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INTRODUCTION, RESEARCH METHODOLOGY AND REVIEW OF LITERATURE

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Chapter – 1

INTRODUCTION, RESEARCH METHODOLOGY AND REVIEW OF LITERATURE

1.1 Introduction

Rising public debt is the matter of grave concern in the public finance of every developing country. In the process of financing economic development more so investment expenditure, modern public finances advocates the use of public debt receipts for capital expenditure. Such a method of financing economic development increases the public debt liabilities of the government and rising public debt has far reaching macro economic consequences, which needs study. Along with the growth of public debt composition of public debt, maturity pattern of securities, interest rate structure and repayment schedules have fiscal as well as monetary implication. In addition the utilization of debt receipts also is important. Rising public debt increases the interest payment liabilities which in turn increases the non-development expenditure in the budget of the government. Rising interest payment also use a large expenditure heads and substantial amount of Revenue Receipts, which affects the other expenditure of the government.

Since 1991 the New Economic Policy is being implemented in India. As a part of it the stabilization policy introduced a package of fiscal reforms, mainly aimed at fiscal consolidation. Fiscal consolidation

policy advocated a strict control over Deficit financing and Fiscal Deficit. During the 1990s however, except for few years actual fiscal deficit exceeded the budget estimates. With control of deficit financing, this led to increased borrowing by the Government of India. In the year 1991 the Government of India's public debt was 185529 crores which increased to 359118 crores in 1995-96 and was Rs. 1094813 crores in 2002-03. This rise in public debt increased the Central Government of India's outstanding debt liabilities. Government of India's total debt liabilities increased from Rs. 443587 crores in 1990-91 to Rs. 853348 crores in 1995-96 and further to 2028939 crores in 2002-03. Rise in public debt of Government of India is associated with a faster growth of Internal Public Debt as compared to External Debt. Internal Public Debt of Government of India increased from 154004corres in 1990-91 to 307869 crores in 1995-96 and in 2002-03 internal public debt aggregated Rs. 1037163 crores. Relatively, growth in External Debt was slower and it increased from Rs. 31525 crores in 1990-91 to Rs. 51249 crores in 1995-96 and Rs. 57650 crores in 2002-03. Rapid increase in the Internal Public Debt is associated with a changing maturity pattern profile and borrowings by the Government of India at market rate of interest. These aspects of Internal Public Debt also need analysis. It is against this background the present M. Phil. dissertation.

Study of Internal Public Debt of the Government of India :
1991-2003

Attempt to study the Growth and Composition of Internal Public Debt of the Government of India for the period 1991 to 2003.

1.2 Objective of the Study

The present study attempts to analyses the Growth and Composition of Internal Public Debt of Government of India. The following are the main objective of the study.

1. Review the Fiscal Position of the Government of India
2. To study the growth and composition of the Internal Public Debt of Government of India
3. Analyse the Changing Maturity Pattern Profile of Government of India Securities
4. Study the Growth of Interest Payment Liabilities and its Impact on Revenue Receipts and Revenue Expenditure
5. Study the Debt Servicing Burden of Internal Public Debt

1.3 Hypothesis of the Study

Rising Revenue Deficit are increasingly financed by Public Borrowing more so Internal Public Debt and this has increased the Debt Servicing Burden of the Government, which has far reaching consequences on the Macro Economic Stability of the country.

Such a situation needs Fiscal Reforms which emphasis reduction in the public debt of the Government in a Time Bound Manner.

1.4 Research Methodology of the Study

The present dissertation is essentially a library work based on official secondary data. The study examines the Growth Composition and Debt Servicing Burden of the Internal Public Debt of Government of India for the period 1991 to 2003. Necessary secondary data is collected from the following sources.

1. Indian Economic Survey, Government of India, Ministry of Finance (various issues)
2. Monthly Bulletins, Reserve Bank of India, Mumbai (Issues related to GOI's Finance)
3. Central Government Finances, Economic and Political Weekly, Mumbai (various issues)

The above data is collected by visiting the following institutes and their libraries.

1. Gokhale Institute of Politics and Economics, Pune
Dr. D. R. Gadgil Library
2. Bar. Balasaheb Khardekar Library, Shivaji University,
Kolhapur
3. Website of Reserve Bank of India, Mumbai

Secondary data is collected, tabulated and interpreted with the help of following statistical tools.

1. Compound Growth Rate Analysis and
2. Ratio Analysis

1.5 Chapter Scheme of the Study

The following is the chapter scheme of the present study.

Chapter – 1	: Introduction, Research Methodology and Review of Literature
Chapter – 2	: Fiscal Trends in the Government of India's Finance 1991 to 2003
Chapter – 3	: Growth and Composition of the Internal Public Debt of the Government of India
Chapter – 4	: Maturity Pattern and Interest Rate Structure Analysis
Chapter – 5	: Debt Servicing Burden Analysis
Chapter – 6	: Summary and Conclusions

1.6 Review of Literature

The Growth and Problems of India's Public Debt was first time systematically studied by Chandra Dalaya,¹ who published her work in two separate books named , Internal Debt of Government of India (1966) and External Debt of Government of India (1970). These two books are very good combination of actual data analysis as well as theoretical issues. In the first book i. e. Internal Debt of Government

of India, author studied the growth of India's Internal Debt, consequences of internal debt, utilisation and problems related to internal debt. On the other hand in the second book she studied the growth and composition of external debt, problems related to external debt.

In his work, "The Burdens and Benefits of India's National Debt" by V. B. Ghuge.² The author in his study from 1941 to 1974 investigate the various aspect of India's National Debt i. e. Allocatory burdens and benefits, redistribution burdens and benefits, effects of national debt on economic stability, relationship between public debt management and monetary policy and burdens and benefits of India's foreign debt. This book is an abridged, updated and improved version of the thesis for which the author received Ph. D. By a careful study of India's debt, author concluded that India's national debt has grown enormously, particularly after 1956. And this continuous rising public debt is much more significant from both views: monetary and fiscal. In this book, the writer examines the various issues related to debt and tries to provide practical solutions. For this purpose, new concepts and method based on fairly valid assumptions have been developed. In order to get a proper perspective of public debt problems the new ideas of foreign and Indian economists have also been critically examined.

Lal S. N.³ has written the book 'Problems of Public Borrowings in Underdeveloped Countries' which was published in 1978. In this book the author studied various facts of public debt. In his writing he mainly



concentrates on internal borrowing than the external. He states that, generally these underdeveloped countries caught in the vortex of vicious circle of poverty, where poverty breeds poverty and as per to bring out such economies from such vortex public debt one of the good option. The author took India as an underdeveloped country and further he studied some points about it i. e. Green Revolution and Public Debt Policy, burden of Internal Debt, its trend and composition. The question related to public debt is its management also discussed in this book. Ever rising public debt with different maturity, rate of interest, denomination poses some problems before the public debt management. The author was of the view that, the public debt policy which is subsidiary to the general economic policy has to be formulated in the background of a particular country. One policy may not hold good in all settings. Author argues that India should evolve her own debt policy as its problems are different than other one, but at the same time he preferred the objective of growth with stability.

'India's Public Debt policy since Independence 1978' is a book by Kiran Barman. ⁴This book forms the basis of authors Ph. D. from the Allahabad University. In this book author Kiran Barman concentrate on both parts of debt, Internal and External, altogether the public debt of state government. The author made a careful study of modern debts in the theory of public debt and the fiscal and monetary impact on public indebts on the economy. Along with this she also emphasise much more

on public debt management and debt redemption analysis. In the analysis of problems of debt management, ownership pattern of public debt, maturity pattern, debt management and interest rate policy, debt management and monetary policy studied. On the other hand in the analysis of debt redemption, method of debt redemption, the problems of internal debt redemption and problems of external debt servicing in India analysed.

C. Rangarajan and D. K. Shrivastawa⁵ in their joint paper, "Dynamics of Debt Accumulation in India – Impact of Primary Deficit, Growth and Interest Rate" (period 1951-52 to 2001-02), *Economic and Political Weekly*, November, 15, 2003 stated that the balance between cumulated primary deficits and the cumulated weighted excess of growth over interest rate are two major factor contributing for huge accumulation of debt. Their paper highlights the implications of the sign reversal in the difference between the real growth and interest rates. They state that except the three years 2001-02 to 2002-03 the real growth rate was in excess of the real interest rate in 45 years from 1955-56 to 1999-2000. Eventually, they comes to the conclusion that even though the days of large positive differences between growth and interest rates are all, but over these are serious implication for strategies aimed at containing the growth of debt relative to GDP.

"Effects of Fiscal Deficit on Real Interest Rate" paper by Surjit Das,⁶ Economic and Political Weekly, March 20, 2004, examines the proposition that, an increase in fiscal deficit financed by government borrowing necessarily raises the real rate of interest and thus directly affects the private investment through crowding out effect and increases net external indebtedness of the country. This positive relationship between real rate of interest and the fiscal deficit - GDP ratio is empirically tested for India and numbers of countries by him. Thus, by careful study, he concludes that interest rates do not necessarily depend on the fiscal deficit and the policies based on these understandings are erroneous.

Reforming Deficit Measures : The Indian case is an article put forward by Anand P. Gupta,⁷ Economic and Political Weekly, February 20-27, 1993. This article reviews the major issues in the measurement of deficit and addresses the problem of measurement of deficit in relation to India.

In this paper author present a brief description of India's public sector and discussés the present state of affair in relation to measurement of India's deficit before proceeding to address the issue of reforming deficit measurement in India.

Ashok K. Lahiri⁸ present the paper 'Budget Deficits and Reforms', Economics and Political Weekly, November 11, 2000. In this paper he states that even though the reforms of 1991 produced quick result viz. increasing overall growth rate, declining annual average inflation,

but the fiscal deficit of Central and State governments continues to be major source of concern in India. His paper focuses on the fiscal deficit of the central, state and UTs as well as various fiscal reforms introduced this level.

Vivek Moorthy's⁹ article, "India's Primary Deficit and Interest Payment Burden", *Economic and Political Weekly*, June 26, 2004 argues that the fundamental problem has been a worsening primary deficit not revenue deficit or debt problem. By making a distinction between worsening deficit and worsening debt conditions, he stress that a rising debt ratio that might appear to be due to unfavourable interest rate dynamics can be due to a previous rise in primary deficit. The Finance Commission mandated centre-state transfer are predicted upon economic performance indicator based on the revenue deficit, the validity of the consensus view is then critical in evaluating the efficacy of the transfer criteria.

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