**Public Debt**

**Introduction**

In simple word public debt denotes to the borrowings undertaken by public organizations. The government of a country get loans from banks, business groups, financial institutions, and individuals to fulfill its routine activities. Public debt is usually in the form of bonds or treasury bills if the loan has been bought for short period. These bonds carry the promise of the government to pay interest to their holders at the specified rate of interest at regular periods or in lumpsum at the time of maturity along with the principal amount. Thus, Public debt is the total amount, including total obligations, borrowed by the government to meet its development budget.

Data collection, compilation and determining the final framework of the public budget are an annual exercise. This is a constitutional requirement. Similarly, the authority or government may present the budget in parts, as in India the railway budget is declared and presented separately from the public budget but now it is merged with the main budget. In a federal system, the governments present their own budget at different functional levels. In some way corporates, corporation or even small business unit draw their respective budget on annual basis by adopting different method of budgeting.

In democratic nation like India, ruling government in the final year of its term, furnish an ‘interim budget’ for the period until elections are held, Regular budget is then further executive by the new government. There may be provision of supplementary budget due to some economic turmoil, emergency, pandemic, war, natural calamities, or shortfall in the revenue receipts.

According to Taylor, “The debt is in the form of promises by the Treasury to pay to the investors of these promises a principal sum and in most instances interest on that principal.”

Government also acquires some obligations in the form of long-term debt-whose maturity is normally of more than one year at the time of issuance and comprise of corporate securities and borrowing from financial institutions. Some obligations of the government are known as floating debt which do not have any definite maturity but some part of it may be repayable according to fixed terms and condition e.g., small savings, provident fund, reserve funds and deposits funds etc. In India, the government also issues certain special securities to meet its obligations towards international institutions like the World Bank, and the IMF. These are called as special floating debt. Keeping in mind the purpose and institutional arrangements of funds, the authority constituted the public budget, all the obligation of the government including floating and fixed debt are included in public budget. This would be clear that the economy cannot grow without financial growth, which necessitates compulsory the growth of public debt. Eventually, the debt should be monitored and evaluated timely to eliminate uneconomic and unproductive activities.

## Importance of Public Debt Management in India

As per Reserve Bank of India Act of 1934, the Reserve Bank is both the banker and public debt manager for the Union government. The [RBI](https://www.financialexpress.com/tag/rbi/) handles all the money, remittances, FOREX, and banking transactions on behalf of the Government. The Union government also deposits its cash balance with the RBI. For instance, the Niti Aayog has advocated the creation of a separate public debt management agency in India.

Therefore, public debt is an important source of resources for a government to finance public spending and fill gaps in the budget. Public debt as a percentage of GDP is usually used as an indicator of the ability of a government to meet its future obligations. The table below shows public debt as a percentage of Gross Domestic Product (GDP) for the last five years of India.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Yeas** | **2015** | **2016** | **2017** | **2018** | **2019** |
| Public Debt | 68.8 | 68.7 | 69.4 | 69.4 | 71.9 |

The Union government’s liabilities account for a little over 46 per cent of India’s gross domestic product (GDP). However, if the public debt is calculated as general government liabilities, which also includes the liabilities of states, this goes up to 68 per cent of the country’s GDP.

**Sources of Public debt**

Public debt can be raised both externally and internally, where external debt is the debt owed to lenders outside the country and internal debt represents the government’s obligations to domestic lenders.

Usually the government borrows from within the country. It is called as internal debt. The government can borrow from outside the country. It is called as external debt.

**Causes of Increase in Public Debt**

* War or war-preparedness, including nuclear programmes
* To cover the budget deficits on current account
* To undertake public welfare schemes
* Urge for economic growth
* Inefficiencies of public organisations and corruption

## Burden of Public Debt

It does not entail any burden if the debt is used for productive reasons such as irrigation, trains, highways, IT, human development etc. They are offering an advantage for economic development. On the flipside, if the debt is not productive and efficient in given time, the economy may be paid both with investment, interest, and fee.

**(a) Burden of Internal Debt**

Internal debt covers a series of domestic transfers of wealth, i.e., from lender to government and then later from government to lender when the debtors are redeemed. It is a kind of circular flow of income in which money is moved to one section from different part of the society. In such case burden of debt exist no more in the economy because it is mere shifting of resources.

Real burden on the community persist when the government has to levy taxes on goods and services in order to repay the interest and the principal amount of the debt. When the tax is paid by the society, the debt holders receive interest on their respective investments.  Usually, the lenders are wealthy strata and tax burden is ultimately fall on poor especially indirect taxes are paid.  Thus, the net result indicates the transfer of wealth from poor to rich.  This is against the principle of economic welfare.

**(b) Burden of External Debt**

External debt also involves a series of transfer of wealth from the foreign lender to the borrowing country, and when it is repaid the transfer is in the opposite direction.  As the borrowing country paid interest to the foreign lenders, a direct money burden is fall on the whole community.

External debt also entails a series of transfer of wealth from debtor country to the creditor country/international institutions. Foreign lenders are paid (interest) by the borrowing country and the whole society of borrowing country bears direct money burden which is against the canon of social welfare. Eventually, the authority has to cover the amount of interest to be paid to the foreign country by imposing taxes on the income of the community. This significantly hurts production, employment, demand, and income distribution of the borrowing nation. In addition, the international lender may also participate directly in the country's economic activities.

Limitation of Public Debt

Government debt is increased when its tax receipts are not enough to cover public expenditure. When the government borrows more than the amount needed, the situation will result in a debt trap. The government borrows to pay interest on its old loans in such conditions and thus, it become tough to come out of repayment of debt obligations.

## Moreover, outflows of financial resources from the nation are induced by foreign debt. So, the interest payments will be shifted from a domestic to a foreign nation when the loan is taken from external agencies. In addition, if the loan process involves the purchase from abroad for the necessary inputs, rather than within the domestic nation, it would increase the burden of external obligation of the country.