Ilkogretim Online - Elementary Education Online, 2021; Vol 20 (Issue 5): pp. 5494-5499
http://ilkogretim-online.org
doi: 10.17051/ilkonline.2021.05.618

GROWTH OF PUBLIC DEBT IN ECONOMIC DEVELOPMENT OF TAMILNADU

G. MURUGESWARI, Ph.D.Scholar, Department of Economics, VELS Institute of Science, Technology and Advanced Studies, Chennai-117.
Dr.S.THANGAMAYAN, Assistant Professor, Department of Economics**,** VELS Institute of Science, Technology and Advanced Studies**,** Chennai – 117, drthangamayaneco@gmail.com

ABSTRACT- Public debt as a means of financing economic development has come to assume a very important role in modern times. The extent to which the Government could mobilise resources for economic development through public debt depends largely on a skillful application of techniques of debt management. In recent years Governments expenditure is increasing faster than their ability to raise resources, because their activities are not so restricted as only to maintain law and order and protect the country against external aggression. It is widely recognised that for rapid and coordinated development of emerging economy, the State has to assume much broader obligations and to undertake responsibility for providing an extensive infrastructure through the development of Transport and Communications, Major and Medium Irrigation, Power etc,, and also to build up basic industries. The debt to GDP ratio has been rising in several States and therefore the concern has been expressed about the sustainability of the current fiscal policy. It is clear that it if public debt grows without a corresponding growth in revenue earning assets, the burden of interest payments on the budget would grow indefinitely if the debt-GDP ratio grows fast. Much of the Government borrowing has been under taken for investment, the economic or market value of such investment is far below the debt incurred because of either high cost of capital formation or poor maintenance or misdirection of investment.

KEY WORDS: Growth, Public Debt, Economic Development.

I. INTRODUCTION

It is widely recognised that for rapid and coordinated development of emerging economy, the State has to assume much broader obligations and to undertake responsibility for providing an extensive infrastructure through the development of Transport and Communications, Major and Medium Irrigation, Power etc,, and also to build up basic industries. In developing countries, therefore, the State's responsibilities in economic and social spheres are naturally far greater than in advanced countries. Hence, the State has to undertake all kinds of developmental programmes which are either unsuitable for private enterprise or beyond the capacity of private enterprise to serve some socio-economic objectives. It has also to develop social services to keep in step with the growth of an economic activity and the growing expectations of the people particularly in a parliamentary democracy like India, Financing of all the above schemes requires large resources, which is impossible to secure from taxation alone. The Government, therefore, must borrow on a vast scale in order to supplement its resources with a view to discharge its extended obligations effectively. An increase in the Public Debt need not cause concern so long as it is accompanied by the growth of productive assets and increase m the productivity of the economy and so long as borrowings came from the genuine savings of the community). It is, therefore, not so much the size of the Public Debt as the manner and method of borrowing and the utilization of the borrowed money that are of crucial importance. The United Nations Report on "Domestic Financing of Economic Development" observes that borrowing is particularly appropriate to Finance Government expenditure, which results in the creation of capital assets of which is otherwise directly productive1. If the public authorities in the developing economies follow this policy of financing economic development from public borrowing or rather Finance a part of the development expenditure from revenue surplus and the other part from borrowing, a growing public debt would not necessarily be a burden on the economy provided that the capital assets that created an additional productive capacity are productively and efficiently used contributing thereby to the growth of National income. Therefore, the public borrowing and the resultant public debt becomes an important instrument of economic development, if skillfully and prudently managed in the developing economy. The developing countries of the world usually regarded development as a process to be planned and guided by the State. Fiscal policy is a powerful tool, which can be and should be used primarily to influence the volume of economic activity and to limit the rate of unemployment. When economic activity begins to decline and a recession threatens to develop, this view would hold that taxes should be reduced and Government expenditures increased, thereby consciously planning for a deficit in the public accounts, in order to expand the public sector contribution and thus arrest or offset the potential contraction of the National product. As growth proceeds, the role of fiscal policy should gradually contract. Being an initiator of change, this policy should gradually resist itself to maintaining the kind of financial stability and climate in which private investment can flourish. The real work of economic development must be done in the private sector. Government can create the pre-conditions and the necessary overhead but should not undertake the whole job of building a business structure. The development priorities of developing countries include achieving sustained income growth for their economies by raising investment rates, strengthening technological capacities and skills, and improving the competitiveness of their exports in world markets, distributing the benefits of growth equitably by creating more and better employment opportunities and protecting and conserving the physical environment for future generations. The new, more competitive, context of a liberalising and globalising world economy in which economic activity takes place imposes considerable pressures on developing countries to upgrade their resources and capabilities, if they are to achieve these objectives. The Government of India stressed in its policy statement a broad concept of development. For instance, the 9th Five Year Plan of India entitled "Growth with Social Justice and Equity states that its objectives are improved quality of life, generation of productive employment, regional balance and self reliance.

IMPORTANCE OF PUBLIC DEBT IN ECONOMIC DEVELOPMENT

Public debt as a means of financing economic development has come to assume a very important role in modern times. The extent to which the Government could mobilise resources for economic development through public debt depends largely on a skillful application of techniques of debt management. In recent years Governments expenditure is increasing faster than their ability to raise resources, because their activities are not so restricted as only to maintain law and order and protect the country against external aggression. Therefore, when expenditure exceeds revenue, a deficit arises in the budget of the Government. This deficit can be bridged by raising revenue from taxation, by borrowing from the public or by depreciating the values of the money in the hands of the people. However, there are certain limits beyond which taxation rates cannot be raised without adverse effects on the investment level and production and consequently on the rate of economic growth. Moreover, the method of financing the deficits by the creation of new money may be inevitable under certain conditions, but after a level it leads to inflation and other evils. Further, it taxes the rich and poor alike which are not desirable for welfare of the community. The most appropriate method, therefore, is the method of debt finance preferred by all the Governments alike in mobilising its financial resources for development.It is because, "Choosing the appropriate methods of finance cannot make a bad plan good but it can make it better using the wrong method can wreck even the best of plants". Public borrowing, in developing countries, is used not only for meeting the huge wasteful war expenditure or for recovering the deficiency of effective demand, but it is used as an instrument of monetary policy for combating inflation generated in the process of growth. Thus it ensures growth with the stability .Borrowing by the Government has been increasing year after year and the public debt of a country or State has been mounting up as a result of that with the augmentation in wealth and taxable capacity of a country not only the tax revenue has been expanding but also its public debt. This increase in the public debt is mainly due to the failure of a Government to live within its means, with heavy demands for public expenditure both under ordinary as well as under extra ordinary circumstances, In second half of the twentieth century, there has been an important shift in the approach of the economists about the role of public finance in the nation's economy. The new approach looks Government finance something more than a mechanism of public housekeeping. It has to concern itself and has make its necessary contributions to the Nation's housekeeping also, so far as it is possible with suitable manipulations of the Government's financial operations. Its outcome has been that whereas in traditional public finance, public borrowing was generally looked upon as lapses from the tenets of sound Government Finance.

NEED FOR THE STUDY

Public sector deficits and public debt have come to the center stage of discussion on economic policy in developed as well as developing countries during 1980's and 1990's. The last two decades have been characterized by large budgetary deficits and continuously increasing ratios of public debt to gross domestic product or state domestic product respectively in the case of Government of India and States Governments. Deficit financing was considered acceptable under certain circumstances and internal public debt was not taken to cause any real burden on the economy. Evsey Domar showed that even if there was continuous deficit in the State budgets, this was not cause for worry so long as the rate of growth of the economy was higher than the rate of interest on the debt. In developing countries like India, borrowing by the Government was held to be normal and desirable because the public sector was an active player and producer in the economy and it represented to absorption by the Government on part of domestic savings and inflow of capital from abroad to finance and promote capital formation in the public and private sectors. In India, the volume of market borrowings was planned and efforts made to increase it on the ground that public sector investment was the higher priority and would produce greater social benefit. The concomitant growth of public debt was based on the implicit assumption that borrowed funds would be used only for capital purposes and that the resultant investment would yield adequate returns. The debt to GDP ratio has been rising in several States and therefore the concern has been expressed about the sustainability of the current fiscal policy. It is clear that it if public debt grows without a corresponding growth in revenue earning assets, the burden of interest payments on the budget would grow indefinitely if the debt-GDP ratio grows fast. Much of the Government borrowing has been under taken for investment, the economic or market value of such investment is far below the debt incurred because of either high cost of capital formation or poor maintenance or misdirection of investment. Even where such causes have not nodded the volume of investment, often the low or nil returns from investment makes it difficult to service debt out of the resources of the Government enterprises. Hence, much of the public debt in effect becomes “Dead weight” and has to be serviced out of the budget. Hence, the interest payments going out from the revenue budget that is interest payments crowed out other expenditures or a large borrowing becomes necessary to sustain the expenditure on goods and services. The Government of Tamilnadu has been facing the same situation during the 1990’s, In this context the present study is undertaken to review the trends in the growth of public debt, the changes in the composition of public debt and to examine the financial burden of public debt in the form of interest payments and repayment of matured borrowings in Tamilnadu.

OBJECTIVES OF THE STUDY

1. To analyse the growth of public debt of Tamilnadu
2. To examine the financial burden on public debt of Tamilnadu.

II. METHODOLOGY

SOURCES OF DATA

In addition to the above sources, the official data have been culled from different Departments of the Government of Andhra Pradesh, particularly the Project Monitoring Unit (PMU) of the Planning Department. The data thus collected have been processed to suit the needs of the study through simple statistical methods such as percentages, growth rates, averages etc. The processed data were used to estimate the growth of public debt and financial burden of public debt.

TABLE – 1

GROWTH OF NET STATE DOMESTIC PRODUCT OFTAMILNADU DURING 1980-81 to 1999-2000

Years	Amount	Index	Amount	Index
1980-81	7910	100	29003	100
1981-82	9692	122	33422	115
1982-83	10478	132	33795	116
1983-84	12437	157	35185	121
1084-85	12919	163	34088	117
1985-86	14485	183	35826	123
1986-87	15381	194	34424	118
1987-88	18765	237	37786	130
1988-89	23856	302	43671	150
1989-90	27457	347	45710	158
ACGR	**13.69**	**-**	**4.02**	**-**
1990-91	33658	100	46423	100
1991-92	40331	120	47599	102
1992-93	42261	125	47041	101
1993-94	51655	153	51655	111
1994-95	61789	183	54564	117
1995-96	71796	213	57951	125
1996-97	81517	242	61955	133
1997-98	85791	255	60321	130
1998-99	102965	305	66973	144
1999-2000	110525	328	69987	151
ACGR	**14.49**	**-**	**4.93**	**-**

Source: Government of Tamilnadu: Economic Survey, 2000-2001.

The Net State Domestic Product at factor cost at current prices increased from Rs. 7910 crores in 1980-81 to Rs. 110525 crores in 1999-2000 i.e. increased by about 14 times during the period of two decades. Similarly, the Net State Domestic product at factor cost at constant (1993-94) prices increased from Rs. 29003 crores in 1980-81 to Rs. 69987 crores in 1999-2000 i.e. increased by about 2.4 times during the period of study. As the present study tries to measure impact of economic reforms on the economy of Tamilnadu which were initiated by the Government of India and also Government of Tamilnadu since 1991, the annual compound growth rates of Net State Domestic Product both at current prices and at constant (1993-94) prices have been estimated for two time periods viz. 1980-81 to 1989-90 and 1990-91 to 1999-2000 for making meaningful comparisons and presented in Table 1. It is clear from the table that the annual compound growth rate of Net State Domestic Product at current prices is 13.69 per cent during the decade of 1980s and it increased. To 14.49 per cent during the decade of 1990s. In the case of Net State Domestic product at constant (1993-94) prices, the annual compound growth rate is only 4.02 per cent.

TABLE – 2

COMPOSITION OF OUTSTANDING PUBLIC DEBT IN TAMILNADU DURING 1980-81 TO 2000-01

Years	Loans	Central Government	Autonomous Bodies	Outstanding Public Debt
1980-81	255 (15.22)	1361 (81.30)	59 (3.50)	1674
1981-82	299(16.21)	1471 (79.79)	74 (4.04)	1844
1982-83	348 (16.78)	1637 (78.75)	91 (4.39)	2078
1983-84	426(18,06)	1794 (76.00)	138 (5.86)	2357
1084-85	501 (18.70)	2000 (72.13)	273 (9.84)	2773
1985-86	644(19,67)	2533 (77.39)	91 (2.78)	3273
1986-87	772 (20.97)	2803 (76.12)	102 (2.77)	3683
1987-88	933 (22.66)	3066 (74.18)	115 (2.79)	4117
1988-89	1135 (24.50)	3341 (72.15)	124 (2.68)	4631
1989-90	1357 (26,00)	3684 (69.87)	142 (2.69)	5273
ACGR	**20.93**	**12.49**	**6.69**	**14.58**
1990-91	1596 (26.06)	4368 (71,31)	161 (2.65)	6125
1991-92	1935 (26.98)	5056 (70.19)	181 (2.53)	7173
1992-93	2273 (27.29)	5852 (70.26)	204 (2.45)	8329
1993-94	2609 (26.21)	7094 (71.25)	253 (2.54)	9956
1994-95	3045 (26.01)	8342 (71.48)	283 (2.43)	11671
1995-96	3516 (25.92)	9675 (71.33)	373 (2.75)	13565
1996-97	4045 (26.31)	10484 (71.33)	843 (2.75)	15378
1997-98	4694 (26.39)	12059 (67.80)	1033 (5.81)	17786
1998-99	6038 (28.23)	13941 (65.18)	1408 (6.58)	21388
1999-2000	7739 (29.65)	16556 (63.48)	1808 (6.93)	26103
ACGR	**16.83**	**15.68**	**2.18**	**17.03**

Source: Government of Tamilnadu: Economic Survey, 2000-2001.

Note: ACGR - Annual Compound Growth Rate.

The amount borrowed from the Central Government increased from Rs. 1361 crores at the end of 1980-81 to Rs. 3684 crores at the end of 1989-90 i.e., increased at an annual compound growth rate of 12.49 per cent. Similarly the amount borrowed from Central Government increased from Rs. 4368 crores at the end of 1990-91 to Rs. 16556 crores at the end of 1999-2000 i.e. at annual compound growth rate of 15.68 per cent. The contribution of Loans and Advances from the Central Government to the public debt ranges 69 and 81 per cent during the pre-reform period and between 63 and 72 per cent during post-reform period. Therefore, it is clear that through the annual compound growth rate of loans and advances from the Central Government is higher during the post-reform period than during the pre-reform period, its percentage contribution to the total public debt is lower during post-reform period than during the pre-reform period.

BURDEN OF PUBLIC DEBT IN TAMILNADU

Whether the present size of public debt is a burden is to be examined by taking an account of all relevant factors. The burden of public debt cannot be considered in isolation. It should be assessed in relation to National income, Government revenue and expenditure. The cost of public debt should be weighed against the benefits of public debt and in this context it is necessary to examine to what extent public debt has led to asset creation and to what extent it has contributed to the growth of the economy. This opinion is based on the belief that the Government has been borrowing excessively and that the burden of public debt has been increasing day by day, Article 292 of the Indian Constitution has empowered the Parliament to fix a statutory limit within which the Government can borrow. But no law has been enacted by the Parliament so far to fix statutory limit within which the Government of India or the Government of any State may raise loans internally and externally. The question prescribing such limits was raised by the Estimates Committee in its 20th report and in a private member's resolution in the Lok Sabha in August, 1959. Again, the Public Accounts Committee recommended that the Finance Ministry should make a study of the procedure followed in various democratic countries for obtaining Parliamentary approval to Government borrowing so as to introduce to method of obtaining specific approval of Parliament to the borrowing programmes suitable to the needs of our developing economy. In response to this, the Finance Ministry of Government of India studied the practice of fixing a statutory limit in countries like U.K., USA, Canada and Ceylon and concluded that even in these countries no real advantage has been secured by fixing a statutory limit to Government borrowing. On the basis of this the Ministry of Finance, Government of India, concluded that the fixation of a limit by law will not secure greater control, but may hamper the flexibility available to the Government for borrowing. In spite of such conclusive reply by the Ministry of Finance, the Public Accounts Committee expressed the view that the Parliament should exercise greater control over Government borrowing in terms of article 292 of the Indian Constitution. The Report says: "The Committee can well appreciate the hesitancy and reluctance on the part of the Finance Ministry in regard to fixing a limit by Parliament on Public borrowing by Government; but the committee would like to emphasize the healthy principle enunciated in Article 292 of the Constitution. The present procedure under which Parliamentary approval is taken for borrowing programmes as indicated in the Five Year Plans and the Annual budgets and for the expenditure from the consolidated fond to which the loans are credited, does not satisfy the constitutional requirements. The committee feels that the law fixing such limits may have some scope for certain built-in-flexibilities subject to ex-post facto approval of Parliament. Further, these limits might be fixed for each plan period so that they can be reviewed once in five years. The committee desires that this matter should be carefully examined."

III. SUGGESTIONS AND CONCLUSIONS

The present study concludes with the following suggestions.

1. The borrowed funds should be utilized for productive purposes and on business principles. Then only they will yield sufficient returns for the payment of interest and repayment of the borrowings.
2. The amount borrowed for externally aided projects through Central Government should be used for the creation of economic inputs such as irrigation water, fly-over bridges, high way roads etc. and should not be transferred for unproductive purposes.
3. The Government should collect user charges from the beneficiaries, who have been benefited from the economic inputs such as irrigation water, fly-over bridges, high way roads etc., that have been created by the borrowed funds.
4. The Government may try to borrow at lower rate of interest and repay the amount of earlier borrowing with higher rate of interest, because this will reduce the cost of borrowing.
5. The Government should try to borrow log-term loans and reduce its the dependence on short-term loans in order to reduce the immediate burden of public debt.
6. The Government should charge higher rate of interest on its leading to lower level Governments and public sector enterprises than the rate of interest paid by the Government to its lenders in order to maintain some profit margin.
7. The State Government should request the Union Government to reduce rate of interest on borrowed funds which are used for financing the relief works necessitated by natural calamities such as droughts, floods, earthquakes etc., because these relief works are in the form of social security measures, which does not yield any return.

8. The State Government may also request the Union Government to write off the borrowed debt which is used for financing the expenditure on social sectors such as education, health, water supply, sanitation, rural roads and housing programmes.
9. The State Government must maintain economy measures in non-plan revenue expenditure and the amount realized through these economy measures will be used for repayment of the public debt.
10. The Government should request its lenders to make the rate of interest indexed to the changes in wholesale prices in order to compensate the loss of revenue through higher interest payments during the periods of falling prices or declining inflation rates.
11. If the Government of Tamilnadu considers the above suggestions with sufficient political will and enthusiasm, then the burden of public debt will be reduced on both Revenue and Capital Accounts of the Budget of Tamilnadu.

REFERENCES

1. Acemoglu, Daron, Simon Johnson, James A. Robinson and Yunyong Thaichoren. 2003. "Institutional causes, Macroeconomic Symptoms: Volatility, Crises and Growth." Journal of Monetary Economics 50, 1, 49-123.
2. Aizenman, Joshua, Brian Pinto, and Artur Radziwill. 2004. "Sources for Financing Domestic Capital- Is Foreign saving a Viable Option for Developing Countries?" NBER Working Paper 10624, National Bureau of Economic Research.
3. Aizenman, Joshua. 2005. "Financial Liberalization in Latin America in the 1990s: A Reassessment." Forthcoming, The World Economy.
4. Aizenman, Joshua, Kenneth M. Kletzer, and Brian Pinto. 2005. "Sargent-Wallace Meets Krugman-Flood-Garber, or: Why Sovereign Debt Swaps Don't Avert Macroeconomic Crisis," Economic Journal. Forthcoming.
5. Barro, Robert J. 1979. "On the Determination of the Public Debt," Journal of Political Economy 87(5, part 1)": 940-971.
6. Barro, Robert J. 1995. "Optimal Debt Management." NBER Working Paper 5327. Barro, Robert J., and Xavier Sala-I-Martin. 1995. Economic Growth. McGraw-Hill, Inc.
7. Blanchard, Olivier J., and Francesco Giavazzi. 2003. "Improving the SGP through a Proper Accounting of Public Investment." Unpublished, Cambridge, Massachusetts: MIT Press.
8. Blanchard, Olivier. 2004. "Fiscal Dominance and Inflation Targeting. Lessons from Brazil." Mimeo., MIT. Borenzstein, Eduardo, and Paulo Mauro. 2002. "Reviving the Case for GDP-Indexed Bonds", IMF Discussion Paper 02/10.
9. Bosworth, Barry, and Susan Collins. 1999. "Capital Flows to Developing Economies: Implications for Saving and Investment," Brookings Papers on Economic Activity, Vol. 1, pp. 143-69.
10. Bruno, Michael, and William Easterly. 1998. "Inflation Crises and Long-run Growth." Journal of Monetary Economics, 3-26.
11. Perry, Guillermo, and Luis Serven. 2003. "The Anatomy of a Multiple Crisis: Why was Argentina Special and What can we Learn From It?", draft, World Bank. Pinto, Brian, and Farah Zahir. 2004. "Why Fiscal Adjustment Now," Economic and Political Weekly, pp. 1039-1048, March 6, 2004. India.
12. Reinhart, Carmen, Kenneth Rogoff, and Miguel Savastano. 2003. "Debt Intolerance." Brookings Papers on Economic Activity 1.2003. Rodrik, Dani. 1999. "Where Did All The Growth Go? External Shocks, Social Conflict, and Growth Collapses" Journal of Economic Growth, Vol. 4, December, pp. 358-412.
13. Rubin, Robert E., and Jacob Weisberg. 2003. In an Uncertain World: Tough Choices from Wall Street to Washington. Random House, New York. Sachs, Jeffrey. 1986. "The debt overhang of developing countries," paper presented at the Conference in memorial to Carlos Diaz-Alejandro, Helsinki, August 1986. Serven, Luis. 1997. "Uncertainty, Instability, and Irreversible Investment: Theory, Evidence, and Lessons for Africa," World Bank Policy Research Working Paper No. 1722.
14. Stulz, Rene. 2005. "The Limits of Financial Globalization." American Finance Association presidential address, Philadelphia, January.