

national employment opp

BURDEN OF PUBLIC DEBT OR INCIDENCE OF PUBLIC DEBT

The term 'burden of public debt' refers to the sacrifice it will impose and have effects on the community through a rise in taxation at the time of repayment and for paying the annual interest on the public debts. The public debt may be internal or external. No doubt that the internal debts are very important, but in recent decades the importance of external public debts has been increased considerably on account of the extensive borrowing of underdeveloped and developing countries from external source. We shall discuss the burden of internal as well as external debt under the following heads :

(I) Burden or Incidence of Internal Debt

Internal debt is that which is taken by the government from its internal sources, *i.e.*, within the country, such as, individuals, banking institutions, nonbanking institutions, central bank etc. In the case of an internal debt, there is no direct money burden on the community as a whole, since the payment of interest and taxation and repayment of loan involves simply a transfer of purchasing power from one group of persons to another. We shall discuss the burden or incidence of internal debt under the following four subheads :

(1) **Direct Money Burden.** As a matter of fact, the internal debt has no money burden as it is only the redistribution of purchasing power. This purchasing power gets transferred from one section to another. For

example, when the government borrows money, the purchasing gets transferred from the lenders to the government. The government in its turn, spends the loan money on productive works, as a result of which the purchasing power again gets transferred to the producers, workers etc.

(2) **Indirect Money Burden.** When the government spends loan money on development projects, such as, irrigation projects, railway projects, power projects, public sector industries etc., this results in the creation of demand of several commodities and services. As a consequence, the prices of these goods and services rise, imposing additional burden on the community. This represents indirect money burden of internal debt.

(3) **Direct Real Burden.** The government repays the principal and pays interest by imposing new taxes on the people. Ordinarily, the tax payers are poor people while the lenders are rich people. When the government pays the interest and repays the principal to the creditors after collecting money through taxation imposed on the people, this results in the transfer of purchasing power from the poorer to the richer sections of the community. It increases the inequalities in the distribution of income and wealth.

(4) **Indirect Real Burden.** The government has to impose additional taxation on the people in order to repay the public debt. As a result, the economic inequalities further increase. This produces adverse effect on the capacity to work and to save of the people. As a consequence, the productive capacity of the people declines. Thus, it is the indirect real burden of the internal debt.

(II) Burden or Incidence of External Debt

The burden or incidence of external debt can also be studied under the following four subheads :

(1) **Direct Money Burden.** In the case of an external debt, the debtor-country has to remit to creditor-country huge amounts of money every year by way of interest. Further, after the expiry of the stipulated period, the principal amount has also to be remitted in terms of foreign currency. Thus, the direct money burden of an external debt is represented by the aggregate of money payment in the form of interest as well as principal repayable to the creditor country.

(2) **Indirect Money Burden.** Sometimes the amount of interest on external debt is paid in kind, *i.e.*, in terms of goods and services and thus not in cash. It results in a rise of price level of goods and services within the country. As a consequence, there is decline in the economic welfare of the community. This represents the indirect money burden of an external debt.

(3) **Direct Real Burden.** The government usually imposes new taxes on the people for the payment of interest and repayment of principal of the external debt. Ordinarily, the burden of these taxes falls more heavily on the poorer than the richer sections of the community. As a consequence, the economic welfare of the poorer sections of the community is reduced to that extent. This represents the direct real burden of the external debt.

(4) Indirect Real Burden. The government levies taxes on the people to pay off the foreign debt. As a consequence, the capacity to work and to save of the people declines. Ultimately, the productive capacity of the people is reduced. This represents the indirect real burden of the external debt.

this inflation can be controlled.

**DEMERITS OF PUBLIC DEBT
OR
SHORTCOMINGS OF PUBLIC DEBT
OR
DISADVANTAGES OF PUBLIC DEBT**

Following are the demerits or shortcomings of public debt :

(1) **Danger to Country's Freedom.** Sometimes the amount of foreign loan becomes so much so as to endanger the very freedom of a country. For example, Egypt and Iran had to lose their freedom due to this factor. At present Pakistan is facing danger to the freedom of the country on account of excessive foreign loan burden.

(2) **Political Slavery.** Excessive foreign loan is a sign of political slavery. Most of the Asian countries are facing political slavery on account of huge foreign loans taken by them from America and other western countries.

(3) **Exploitation of Resources.** If certain conditions are imposed on a country taking loan from a foreign country, as it is done by western developed countries like America, it is not possible to use the resources in the interest of the country. On the contrary, gross exploitation of scarce resources is done by a country providing foreign loans.

(4) **Burden on Future Generation.** Sometimes huge internal and external loans are taken by the government without making any plan for their judicious use which burdens the future generation.

(5) **Capital Formation Adversely Affected.** If any country borrows money both from internal and external sources, huge amount of money is to be paid every year by way of interest which affects adversely the rate of capital formation in the country.

(6) **Fear of Misuse.** In case the loans both internal and external are easily available to a country, there is always fear of misuse by the government.

(7) **Danger of Insolvency.** It is feared that if the government resorts to heavy borrowings both internal and external, there is always danger of insolvency of the government. For example, most of the Asian countries' governments including Pakistan are facing the danger of insolvency.

(8) **Burden on the Public.** If the public debts are taken by the government for unproductive purposes then it is the burden on the public. Government has to resort to excessive taxation. If leads to inflationary tendencies causing hardship to the general public.

(9) **Economy is Weakened.** Foreign loan in particular weakens the economy of the country and makes it dependent on foreign countries for its economic development.

(10) **Crisis.** Excessive and unwanted loans both internal and foreign cause political and non-political crisis in a country and create war-like situation in a country.

LIMITATIONS OF PUBLIC DEBT

Everything has got its limits. Public debts too have got limits. After all, no country can allow its government to borrow money, indefinitely and freely. However, in practice, it is very difficult to establish any arbitrary limit to public debt. But one thing is certain that public debt should not cause any adverse effect on the economy of a country. There are three main sources of public debt : (i) internal debt, (ii) external debt, and (iii) deficit financing. These sources have their own limitations, which are as follows :

(1) **Limitation of Internal Debt.** Internal debts are taken from the internal sources of a country. The amount of internal debts will depend on the following factors, *i.e.*, (i) Power to save, (ii) Government policy, (iii) Credit of the government in the eyes of the public, (iv) Political situation of a country, and finally (v) Efficient administration. The government should stop taking public debt as soon as the community starts feeling that the public debt has been forcefully imposed and taken.

(2) **Limitation of External Debt.** External debt is a direct burden on a country. However, it should not be discouraged so long as it is helpful for production purpose, development of the community and in accelerating the economic growth of the economy. On the contrary, if the external debt is incurred for unproductive purposes and also for encouraging war between neighbouring countries, it should be stopped. This situation indicates the limitation of external debt.

(3) Limitation of Deficit Finance. When the expenditure exceeds the revenue income of a country then the gap is met by issuing paper currency and this situation is known as deficit financing. However, when deficit financing becomes excessively inflationary and harmful to the community then it should be controlled. This situation indicates the limitation of deficit finance.