**M.Phil. (Economics) Semester II**

**ECO-124**

**(Environmental Economics and Public Economics)**

**Topic: Burden of Public Debt**

**LECTURE NOTE II**

**Some economists argue that public debt is invariably a burden on the future generation.**

They argue that when the government borrows, the present generation escapes the burden. After the loan is repaid at a later date with interest, the future generation has to suffer by being forced to pay additional taxes. In other words, the future generation will suffer when the present generation reduces its savings as disposable income declines following a rise in taxation.

However, there are some people who do not agree with this view. They argue that there is no shifting of the basic burden to the future. According to modern economists, the real burden of governmental activities must be borne during the period in which expenditures are made, since, during this period, only resources are diverted from private to public sector use.

Borrowing method affects the future generations in two ways only. To the extent to which public debt reduces capital formation, the stock of capital goods and the potential level of national income in future generations will be less.

Further, the borrowing methods create some problems for the future generations in the form of adverse effects on the economy from the taxes necessary to pay interest and principal, inflationary or deflationary effects of the existence of the debt, etc. Thus, there is no shifting of the basic burden to the future.

**According to J. M. Buchanan**, during the period in which the governmental activities and borrowing take place, no burden is created, because burden, by nature, implies a compulsory sacrifice.

Individuals in most cases voluntarily exchange their liquid funds for government bonds. Thus, the present generation does not feel any burden on them. However, it is a burden on the future generations who pay taxes (compulsorily) for the retirement of public debt.

So, we can conclude that the **question of shifting the burden of public debt to the posterity or future generation is still an unresolved phenomenon.**

### Burden of External Debt:

During a given period, the **direct money burden** of external debt is the interest payment as well as the principal repayment (i.e., debt servicing) to external creditors. The **direct real burden** of such external borrowing is measured by the sacrifice of goods and services which these payments involve to the members of the debtor country.

There is also **indirect money burden** of external debt. Loan repayment by the debtor country implies more exports of goods and services to the creditor country. Thus a debtor country experiences a fall in welfare of the community.

**Indirect real burden of external borrowing is crucial.** Usually, government imposes taxes to finance external debt. But taxes have disincentive effects. It discourages work- effort and saving. Lower the saving, lower is the capital formation. Thus, external borrowing eats away economic growth since growth largely depends on capital formation. This indirect real burden of external debt is quite similar to internal debt.

Knowing fully well the dangers of borrowing, governments of LDCs are compelled to public borrowing—both from internal and external sources.