Political Economy. He was one of the first to hold the view now upheld by the adherents of the "New Orthodoxy" that public debt should function as the balance wheel of the economy. More importantly, Steuart explicitly held that "... the country is neither poorer nor richer, when considered in a cumulative view, than if the same sum had been lent to private people at home." Instead "the effect of public borrowing on national debt is to augment the permanent income of the country, out of stagnating money and balances of trade." Significantly, on being asked to give a statement substantiating his view by the Colwyn Commission in plain language Keynes argued "that the holders of the National Debt should hold some other form of security, that is to say, that they should receive the same income as before. A certain proportion of the fruits of industry would go to those individuals exactly as hitherto, but they would not first be collected from industry by the Government and then handed to the rentier; they would reach him by some other direct channel. Now there is a large class of investors who like to have the Government guarantee for the security of their income, and they will accept a smaller income if they have that guarantee than if they have not. So there may be some positive advantages in their income reaching those individuals through the hands of the Government out of the proceeds of taxation and with
the guarantee of the Government rather than more directly. But whether that be so or not, it does not affect the total wealth of the country nor the total burden of anyone, whether their income reaches them direct or through the channel of the Treasury"13. There is little doubt that Keynes ideas on economic policy particularly on the role of taxation, public debt, public works and money as devices for correcting economic maladjustments, have a family resemblance to those of Steuart. Sen wonders: "It is indeed strange that this pioneer, who published his treatise nine years before Adam Smith's and in some respects may be said to have provoked the latter to write his Wealth of Nations by way of a reply has not received more than a passing reference from any of the important writers on the history of economic thought"14. Furthermore, "Unlike Adam Smith and Ricardo, by whom he has been completely overshadowed, primarily because he had the misfortune to be out of tune with the Zeitgeist of his period, his economic theory was a general theory of employment, interest and money"15. Steuart's 'evolutionist approach' to economic analysis as opposed to the static approach of the classicists involved "studying an institution within its context and taking into account the fact of constant change in the institutional context". He saw a positive economic role for the government and believed that the "steady development of democratic forms was giving the people a stake and voice in the government which in itself constituted the primary guarantee of responsible and non-arbitrary public debt management"16. While Steuart was not unaware of the differential impact upon the various
groups affected by the creation of public debt, overall income flow, the problem of distribution and considerations of general economic welfare led him to stress the role of government in promoting and maintaining economic prosperity through fiscal devices like taxation and public borrowing.

**Classical Views**

It would appear that the views of the classicists on the public debt depended on their faith in the role of the government in the economic life of the country. The evolution of views on the public debt is an example of the fact that in economic issues have to be related to their broader economic and social framework and policies have to be appraised in terms of the particular setting. Any attempt to deduce from a special set of circumstances principles of avowedly universal validity regardless of time and space is bound to be unrealistic. Thus, in the nineteenth century and early twentieth century economists disapproved of the institution of public debt chiefly because of the classical rejection of the positive role of the state and the dogma of nonintervention. Criticising Melon who maintained "that a national debt is no more than a debt from the right hand to the left, which nowise enfeebles the body politic"17. J.B. Say observes that "there is a grand distinction between an individual borrower and a borrowing government, that, in general, the former borrows capital for the purpose of beneficial employment, the latter for the purpose of barren-consumption and expenditure"18.
Say believed that the burden of the debt would be shifted "among a great number of successive years"\textsuperscript{19}. The only benefit of national debt which Say admitted related to a "national debt of moderate amount, the capital of which should have been well and judiciously expended in useful works"\textsuperscript{20} providing an avenue of investment for minute portions of capital which would otherwise have been idle. David Hume admitted that the merchants who can invest part of their funds in government bonds are in a position to trade upon lower profit and reduce the price of the commodities but held that there is "no comparison between the ill and the good which result from them"\textsuperscript{21}.

Adam Smith who never missed an opportunity to demolish what he called the sophistry of the mercantile system presumably criticised Steuart's views on the public debt when he observed, "that the which the first creditors of the public advanced to Government, was, from the moment in which they advanced it, a certain portion of the annual produce turned away from serving in the function of a capital to serve in that of a revenue; from maintaining productive labourers to maintain unproductive ones, and to be spent and wasted, generally in the course of the year, without even the hope of any future reproduction"\textsuperscript{22}. Smith dismissed the transfer payment argument as an "apology founded altogether on the sophistry of the mercantile system"\textsuperscript{23}. Hume and Smith both believed that the collapse of public credit was inevitable\textsuperscript{24}. 
Similarly, Ricardo, the greatest representative of the classical school, was convinced of the wastefulness of public expenditure and argued that "in point of economy" it would make little difference whether such resources were raised by taxes or by loans. "Twenty millions in one payment, one million per annum for ever or £ 12,00,000 for forty five years, are precisely of the same value". This was of course, an accounting relationship in as much as there is a distinction between equivalence in exchange value "in the normal exchange of future against present goods" and equivalence in real cost as there are to use Edgeworth's words, "no apriori quantitative relations.... as sometimes virtually presupposed". Ricardo favoured heavier taxation and disapproved of public debt. He admitted that debt service involved transfer payments within the community but did not know whether the recipients of such income would "employ it productively " or "squander it unproductively ". Assuming that the bond holders would use the interest payments as productively as the tax payers he held that " it is not ... by the payment of interest on the national debt that a country is distressed, nor is it by the exoneration from payment that it can be relieved " . Ricardo was greatly concerned with the effects of public debts because as he stated in Parliament in June 1891, " National debt was an evil which almost any sacrifice would not be too great to rid of. It destroyed the equilibrium of prices " and in December of the same year he stated that " the Debt like the corn laws.... raised the price of food and consequently the price of labour and therefore, reduced profits and tended to drive capital
abroad"29. He regarded the public debt as "the overwhelming encumbrance which palsies all our efforts"30. He did not agree with McCulloch "in the necessity of adopting the violent remedy you propose for our present difficulties, of reducing the interest on the National Debt, because... it would be a precedent of a most alarming and dangerous nature"31. But on May 30, 1820 he eloquently pleaded for the necessity to get "rid of two great evils - the national debt and the corn laws"32. Canan comments that few more drastic "democratic financial proposals have ever been made than this one of laying an immediate tax of six or seven hundred millions upon property in order to get rid of about 30 millions of annual taxes on consumable articles. That Ricardo could propose it seriously may perhaps be looked upon as confirming the common view that he was an unpractical theorist"33. On the question of shifting the burden of the debt to the future generations Ricardo was explicit that "the argument of charging posterity with the interest of our debt, or of relieving them from a portion of such interest is often used by otherwise well informed people, but we confess, we see no weight in it"34. James M. Buchanan correctly observes, "this idea was, in fact, based upon his assumption that future tax payments would be fully capitalised in a world of national individuals. If taxpayers living during the period of debt creation fully capitalise future tax payments, the interest payments do become mere transfers which involve no "sacrifice" on the part of future generations"35. By adopting a highly abstract model Ricardo confused the argument and seemed to swing to the earlier mercantilist views.
The foregoing discussion makes it sufficiently clear that Adam Smith, Hume, Say and Ricardo disapproved of public debt because they thought it interfered with the natural order which was conducive to the creation of wealth and increase in the material welfare of the nation. Their contention which was coloured by their conception of the natural order led them to ignore the distinction between creation of public debt as such and the effects of public expenditure. Malthus, the great dissenter in the classical tradition - was apparently in sympathy with the views of Steuart on the public debt. He had a different conception of economic reality. He correctly argued that "the question depended upon proportions and that it would be the height of rashness to determine under all circumstances, that the sudden diminution of the national debt and the removal of taxation must necessarily tend to increase the national wealth and provide employment for the labouring classes".  

On the contrary the existence of the national debt by maintaining a body of "unproductive consumers" contributed, "powerfully to distribution and demand" and ensured "that effective consumption which is necessary to give the proper stimulus to production". It is apparent that Malthus also judged the creation of the public debt in relation to public expenditure which it finances but came to the diametrically opposite conclusion. That he viewed the problem in the dynamic context is evidenced by the following, "when Hume and Adam Smith prophesied that a little increase of national debt beyond the then amount of it, would probably occasion bankruptcy, the main cause of their error was the very natural one, of not being
able to see the vast increase of productive power to which the nation would subsequently attain. An expenditure which would have absolutely crushed the country in 1770 might be little more than what was necessary to call forth its prodigious powers of production in 1816 "39. Malthus was, however, not insensible to the disadvantages of a great public debt, to which attention had been drawn by his classical colleagues and with characteristic absence of dogmatism conceded that public debt contributed to among other things the evils resulting from changes in the value of money and that "on these and other accounts it would be desirable gradually to diminish the debt, and more specially to discourage the growth of it in future".40 J.S. Mill - a major figure among classical economists - was in the line of classical thinking on the subject but he noted the paradox of apparent prosperity in the midst of capital destruction during the war years through loan finance and concluded erroneously that "the breach made in the capital of the country is thus instantly repaired, but repaired by the privations and often the real misery of the labouring class".41

The classical formulation of public debt found its best expression only in the last two decades of the 19th century in works of H.C. Adams, C.F.Bastable and P.Leroy - Beaulieu. They made a distinction between the creation of public debt per se and the effects of public expenditure. Adams held that "a loan calls for no immediate payment from the people... the lenders are satisfied, since they have secured a good investment"42. He refuted the argument that the
burden of the expenditure cannot be shifted forward in time. Bastable stated that public credit is only one form of credit in general and is governed by the same principles which control private credit. While admitting certain special features of public economy that impart to public borrowing certain peculiarities he explicitly maintained that the analogy between private debt and public debt still held and clearly implied that the burden of the debt can be shifted on the future generations. Making a distinction between loan and tax finance he wrote, "A loans is voluntary and supplied by willing givers, taxation is levied on the willing and unwilling alike.... To make things smooth for the present at the cost of the future is not the duty of the wise and farseeing statesman." He felt that it was only partly true that loans are made out of capital and taxes are paid out of new income. Public debt affects income as well as capital and taxation affects capital as well as income. "Large public borrowing stimulates saving and thereby checks expenditure on enjoyments while oppressive taxes reduce the fund from which new saving are made and so far hinders the accumulation of capital." On distribution of the burden of the public debt he held that, "the equitable distribution of heavy taxation is not easily attained where very heavy imports are laid on some classes and persons are likely to suffer unduly. The division of the charge over longer period by the use of borrowing makes the apportionment of the burden far easier and more specially allows of sufficient time for it full consideration." Bastable considered resort to loan finance for other than economic purpose even for a lengthened period defensible
under certain conditions. Furthermore, he maintained that a foreign loan in its purely financial bearings is not so different from a home one as is sometimes supposed and that "from a purely financial point of view the source of the loan is really immaterial. In any case it is an immediate relief to tax payer counterbalanced by greater charge in the future." Paul Leroy-Beaulieu in one of the clearest expositions of the classical position refuted the 18th century ideas on public debt and the sophisms of Melon and Voltaire who held that a state which is indebted to itself is not impoverished. He very rightly remarked that a public debt is in and of itself neither a good nor an evil. He criticised the classicists also for their failure to see that public expenditure can be productive. As he puts it, "a loan will be useful or harmful to the society in general depending on whether the state preserves and usefully employs the proceeds or wastes and destroys the capital which the rentiers have given up. In the past the passions of sovereigns and the mistakes of governments have had for an effect the disbursing of the great part of the proceeds of public loans for useless expenditures. This had led many to condemn public credit absolutely, as an instrument of evil. This conclusion is exaggerated. It is as much as to say that it would be desirable for a man to be without sense because he often does not use it properly."

Marshall contents himself with the mere mention of the fact that the work of credit in the modern age differs from that of earlier times. But Wicksteed clearly states, "when two nations are
at war and one of them raises a loan the persons who actually find the resources required may belong to the borrowing nation, or to neutral nations, or even to the nation with which the country is at war, but the obligation to pay is taken by the borrowing nation in its collective capacity and will be handed down to its posterity or successors\textsuperscript{51}. In one sentence Wicksteed thus demolished the basic tenets of the 'new orthodoxy.'

In summary, the dominant views of the classicists on the public debt can be stated in the following set of propositions:

1. Government loan finance withdraws funds from productive private employment.

2. Deficits are less painful than current taxes. Unbalanced budgets therefore expand governmental activity and invite irresponsible governmental actions.

3. Government borrowing makes future financing more difficult by increasing the proportion of the budget which must go for fixed charges and by increasing the amount of taxes which must be paid to finance the transfer interest on the debt.

4. Loans finance is costly, public outlays financed in this way must be paid for twice-once in meeting the interest charges and once in amortising the debt.

5. Public debt leads to currency depreciation.

6. An all tax plan provides a guide for the transfer of resources from the private to the public sector\textsuperscript{58}.
The 'No Burden' Doctrine of Modern Economists

Although the Minority Report\textsuperscript{53} had accepted almost all the basic tenets of the "new orthodoxy" the practice of sound finance died hard. At the onset of what later became the Great Economic Depression the Chancellor or the Exchequer in his Budget Speech (1929) declared: "It is the orthodox Treasury dogma, steadfastly held that whatever might be the political or social advantages, very little additional employment and no permanent employment, can, in fact, and as a general rule, be created by state borrowing and state expenditure"\textsuperscript{54}. Keynes and Henderson declared that the Treasury dogma was fallacious and what they observed was sound and orthodox. They right lamented: "our whole economic policy during recent years has been dominated by the preoccupation of the Treasury with their departmental problem of debt conversion. The less the Government borrows, the better, they argue, are the chances of converting the national debt into loans carrying a lower rate of interest themselves to curtail, as far as they can all public borrowing, all capital expenditure by the state no matter how productive and desirable in itself... To all well-laid schemes of progress and enterprise, they have (whenever they could) barred the door with, No"\textsuperscript{55}. In a letter to the New York Times in the depth of the depression. Keynes observed: "I lay overwhelming emphasis on the increase of national purchasing power resulting from government expenditure which is financed by loans"\textsuperscript{56}. 


It is now widely acknowledged that the economics of public debt in modern public finance was powerfully influenced by the Keynesian Revolution which produced theoretical results entirely different from the body of economic thought existing at the time of its development. Although Keynes had expressed himself on the national debt before the Colwyn Commission in 1926 as noted earlier the scientific basis for the modern theory of public debt was provided by the General Theory of Employment Interest and Money in 1936. Denoting some unstated preference Keynes' title has no commas. The classical theory of public debt derived its validity and legitimacy from the unrealistic assumption of full employment and the unproductive nature of public expenditure. Unlike Malthus a century earlier the classicists ignored the role of distribution in maintaining the power of production through creation of the necessary stimulus to the continued increase of wealth. "Once the economist, in a more realistic mood allowed for unemployment, assumed elasticity in monetary supplies and agreed that government expenditure could be productive and need not necessarily be wasteful, the case for public borrowing was strengthened. Hansen, the leading exponent of the new fiscal policy in wide-ranging discussion of the growth and role of public debt holds that "public debt, taxes and changes in money supply are all part of a balancing mechanism... A limited increase in the public debt tends to promote a wide distribution of property in so far as the new issues are purchased by thrift institutions .... A public debt internally held is not like a private debt. It has none of the essential earmarks of a private debt. It has none
of the essential earmarks of a private debt. The public debt is an instrument of public policy. It is a means to control the national income and in conjunction with tax structure to regulate the distribution of income. However, the new theory in its purest form finds expression in Functional Finance which eschews "appeasement" formulations of all kinds in this respect and holds that "the absolute size of the national debt does not matter at all, and that, however, large the interest payments that have to be made these do not constitute any burden upon society as a whole."

The proponents of the 'no burden' doctrine are concerned with a macroeconomic model which treats the economy as a unit and accordingly hold "that private debt differs from national debt in being external. It is owed by one person to others, that is what makes it burdensome. Because it is interpersonal the proper analogy is not to national debt but to international debt. A nation owing money to other nations (or to citizens of other nations) is improvised or burdened in the same kind of way as a man who owes money to other men. But this does not hold for national debt which is owed by the national to citizens of the same nation. There is then no external creditor. We owe it to ourselves. It is quite clear from the foregoing quotation that society is regarded as being analogous to a family. In point of fact Lerner as quoted by Hansen regards the taxes required to service the debt as "merely" transfer like interest you "plan you wife". Such as organic conception of the economy or the state is not new. It was held by both scholars
and publicists in the eighteenth century. It is incorporated in the debt theory of Adolf Wagner (1977)\textsuperscript{94}. On a strict logical plane the analysis is unexceptionable and has nothing to do with individual utilities so far as it goes. Professor Pigou whom Keynes singled out as the man whose writings represented the best in what was wrong lucidly stated that "loans raised from foreigners entail a burden represented in interest and sinking fund in future generations in the borrowing country. But interest and sinking fund on internal loans are merely transfers from one set of people in the country to another set so that the two sets together-future generations as a whole - are not burdened at all... in the broad it is true and obvious"\textsuperscript{95}. On a closer examination of the issues it will be observed that this involves a fallacy\textsuperscript{96} inasmuch as it ignores the distinction which exists between an economic order based on private enterprise and a command economy. As Ratchford says, "those who use the family analogy do not specify whether the different members of the family maintain separate accounting system and separate bank accounts. If they do, and if they deal with each other at arm's length, heavy debts owing from some members to others could play havoc with the family economy. If they do not, then the family is a communal unit and any analogy between it and our national economy is invalid"\textsuperscript{67}. We cannot 'blithely' ignore on internal debt on the basis of the "one big family" analogy. There are bound to be problems of redistributional effects and even if the bonds happen to held by tax payers in the same proportion as they are required to pay taxes there may still be a net economic burden in the form of
distorting effects on incentives for subjective and objective reasons. "No one would buy bends if hit entire income from them were going to be taxed away". For this and other reasons it is very likely that a large government debt will introduce a regressive feature into public finance. There may be three types of tax friction: (1) arising from the reluctance of the people to pay taxes and of the Parliament to vote for them. It may happen that essential social services are starved in consequence, (2) disproportionate tax on a particular line of economic activity may discourage the development of that field, (3) in so far as a very large tax bill prevents the adjustment of the tax structure to foster saving or consumption a real burden is imposed. Cost of tax collection and tax administration is also part of secondary real cost of public debt. But at the same time it has been suggested that "this burden is primarily a matter of tax friction. Careful tax policy could reduce it almost to the vanishing point". Lawrence H. Seltzer also believes that "the necessity of passing an increasing proportion of the national income through the public treasury is attended by growing difficulties and costs of levy, collection and transfer". But as stated by Wright this "burden is not something which can be mechanically determined but rather depends on the intelligence and forethought of the governing boyd". Hvyek's view that any expansion of the supply of money (through creation of the public debt) will brings about an "undue lengthening" of the process of production is valid only under certain special conditions. As a matter of historical fact in highly dynamic societies the encouragement to saving through public borrowing
has brought about an expansion of the roundabout methods of production and thereby facilitated the cumulative rise throughout the nineteenth century of the standard of living. Hansen observes, "whereas the debt was formerly an instrument through which funds were siphoned from consumption into saving, so recently it has become in part at least, an instrument to siphon funds from savings into consumptions." Public debt is said to introduce an element of rigidity inasmuch as interest payments become a fixed charge on tax revenues. This argument has been rightly countered by the fact of the increase from the long-run standpoint of the national income as a whole. But it may, however, be conceded that the existence of a large public debt does not to some extent curtail the debtor's freedom of action. Ratchford is of the opinion that "in the final analysis this probably the most important economic disadvantages of the whole institution of the public debt and would seem to be more significant than the purely legal fact of bankruptcy."

The 'no burden' thesis also relies on certain advantage of public borrowing. The economic effects of public debt should be assessed in the light of the nature of the expenditure for which debt is incurred and in terms of its income-generating potentialities. What is of importance is the net economic burden. "The fact that a man holds a good block of War Loan and can rely on a nucleus of safe income may sometimes induce him to seek higher but less safe return on his other savings." Through debt creation the government
can tap savings streams, put the resources thus raised to productive use and bring about an increase in national income. The additional flow of income facilitates the payment of taxes to service the debt. At a time of unemployment increases in public debt contribute to current capital formation that would otherwise not have taken place and thus represent a negative burden on society, in the sense of an addition to the country’s stock of capital goods. Public borrowing promotes the development of more and more institutionalised sources of savings like banks, stock markets and insurance companies. These naturally seek fixed debt obligations whether gilteged private securities or government bonds. People are able by reason of the public debt to invest their savings in government bonds. This gives them an added source of income and makes it possible for businessmen to trade for smaller profits. Further more, the bonds provide a ready source of credit when a businessman needs it for business operations. It helps curb consumption, encourages savings and promotes capital formation and makes it possible for the people of a country to improve their standard of living. From all this it does not follow that the greater the size of the national debt the better for the country. This is a familiar reduction ad absurdum argument. In matters relating to economic life the doctrine of balance or what Malthus called “proportions” is of the greatest relevance.

J.M. Buchanan calls the currently dominant theory of public debt the "New Orthodoxy" which according to him is based on three
basic propositions. There are:

1. The creation of public debt does not involve any transfer of the primary real burden to future generations.

2. The analogy between individual or private debt and public debt is fallacious.

3. There is a sharp and important distinction between an internal debt and an external debt.

As regards the first proposition the exponents of the modern view hold that "we cannot mortgage the future". Thus "the generally accepted view since the end of World War II defines the burden as the sacrifice of scarce resources when the funds are spent... In the aggregate then no burden can be shifted from one generation to another, the shift is between groups in the same period. In time of war it is the generation that fights the war that gives up the use of physical resources." Lerner in a sweeping generalisation declares that "a project that uses up resources needs the resources at the time it uses them up, and not before or after." He says that this basic proposition "is quite independent of whether the project is public or private as of whether the debt is public or private." Only the project has to be financed internally. He admits that there is a way "in which the present generation can shift a burden on to future generation. Our proposition is only that this is not done by internal borrowing. We can impoverish the future by cutting down on our investment in capital resources." Quite consistently he argues that there is even a possible connection
between internal debt financing and this way of really impoverishing future generations. But there is no necessary connection. Continuing and summing up his argument Lerner explains that "any genuine impoverishment of future generations must be the result of not reducing private consumption by the full amount of the resources used up in the project so that some of these resources must come out of alternative investment (if we rule out the use of unemployed resources). It is only the curtailed alternative investment outside of the project that can tend to impoverish future generations although this might be more than made up for them by the benefits that these same future generations will derive from the project in question." Samuelson also makes the same point when he says that the main way that one generation can put a burden on a later generation is by using up currently the nation's stock of capital goods or by failing to add the usual investment increment to the stock of capital. Pigou also argues in a similar vein in his oft-quoted passage: "It is sometimes thought that whether and how far an enterprise or enterprises ought to be financed out of loans depends on whether and how far future generations will benefit from it. This conception rests on the idea that the cost of anything paid for out of loans falls on future generations while costs met out of taxes are borne, by the present generation. Though twenty five years ago this could claim some respectable support, it is now everywhere acknowledged to be fallacious."
The second proposition of the ruling theory of public debt is that the analogy between public debt and private debt is false. Harris observes that "the analogy does not hold". Hansen quotes at length Jrgen Pedersen with approval: "An internal loan resembles ordinary borrowing ( evidently he means private borrowing ) only in a purely formal way and it is obvious that every analogy to private borrowing must be completely false. And at the end of a long chapter on the growth and role of public debt Hasen himself concludes that it cannot be denied that the interest of the public authorities as distinct from the interest of the individual is complex and that is why the exponents of the no-burden doctrine argue that the second proposition is correct not with regard to internal debt but with regard to the external debt.

The third proposition of the modern theory of public debt is not independent of the first two but is their logical corollary. An external debt ( owed to foreigners ) does involve a net subtraction from the goods and services to the degree that we have to send goods abroad to pay interest on that debt. An internal debt ( owed by the government to its own citizens ) is quite different matter. Furthermore it is held that the burden of the external debt unlike that of the private debt can be shifted on to the future generations.

It is quite clear from the foregoing discussion of the views of modern writers on public finance that an internally held public debt does not involve a burden in the sense in which a private debt
or an externally held debt entails a burden and that the burden of the internal debt involves no postponement of cost or burden in time. It has been observed that the dominant theory of public debt is really not a new fiscal theory. It can in fact be traced back to mercantilists - Sir James Steuart in particular. With the benefit of hindsight one could explain the revival and resurrection of ideas of earlier times in terms of the disastrous occurrences of the 1930s which were a traumatic experience for the peoples of the Free World. Keynes claimed to have accomplished in economic science what Einstein had done in physics and a revolution in thought no less than a revolution in society implies an upsidedown view of things and that change of emphasis in response to pressures of immediacy, which makes all the difference between the old and the new. This dominant view ruled supreme till the publication in 1858 of James M. Buchanan's book which has been already referred to. Moreover, President Eisenhower in his State of the Union message January 7, 1960 declared: "Personally, I do not feel that any amount can be properly called a surplus as long as the nation is in debt. I prefer to think of such an item as a reduction on our children's inherited mortgage." Later criticising the Kennedy Administration for increased deficit spending, he observed, "I effect, we are stealing from our grand children in order to satisfy our desire today."

Buchanan Thesis

Since the publication of Buchanan's Public Principles of Public Debt, "the time honoured controversy over the burden of the
National Debt has flared up once more. The view almost unchallenged a few years back, that the National debt is no burden on the economy and that the real cost of Government expenditure, no matter how financed cannot be shifted to future generations has been no the retreat under a powerful attack spearheaded by the contributions of J.M. Buchanan, J.E. Meade and R. A. Musgrave.

It would not be possible to accommodate the views expressed by all the subsequent writers on the subjects for the want of space at our disposal. Moreover the main thrust of our area is the influence of mounting debt on monetary conditions in general and the role of the central bank (R.B.I.) in particular. Hence we would like to make a mention of the analytical done by many economists on the subject. In this connection we would like to mention work done by A. Hensen, Alan T. Peacock, Bowen Devis-Kopf and Modigliani etc.

As we have noted earlier many developing economies are now experiencing spectacular growth of public debt. Hence next section is devoted to this aspects.

**Public Debt in A Developing Economy**

The foregoing analysis of the economics of public debt and the policy prescriptions emerging from them are, however, of limited applicability to the case of developing countries. Most of the
objections to the creation of a large public debt relate to objections raised from a more or less capitalistic point of view viz., preferring private to public enterprise. In a developing economy public debt is a very important source of mobilising the savings of the people for the purpose of financing the government’s share of economic development. In the initial stage of economic development a large part of the public sector investment is devoted to the construction of social overheads which prepare the economy for the introduction of change leading to the transformation of the structure of production in the ultimate analysis. Investment in such projects is of a 'non-self-liquidating' character especially in the initial stages. Their benefits are spread over time and space. Thus industries involving external economies tend to be unprofitable from the point of view of a private entrepreneur. But they are crucial and of immense benefit from the point of view of society. Such industries have to be started in the public sector. Besides, there are a number of 'self-liquidating' projects financed through public loans. Necessary resources for financing such industries cannot come through excess of government revenue over current expenditure. Resort to public borrowing of a non-inflationary character becomes essential for achieving growth with stability and social justice. In a democratic society embarking on planned economic development a country of India’s size public borrowing also conveys to the people the broad purpose for which resources are raised. People become partners in development and thus facilitate the process of democratic planning. In view of the fact that public borrowing in a country is for
development purposes assessment of its role has to be made in a
dynamic context of a growing size of national income. To quote
Edward Nevin: "If one postulates a constantly increasing debt within
a static national income it (burden) could obviously become very
serious indeed... such a situation would have no relevance in a
discussion of debt policy in a growing economy, however, since the
whole purpose of the increased debt is to prevent a constancy in
the national income."\(^9^9\)

Domar's well-known formulation has already been
mentioned. Even if additional taxes have to be imposed or the rate
of existing taxes is raised public debt would not entail a burden
inasmuch as such taxes can be paid from out of the incremental
income without detriment to the standard of living of the people.
Financing of economic development through public loans also
ensures inter-generational equity as it provides for the adoption of
the principle of pay-as-you-use finance. The future generation which
enjoys the fruits of debt financed public expenditure also bears the
cost of such expenditure.

**Limits of Public Debt**

The question concerning the limits to public debt in an
advanced economy is related to the goal of full employment. Lerner
distinguishes between an arbitrary limit and natural limit. The
natural limit is reached "when the national debt has grown so large
that people feel themselves so wealthy that they spend enough to
provide full employment."100 The natural limit is compatible with the
equilibrium level of aggregate spending. Hansen's views are more
realistic because he conceives of the limit "not in terms of a fixed
amount or a static situation but in terms of a dynamic process."101
More precisely, he observed that "account must be taken of the
rates of change and the magnitude of the public debt in relation to
other magnitudes, especially the ratio of debt to national income."102
Thus he rules out any rigid and fixed limits and feels that the problem
can best be taken care of by ensuring that taxation is adequate :
(1) to prevent inflation and (2) to provide a reasonably equitable
and workable distribution of wealth and income.103 Another limit is
imposed by the criterion of "appropriate interest rate." A rapid fall
in the rate of interest, say, twenty years hence can be disturbing.104

Wright feels that one cannot speak of limits in the sense of a sudden line beyond which the country cannot possibly go "we
must speak rather of increasing frictions. At what point these
frictions will become unbearable depends on the political attitude
and the enthusiasm of the people."105 Apart from the psychological
limits beyond which public opinion is not prepared to go there are
fiscal and institutional limits. They are : (1) a price inflation, (2)
size of bank reserves, (3) saturation of the market for government
bonds.106 Saturation of the market for government bonds may force
the government to borrow at more favourable terms. In view of the
fact that governments can issue money to repay the debt "the level
of prices during repayment rather than the rate of interest is the important criterion of bankruptcy.\textsuperscript{107}

There is little doubt that some of the limits to public debt discussed in the preceding paragraphs are of relevance to developing countries. As far as India is concerned one can say that the limit to the growth of the non-expansionary public debt is defined by the growing need domestic resources required to help the country achieve take-off into self-sustained economic growth. If we look at the Indian economy as going concern we would find that its internal public debt is merely another aspect of its assets. Debt in the broad sense is the obverse of investment. Expansion of India's public debt should be at a rate which is sufficient to absorb the nation's saving consistently with the requirement of funds for the private sector. More importantly in a country like India where people prefer to keep their meagre savings in the form of non-financial assets which are economically wasteful there is need to foster banking habits and to induce the people to prefer financial assets to traditional forms of investment and government securities to other avenues of investment. A planned economy which aims at a rapid growth of national income raising the incremental savings rate is of the utmost importance to raise the level of planned investment. Increasing the incremental saving rate entails among other thing principally the use of taxation and borrowing. In view of the fact that taxation can be increased only slowly increased borrowing is necessary for growth without inflation. The limit to the
growth of the public debt is thus conceived in terms of the rate of growth of income, habits of the people and the role of the state in the accelerated economic development of the country.

In what is to follow, we would like to present Indian scenario of Public Internal Debt.

PUBLIC DEBT - IN INDIAN CONTEXT

This section deals with the examination of total internal debt of the Government of India and its composition. We will also examine the distribution of the internal public debt among its holders.

The acceptance of the planned economic development calls for increased Government Expenditure on Investment. The increased public expenditure may be more significant in an economy where the private sector is unwilling to invest in a particular direction as envisaged by the planning policy. Planning Commission states that "the public sector has to expand rapidly, it has not only to initiate development which the private sector is neither willing nor able to undertake, it has to play dominant role in shaping the entire pattern of investment in the economy, Whether it makes investment directly or whether these are made by private sector".108
For such purpose Government needs more financial resources at its disposal. There are three major ways of mobilising resources, namely Taxation, Deficit Financing and Borrowing.

In case of revenues to be raised by Taxation Policy, the major constraint is small tax base coupled with tax evasion and avoidance.

With the regard to Deficit Financing as a source of raising required resources, the major obstacle is its inflationary potential. Many economies have used borrowing from banking and non-banking financial institutions and from general public. These borrowing operations are facilitated by issuing claims on these institutions which constitute sizable portion of total debt issued.

In view of the lower per capita income and people having habits to invest mostly in real assets, large part of developmental resources have to be raised from institutional investors. This explained quantitative and qualitative significance of debt claims issued in India.

These debt claims are marketable and non-marketable. It is well known fact that suitable market conditions for marketable debt do not prevail in India and non-marketable debts are unwillingly been held by few individual and institutional investors. Under these circumstances it has become almost obligatory for Reserve Bank of India and Banking System to not only to hold these debts but to see that market gets developed on a sound footing.
In view of the pivotal position occupied by debt instruments in raising required developmental resources, it would be more instructive to examine internal debt in India, in its different dimensions.

In order to get better perspective of the growth of internal public debt, we made an attempt to estimate growth rate during planning period. We have regressed "ND" variable on time as an explanatory variable. Findings confirm our viewpoint that compound growth rate of "ND" has exhibited continuous upward trend over time. During First Five Year Plan Period compound growth rate was 5.82% which jumped to 11.16% during Second Plan Period (1956-60). During period of our study from 1970 to 1995, we found that growth rate increased to 10.48% during 1971 to 1975, and it further showed continuous upward trend without any exception till 1990. Only during the period from 1991 to 1995 which coincided with Fiscal and Monetary Reforms and policy to restrict expenditure to the extent possible, hence slight fall in the growth rate of "ND" was observed. Table 3.1 exhibits the tendency of compound growth rate of Internal Debt.

As we have already mentioned in the introduction of our work, we found that "ND" as percentage of National Income also has maintained unabated upward trend. As indicated in Table 3.2, "ND" as percentage of National Income (N.I.) was approximately was 25% in 1950-51, but the figure stood at 33.61% in 1970-71. During 1980's and 1990's it has exhibited the same tendency, for example "ND" was 36.48% in 1980-81 which came to its record
level of 54.32% of National Income in the year 1994-95. Thus it is beyond any doubt that "ND" (National Internal Debt) has shown spectacular growth.

We have also viewed "ND" expressing it as percentage of Total Debt (Internal and External). Internal Debt showed as slight declining tendency during 1950's and 1960's. However we clearly observed persistent increase in it, particularly during the period of our study ranging from 1970 to 1995. "ND" formed 67.3% of total debt in 1970 but its figure increased to as high as 90.20% in 1994-95 (see Table 3.3).

We thought it proper to probe deep into the examination of the constituents of debt. We found that claims on Government formed sizable proportion of total internal debt claims. This lends ample support to our popularly held view that in a less developed economy like India, large part of resources have to come from institutional investors, where public sector is the principal borrower, by issuing debt claims on itself. In other words, private claims are negligible in quantity and would likely to be insignificant. Break-up of Internal Debt and its various constituents, is presented in Table 3.4.

Looking at the distribution of debt claims held by individual and institutional holders, it becomes amply clear that largest proportion of these debt claims are being held by the institutional investors, mostly the R.B.I. and Commercial Banks. Needless to state that non-banking public is less willing to hold such claims because of very low return available on these securities. The Table 3.5 shows ownership pattern of debt claims held.
At the end we would like to stress that debt scenario in Indian context has assumed alarming proportion viewed from different dimensions. We also would like to reiterate the urgent need for controlling volume of debt and for bringing about desirable distribution. This we believe can be achieved by raising returns on such claims so as to make them more remunerative to its holders.

The next chapter is devoted to the empirical assessment of the structural relationships among selected fiscal and monetary variables which formed an integral part of the system evolved in this thesis. We would initially concentrate on short-term analysis with a hope to get better feedback for long-term analysis.
### TABLE 3.1

**COMPOUND GROWTH RATE IN INTERNAL DEBT DURING PLANNING PERIOD**

<table>
<thead>
<tr>
<th>Time Period</th>
<th>Compound Rates of Growth in Internal Debt (Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951-1955</td>
<td>5.82</td>
</tr>
<tr>
<td>1956-1960</td>
<td>11.16</td>
</tr>
<tr>
<td>1961-1965</td>
<td>8.24</td>
</tr>
<tr>
<td>1966-1970</td>
<td>9.34</td>
</tr>
<tr>
<td>1971-1975</td>
<td>10.98</td>
</tr>
<tr>
<td>1976-1980</td>
<td>14.44</td>
</tr>
<tr>
<td>1981-1985</td>
<td>17.15</td>
</tr>
<tr>
<td>1986-1990</td>
<td>17.33</td>
</tr>
<tr>
<td>1991-1995</td>
<td>11.18</td>
</tr>
</tbody>
</table>

*Note: Above percentage figures of Growth rate in Internal Debt are derived from the data obtained from following sources.*

**Sources:**
1. International Financial Statistics (Various Issues)
<table>
<thead>
<tr>
<th>Years</th>
<th>National Income (Rs. In Billions)</th>
<th>Internal Debt (Rs. In Billions)</th>
<th>Internal Debt as a % of National Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950-51</td>
<td>95.30</td>
<td>24.70</td>
<td>25.91%</td>
</tr>
<tr>
<td>1955-56</td>
<td>99.80</td>
<td>30.83</td>
<td>30.89%</td>
</tr>
<tr>
<td>1960-61</td>
<td>141.40</td>
<td>54.94</td>
<td>38.85%</td>
</tr>
<tr>
<td>1965-66</td>
<td>206.21</td>
<td>81.66</td>
<td>39.60%</td>
</tr>
<tr>
<td>1970-71</td>
<td>398.20</td>
<td>133.80</td>
<td>33.61%</td>
</tr>
<tr>
<td>1975-76</td>
<td>720.90</td>
<td>229.32</td>
<td>31.81%</td>
</tr>
<tr>
<td>1980-81</td>
<td>1242.70</td>
<td>453.40</td>
<td>36.48%</td>
</tr>
<tr>
<td>1985-86</td>
<td>2342.50</td>
<td>1083.60</td>
<td>46.25%</td>
</tr>
<tr>
<td>1990-91</td>
<td>4757.80</td>
<td>2610.40</td>
<td>54.86%</td>
</tr>
<tr>
<td>1994-95</td>
<td>8361.80</td>
<td>4558.90</td>
<td>54.32%</td>
</tr>
</tbody>
</table>

**Sources:**
(1) R.B.I Report on Currency and Finance (Various Issues)
(2) International Financial Statistics (Various Issues)
<table>
<thead>
<tr>
<th>Years as</th>
<th>Internal Debt (Rs. in Billions)</th>
<th>External Debt (Rs. in Billions)</th>
<th>Total Debt (Rs. in Billions)</th>
<th>Internal Debt a % of Total Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950-51</td>
<td>24.70</td>
<td>0.32</td>
<td>25.02</td>
<td>98.20%</td>
</tr>
<tr>
<td>1955-56</td>
<td>30.83</td>
<td>1.14</td>
<td>31.94</td>
<td>96.42%</td>
</tr>
<tr>
<td>1960-61</td>
<td>54.94</td>
<td>7.60</td>
<td>62.54</td>
<td>87.84%</td>
</tr>
<tr>
<td>1965-66</td>
<td>81.66</td>
<td>25.90</td>
<td>107.56</td>
<td>75.92%</td>
</tr>
<tr>
<td>1970-71</td>
<td>133.80</td>
<td>64.90</td>
<td>198.70</td>
<td>67.33%</td>
</tr>
<tr>
<td>1975-76</td>
<td>229.32</td>
<td>74.89</td>
<td>304.21</td>
<td>75.38%</td>
</tr>
<tr>
<td>1980-81</td>
<td>453.40</td>
<td>107.60</td>
<td>561.00</td>
<td>80.81%</td>
</tr>
<tr>
<td>1985-86</td>
<td>1083.60</td>
<td>181.50</td>
<td>1265.10</td>
<td>85.65%</td>
</tr>
<tr>
<td>1990-91</td>
<td>2610.40</td>
<td>315.30</td>
<td>2925.70</td>
<td>89.22%</td>
</tr>
<tr>
<td>1994-95</td>
<td>4558.90</td>
<td>495.10</td>
<td>5054.00</td>
<td>90.20%</td>
</tr>
</tbody>
</table>

Sources: Same as Table 3.2
### TABLE 3.4

**COMPONENTS OF INTERNAL DEBT DURING PLANNING PERIOD**

<table>
<thead>
<tr>
<th>Years</th>
<th>Rupees Loans Securities</th>
<th>%</th>
<th>Treasury Bills</th>
<th>%</th>
<th>Small Savings</th>
<th>%</th>
<th>Other Obligations</th>
<th>%</th>
<th>Total Internal Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950-51</td>
<td>1438</td>
<td>58.2%</td>
<td>365</td>
<td>14.8%</td>
<td>336</td>
<td>13.6%</td>
<td>330</td>
<td>13.4%</td>
<td>2470</td>
</tr>
<tr>
<td>1955-56</td>
<td>1509</td>
<td>48.9%</td>
<td>595</td>
<td>19.3%</td>
<td>580</td>
<td>18.8%</td>
<td>399</td>
<td>12.9%</td>
<td>3083</td>
</tr>
<tr>
<td>1960-61</td>
<td>2531</td>
<td>43.8%</td>
<td>1106</td>
<td>20.1%</td>
<td>982</td>
<td>17.9%</td>
<td>834</td>
<td>15.2%</td>
<td>5493</td>
</tr>
<tr>
<td>1965-66</td>
<td>3425</td>
<td>41.9%</td>
<td>1612</td>
<td>19.7%</td>
<td>1549</td>
<td>19.0%</td>
<td>1580</td>
<td>19.3%</td>
<td>8166</td>
</tr>
<tr>
<td>1970-71</td>
<td>4442</td>
<td>33.2%</td>
<td>2518</td>
<td>18.8%</td>
<td>2219</td>
<td>16.5%</td>
<td>4211</td>
<td>31.5%</td>
<td>13379</td>
</tr>
<tr>
<td>1975-76</td>
<td>7127</td>
<td>31.7%</td>
<td>5810</td>
<td>23.0%</td>
<td>3946</td>
<td>17.3%</td>
<td>5778</td>
<td>27.6%</td>
<td>22661</td>
</tr>
<tr>
<td>1980-81</td>
<td>15888</td>
<td>32.8%</td>
<td>12851</td>
<td>26.5%</td>
<td>79.46</td>
<td>16.4%</td>
<td>11766</td>
<td>24.28%</td>
<td>48451</td>
</tr>
<tr>
<td>1985-86</td>
<td>36750</td>
<td>30.8%</td>
<td>26014</td>
<td>21.8%</td>
<td>21449</td>
<td>17.8%</td>
<td>35118</td>
<td>29.42%</td>
<td>119331</td>
</tr>
<tr>
<td>1990-91</td>
<td>72164</td>
<td>25.8%</td>
<td>34542</td>
<td>12.4%</td>
<td>49071</td>
<td>17.6%</td>
<td>123754</td>
<td>44.27%</td>
<td>279531</td>
</tr>
<tr>
<td>1994-95</td>
<td>154011</td>
<td>33.8%</td>
<td>57328</td>
<td>12.6%</td>
<td>84575</td>
<td>18.6%</td>
<td>159976</td>
<td>35.09%</td>
<td>455890</td>
</tr>
</tbody>
</table>

### Table 3.5

**Ownership Pattern of Central Government Securities**

For Selected Years

<table>
<thead>
<tr>
<th>Year</th>
<th>State Govts.</th>
<th>%</th>
<th>R.B.I. on its own Accounts</th>
<th>%</th>
<th>Commercial Banks</th>
<th>%</th>
<th>L.I.C. of India</th>
<th>%</th>
<th>Provident Fund</th>
<th>%</th>
<th>Others</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950-51</td>
<td>118.81</td>
<td>8.3%</td>
<td>339.93</td>
<td>23.6%</td>
<td>356.99</td>
<td>24.8%</td>
<td>112.74</td>
<td>7.8%</td>
<td>-</td>
<td>-</td>
<td>519.98</td>
<td>35.5%</td>
</tr>
<tr>
<td>1955-56</td>
<td>140.40</td>
<td>9.3%</td>
<td>266.85</td>
<td>17.8%</td>
<td>380.58</td>
<td>25.2%</td>
<td>137.29</td>
<td>9.1%</td>
<td>-</td>
<td>-</td>
<td>418.00</td>
<td>18.4%</td>
</tr>
<tr>
<td>1960-61</td>
<td>216.50</td>
<td>9.6%</td>
<td>703.90</td>
<td>31.2%</td>
<td>432.20</td>
<td>19.2%</td>
<td>267.20</td>
<td>11.9%</td>
<td>217.0</td>
<td>9.7%</td>
<td>236.90</td>
<td>7.5%</td>
</tr>
<tr>
<td>1965-66</td>
<td>217.60</td>
<td>7.0%</td>
<td>1213.7</td>
<td>19.0%</td>
<td>580.70</td>
<td>18.7%</td>
<td>337.20</td>
<td>10.6%</td>
<td>529.7</td>
<td>17.0%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1970-71</td>
<td>140.70</td>
<td>3.5%</td>
<td>1485.7</td>
<td>%</td>
<td>862.80</td>
<td>21.6%</td>
<td>485.20</td>
<td>12.3%</td>
<td>956.3</td>
<td>24.2%</td>
<td>13.50</td>
<td>0.37%</td>
</tr>
<tr>
<td>1975-76</td>
<td>201.90</td>
<td>2.8%</td>
<td>2256.6</td>
<td>31.8%</td>
<td>2064.50</td>
<td>29.1%</td>
<td>875.10</td>
<td>12.3%</td>
<td>1501.4</td>
<td>21.2%</td>
<td>193.10</td>
<td>0.44%</td>
</tr>
<tr>
<td>1979-80</td>
<td>232.50</td>
<td>1.8%</td>
<td>2628.7</td>
<td>20.3%</td>
<td>5793.50</td>
<td>44.9%</td>
<td>1519.70</td>
<td>11.8%</td>
<td>2113.8</td>
<td>16.4%</td>
<td>617.7</td>
<td>2.8%</td>
</tr>
<tr>
<td>1983-84</td>
<td>220.60</td>
<td>1.0%</td>
<td>6333.7</td>
<td>26.4%</td>
<td>8704.10</td>
<td>36.9%</td>
<td>2464.00</td>
<td>11.0%</td>
<td>2347.5</td>
<td>10.5%</td>
<td>2299.1</td>
<td>4.8%</td>
</tr>
<tr>
<td>1988-89</td>
<td>276.60</td>
<td>0.6%</td>
<td>8442.9</td>
<td>19.55</td>
<td>24132.00</td>
<td>50.5%</td>
<td>5826.70</td>
<td>12.2%</td>
<td>1643.4</td>
<td>2.2%</td>
<td>NA</td>
<td>10.2%</td>
</tr>
<tr>
<td>1990-91</td>
<td>273.80</td>
<td>0.4%</td>
<td>14101.5</td>
<td>22.6%</td>
<td>33378.80</td>
<td>43.4%</td>
<td>6064.80</td>
<td>12.9%</td>
<td>927.3</td>
<td>1.5%</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>1994-95</td>
<td>331.14</td>
<td>30.0%</td>
<td>78512.50</td>
<td>71.3%</td>
<td>18634.00</td>
<td>16.9%</td>
<td>650.4</td>
<td>0.9%</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sources: Same as Table 3.2
NOTES AND REFERENCES


8. The Minority Report held that the taxes imposed to repay the principal and pay the interest charges on an internally held debt do not constitute an economic burden on society. The Report of His Majesty's Committee on National Debt and Taxation (Colwyn Report), 1927. The Minority Report, pp. 357-58.


10. "We find a remarkable similarity between his ideas and modern views on the Public debt... the rudiments of modern debt theory can be found in several of his discussions... Steuart's approach has in it the elements of an attitude toward the public debt problem which is in fundamental contrast to that of the classical writers". Walter F. Stettner, *Sir James Steuart on the Public Debt*, Quarterly Journal of Economics, Vol. LIX, 1945, p. 454.


15. *Ibid.* p. 20 In a letter to Pultney Smith wrote "I have the same opinion of Sir James Steuart's book that you have. Without once mentioning it, I flatter myself that any false principle in it will meet with a clear and distinct confutation in mine". Quoted in J.K. Ingram, *A History of Political Economy*, p. 87, cited in W.F. Stettner, op. cit., p. 453.


29. Ibid.


33. *Ibid.*, p. 423, cf. In a Note on *Funding System* Sraffa says that "the only point on which he (Ricardo) thought he was entitled to attention was his plan for paying off the national debt by a tax on property". In order to set right what he believed to be the artificial system he urged that "by one great effort, we should get rid of one of the most terrible scourges which was ever invented to afflict a nation", pp. 145 and 197 respectively. In P. Sraffa (ed.) Vol. IV, *op. cit.*


53. Colwyn Commission (London. 1927)


suggestions of George Bernard Shaw that he interest himself in something on, or by Marx Keynes wrote to him on New Years' Day, 1935. "To understand my state of mind, you have to know that I believe myself to be writing a book on economic theory which will largely revolutionise - not I suppose, at once, but in the course of the next ten years - the way world thinks about economic problems". Quoted in R.F.Harrod, *The Life of J.M. Keynes*, (Macmillan, London, 1963), p. 462.


65. A.C. Pigou, *A Study of Public Finance* (Macmillan, London, 1947), p. 38. cf. "since within the nation every body's debt is some boyd's credit, internal borrowing is Government debt "within the family". The family wealth cannot be reduced because some members borrow from others. If one Jones borrows from another Jones the total Jones estate is not affected. However, if one of the Joneses borrows from a Smith, the process may involve an eventual transfer from one family to the other... the later is analogous to the external borrowing and illustrates the difference between it and internal borrowing". Harold M. Groves, *Financing Government*, (Holt Rinehart and Winston, New York, 1964), p. 621.

66. J.M. Buchanan labels it the "national Accounting fallacy". *International encyclopedia of the Social Sciences, op. cit.*, p. 32.

68. David McCord Wright, Creation of Purchasing Power, op. cit., p. 143. cf. "The strongest case for the proposition that a domestic debt is not an economic burden would be one in which the bonds are held by tax payers in the same proportion as they pay taxes". Ratchford op. cit., p. 455.

69. Ibid., p. 148.


76. As has been well stated by Lerner, "even if the interest on the debt is raised out of current taxes, these taxes constitute only the interest on only a fraction of the benefit enjoyed from the government spending and are not lost to the nation but are merely transferred from tax payers bond holders", *Functional Finance and Federal Debt*, op. cit., p. 411.


81. ibid.

82. ibid.

83. ibid.

84. Ibid., P. 141.


87. S.E. Harris, *The National Debt and the New Economics*, op. cit., p. 44.

88. Jørgen Pedersen as quoted in A.H. Hansen’s *Fiscal Policy and Business Cycles*, op. cit., p. 142. It may be of some interest to mention that the Report of the British Committee on National Expenditure (the May Committee (Majority Report), held the general principles as early as 1931 i.e. in the midst of deepening depression that "existing financial difficulties make it necessary for the nation like the private individual to consider seriously what it can afford and not merely what is desirable. Viewed from this standpoint much of the expenditure is unwarrantable at the present time which under more favourable circumstances we should deem justifiable and even a wise investment of national resources". *Report of the Committee on National Expenditure* (May Committee) cmd.


90. The revolution in economic thought stirred man's souls the banner of full employment was to be advanced at all cost and against whatever odds. This became the vital centre of attention. Little time was available for careful examination of the intellectual stumbling blocks which the old fashioned ideas on public debt seemed to represent. Out of these ideas went and the "new" ideas were left only to be picked up and carried forward, not by scholars of public debt theory, but by fiscal policy advocates". J.M. Buchanan, *Principles of Public Debt*, op. cit., p. 20.


102. Ibid.

103. Ibid., p. 175.


108. Second Five Year Plan, Planning Commission of India

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