UNIT IV

PUBLIC DEBT

Public debt is the debt which a state owes to its subjects or to the nationals of other countries. It arises due to borrowing by the government. The government may borrow from banks, business organizations, business houses and individuals. The borrowings of the government may be within the country or outside the country.

PRIVATE AND PUBLIC DEBTS

Private individuals and business houses utilize borrowed funds to acquire certain resources. Therefore, it involves the diversion of funds from one type of use to another.

Public debt means the sacrifice of those productive uses which the government may not like. It is generally in the form of bonds, which carries with them the promises of the government to pay interest.

DIFFERENCES BETWEEN PUBLIC AND PRIVATE DEBT

BASIS	PUBLIC DEBT	PRIVATE DEBT
Compulsory.	Govt. can compel the people to lend.	An individual cannot do so.
Repayment.	Govt. cannot repay the debt.	Private has to repay the debt.
Rate of interest.	Low interest rate.	High rate of interest.
Repayment skills.	It depends upon society income.	It depends upon debtor's income.
Debt demand.	Debt demand is more.	Expenditure can control with his income limit.
Debt burden.	Cannot solved by themselves.	Payment of interest depends on other sources Of income.
Utility.	Creditor and debtors are benefited.	Debtors only benefited.
Foreign debt.	Internal and external sources.	Internal sources only.
Govt. debt policy.	Economic stability.	Money demand.
Benefit.	Community benefit.	Individual benefit.

SOURCES OF PUBLIC BORROWINGS

A. Internal Sources
   a. Individual.
   b. Institutions.
   c. Commercial Banks.
   d. Central Banks.
B. External Sources
   a. IBRD - International Bank for Reconstruction and Development.
   b. IDA – International Development Association.

CLASSIFICATION OF PUBLIC DEBT

A. On the basis of Benefit.
   a. Productive and Unproductive Debt.
B. On the basis of Place.
   a. Internal and External Debts.
C. On the basis of Objective
   a. Dead-weight debt.

    b. Passive debt.
    c. Active debt.
D. On the basis of time.
    a. Perpetual Debt.
    b. Long Term Debt.
    c. Short Term Debt.
E. On the basis of Methods Getting Debt.
    a. Voluntary Debt.
    b. Compulsory Debt.
F. On the basis of Sales.
    a. Marketable Debt.
    b. Non-marketable Debt.
G. On the basis of interest.
    a. Interest Bearing Debt.
    b. Non-interest Bearing Debt.
H. On the basis of Repayment of Debt.
    a. Callable Debt.
    b. Non-callable Debt.

CAUSES OF PUBLIC DEBT

a. Deficit Budget.
b. War.
c. Social Demand.
d. Repayment of old Debt.
e. To Correct BOP.
f. Control of inflation.
g. Economic depression.
h. Effective planning.
i. Growth of Public Expenditure.
j. Welfare Scheme.

BURDEN OF PUBLIC DEBT

It refers to the sacrifice it will impose and effects on the community through a rise in taxation, necessitated at the time of repayment and for paying the annual interests on the government loans.

It also explained in terms of direct and indirect burden of public debt.

Direct money burden is measured by the extent of money payment involved and the rise in taxation needed.

Indirect burden of public debt refer to the extent of adverse effect of increased taxation on the level of production.

EFFECTS OF PUBLIC DEBT

A. Revenue Effects.
B. Expenditure Effects.
C. Consumption Effects.
D. Production Effects.
E. Distribution Effects.
F. Price Effects.
G. Capital Effects.

H. Effects on Interest.
I. Employment Effects.
J. Effects on Private Department.

REDEMPTION OF PUBLIC DEBT

It means repayment of a loans. All government loans, excepting permanent investment in self-supporting industries should be repaid promptly.

ADVANTAGES OF DEBT REDEMPTION

a. Reduction in tax burden of people.
b. It maintain the confidence of the government.
c. It would be easy for the government to float loans in future.
d. Reduces the unwanted expenditure.
e. It reduced the cost of debt management.
f. Repayment of loans may act as a deflationary measure.
g. When repayment loans are repaid, the resources may be directed towards private investment.

METHODS OF DEBT REDEMPTION

The various methods of debt redemption are as follows:

a. Repudiation of debt.
b. Refunding.
c. Conversion.
d. Surplus Revenue.
e. Terminal Annuities.
f. Sinking Fund.
g. Inflation.
h. Capital Levy.
i. Repayment of external Debt.

BUDGET

It is derived from French word “Bougette”. It means “Small Bag”. Budget is the annual statement of accounts for the preceding and current year, and the estimates of the revenue and expenditure of the coming year. The Indian budget year begins from 1st April and ends on 31st March. The Finance Minister is responsible for framing the budget.

CHARACTERISTICS OF A GOOD BUDGET

a. It expressed in quantitative or monetary terms.
b. It is prepared for a fixed period of time. It is prepared before the period in which it commences.
c. It’s practical to implement.
d. It spells out the objects and policies to be pursued in order to achieve the objectives of the organisation.
e. Many people are involved in drawing up a budget.
f. Flexible enough to allow changes in the changing environment.
g. Prepared on the basis of established standards of performance.
h. Analysis of cost and revenues.
i. On the basis of budget report performance of the organisation is constantly monitored.

IMOPRTANCE OF BUDGET

a. Proper Resource Pool Allocation.

When it comes to budgeting, identifying areas of weakness helps the government to allocate resources in a useful and sustainable manner. This is one of the most fundamental objectives behind framing a government budget. It's important for the government to ensure that funds reach where it's required the most. Therefore using past data to identify sections of the society in need of economic welfare policies and implementing those policies helps the government demonstrate efficient governance and achieve economic stability in the country.

b. Ensuring Economic Growth.

A budget allows the government to regulate imposition of taxes in various sectors. Investment and expenditures are most prominent factors contributing to the growth of nation's economy. The government can encourage the people to emphasis more on saving and investments by providing tax rebates and subsidies.

c. Growth of Business and Trading.

Businesses and enterprises look forwarded to the government as resources being allocated to various sectors are revealed. The government can encourage business owners to revise the policies accordingly and contribute the country's economic prosperity.

d. Mitigating and divide.

Economic disparity and inequality is an imminent threat to any country's economy. The government can address these kinds of threats by introducing public and economic welfare policies for the underprivileged sections of the society through the budget.

e. Administering Operation of PSUs.

Industries operating in the public sector contribute immensely to the country's economy by providing employment to a lot of people and generating revenues. A budget helps the government focus appropriately on companies in the public sector by introducing policies to aid their growth.

VARIOUS STAGES OF BUDGET OR BUDGETARY PROCEDURE

It involves four different operation, which has been given as follows:

a. Preparation of the budget.
b. Enactment of the budget.
c. Execution of the budget.
d. Parliamentary control over budget.

KINDS OR TYPES OF BUDGET

A. Balanced Budget - R=E.
B. Unbalanced Budget – E is greater than R.
C. Surplus Budget - R is greater than E.
D. Deficit Budget – E is greater than R.

BUDGET POLICIES

The various objectives and policies for preparing of budget are as follows:

A. Comprehensiveness.
B. Accountability.
C. Unity.
D. Functional approach.
E. Flexibility.
F. Balancing the budget.
G. Specific.
H. Annuality.

I. Long term planning.
J. Accuracy.
K. Laterity.
L. Clarity.
M. Specific Period.
N. Publicity.

BALANCED BUDGET

It is one when estimated revenues are equal to estimated expenditures or the amount of tax is equal to the amount of expenditure. This kind of budget leads to slight increase in aggregate. It is not good for a less developed country like India. In such a country, the government should have more expenditures (than revenue) which will raise aggregate demand.

ARGUMENTS FAVOUR OF BALANCED BUDGET.

A. Control of government expenditure.
B. Removing of unemployment is not objectives of budget.
C. Inflation.
D. Business Cycle.
E. Control of public.
F. Government Function.
G. Public Confidence.

UNBALANCED BUDGET

In this, receipts are not equal to expenditures of the government. It is of two kinds:

(a) Surplus Budget**.**

It is one where estimated revenues are more than estimated expenditures. It lowers aggregate demand.

(b) Deficit Budget.

One where estimated revenue is less than estimated expenditure. It is a good policy to control recession when an economy is in an underemployment equilibrium level.

ARGUMENTS AGAINST UNBALANCED BUDGET.

A. Full employment opportunity.
B. It is not like that private budget.
C. Level of inflation.
D. No problem in inflation level.
E. Government functions.
F. Economic development.

REVENUE BUDGET AND CAPITAL BUDGET

Revenue budget consists of revenue receipt of government (Tax revenue, dividends interest, fee and other receipt of services rendered by government) and the expenditure is met from these revenues.

Capital budget consists of capital receipts and payments. The main item of capital receipts are loans raised by the government from public which are called market loan, borrowing by governments from RBI and other parties.

DIFFERENCE BETWEEN REVENUE AND CAPITAL BUDGET

	REVENUE BUDGET	CAPITAL BUDGET
a.	Revenue budget comprises only the revenue	It comprises of capital receipts and

Receipts and expenditures of the government. Expenditure of the Government.

b. It is not development expenditure. It is a development expenditure.

c. It is customs based expenditure. It is based on devt. planning expenditure.

d. It consists of tax revenue, fees, spl. Drawings. Internal and external debt, subsidies etc.

e. Administrative, security expenditure and- Public services, economic and devt services State subsidies are included in expenditure side. State loans are included in expenditure side.

f. Short term basis. Long term basis.

g. All such financial transactions do not create- Do create assets or liabilities for the govt. Any assets and liabilities for the government.

DEFICIT FINANCING

Deficit finance was one which expenditure was greater than current revenue receipts. In other words, the volume of deficit financing is measured in terms of the overall budget deficit. Which means the aggregate of the deficit on both the revenue and capital accounts.

OBJECTIVES OF DEFICIT FINANCING.

A. War finance.
B. Removing of inflation.
C. Economic development.
D. Utilisation of natural resources.
E. Motivation of private investment.

METHODS OF DEFICIT FINANCING

There are three methods as follows:

A. Government gets loans from central bank.
B. Forced savings.
C. Printing money.

ADVANTAGES OF DEFICIT FINANCING

A. Utilisation of expected savings.
B. More money demand.
C. Control of government investment.
D. Removing of vicious circle of poverty.
E. Increasing national income.
F. Increased forced savings.
G. Non-monetized sector.
H. Improving standard of living.
I. Effective utilization of resources and instruments.
J. Increasing entrepreneurial income.
K. Creation of new resources.

DISADVANTAGES OF DEFICIT FINANCING

A. Inflation.
B. Failure in money methods.
C. Not proper fiscal policy.
D. Compulsory or forced savings.
E. Decreasing foreign capital.
F. Effects of economic development.
G. Debt burden or method.
