

Chapter - VII :

ANALYSIS OF DEBT SERVICING

In this chapter our prime objective is to study the growth of the expenditure on debt servicing along with the growth of public debt and state income. We also assess the burden of debt servicing in terms of the ratio of total debt servicing to tax revenue and the ratio of total debt servicing to state income.

By debt services the state governments' records refer to Appropriation for reduction of avoidance of debt and the payment of interest charges on (A) Loans from Central Government (B) Internal Debt, (C) Other obligations. Interest charges on Internal Debt include all cashpayments of interest on market loans, Loans from State Bank of India, borrowings from autonomous bodies, ways and Means advances from Reserve Bank of India and unfunded debt like Small Savings and Provident Funds. Interest on other obligations includes payment of interest on certain special funds deposited with the governments such as Depreciation Reserve and other Reserve Funds of Commercial Departments and undertakings of the state governments.

Appropriation for reduction or avoidance of debt relates

to the annual appropriations made out of general revenues towards the reduction of public debt.

Upto 1961-62, the procedure adopted in State Government accounts was to treat the interest receipts on loans and advances and receipts from commercial departments such as electricity and irrigation etc. as reduction in the expenditure on debt servicing. Therefore, "debt services" referred to that part of interest charges which were to be debited to the general revenues. But this procedure was discontinued since 1962-63. Thereafter interest obtained on the capital advanced to commercial departments and recoveries of interest on loans and advances are treated as receipts on the revenue side and not as reduction in the expenditure on debt servicing. The accounting procedure introduced in 1962-63 has one important merit. From 1962-63 onwards debt services reflects the total charge in this respect regardless of recoveries made from parties to whom the funds may have been lent whether they are commercial undertakings or 'third parties'.

It is highly imperative for us to account for the growth of debt servicing expenditure from 1957-58 on the same line adopted since 1962-63. Therefore we have traced the 'gross interest charges' for the period from 1957-58 to 1961-62. This facilitated to examine the growth of gross debt services

from the very outset, that is, since 1957-58. The reason for analysing the 'gross interest charges instead of net debt services is three-fold: (i) it lies in conformity with the new classification introduced in the budget in 1962-63; (ii) the expenditures on other functional heads that we have analysed are also "gross" and not 'net'; and (iii) it reflects the burden of public debt in terms of interest charges.

Growth of Expenditure on Debt Services.

A. Growth of Debt Servicing Charges and Non-Development Expenditure.

We have already seen that the proportion of non-developmental expenditure to the total revenue expenditure assumed a downward trend in all the states. It would be useful to know which expenditure category that is, administrative services, cost of collection of taxes or debt servicing caused the downward movement. Excluding Punjab the percentage share of debt services in non-developmental expenditure increased substantially in all the states over the 21 years under our analysis. In almost all the states debt services took a continuously rising share in non-development expenditure. As such debt servicing charges do not account for the fall in the proportion of non-developmental expenditure to the total expenditure charged to revenue.

B. Levels of percapita gross interest payment.

Let us now trace the growth of gross interest payment and examine its relation to public debt.

Table VII-1 presents the growth of gross interest payment at current prices. In 1957-58 the gross interest payment per-head of population was at the highest level in Punjab at Rs.4.14 followed by Rs.2.33 in Orissa and Rs.1.88 in West Bengal, and the lowest level was 0.18 paise in Jammu & Kashmir. In 1962-63 the percapita gross interest payment stood at Rs.5.84 in Punjab. Rs.4.62 in Jammu & Kashmir, Rs.3.95 in Orissa, and Rs.1.16 in Assam. By 1967-68 the percapita level of gross interest payment was at the maximum at Rs.9.05 in Punjab followed by Rs.8.48 in Orissa and Rs.8.42 in Rajasthan. The lowest level was Rs.2.86 in West Bengal.

In 1972-73 and 1977-78 Jammu & Kashmir stood at the highest level with its percapita gross interest payment at Rs.37.57 and Rs.36.34 respectively. The lowest level was in Uttar Pradesh at Rs.5.56 in 1972-73 and Rs.10.21 in 1977-78.

In money terms increase in percapita gross interest charges was observed over each six year period in all but two states. In Assam it declined by 2.56% in 1967-68 over 1962-63 and in Jammu & Kashmir by 3.26% by 1977-78 over 1972-73. The faster rate of growth was witnessed by 1967-68 over 1962-63.

Table VII-1

Growth of Gross Interest payment - At
Current Prices.

Total gross interest payment in lakhs of Rs.
Per capita gross interest payment in Rs.

States	1957-58		1962-63		1967-68		1972-73		1977-78		TE % increase over 1957-58		PE % increase over 1957-58	
	TE	PE	TE	PE	TE	PE	TE	PE	TE	PE	1957-58	1957-58	1957-58	1957-58
	2	3	4	5	6	7	8	9	10	11	12	12	13	13
1. Andhra Pradesh	521 (9.45)	1.53	826 (7.62)	2.24	2619 (13.80)	6.49	3846 (10.90)	8.63	5811 (7.83)	11.95	1015.36	681.05		
2. Assam	102 (3.59)	0.92	148 (3.33)	1.16	898 (9.10)	6.24	945 (7.47)	6.08	2869 (11.43)	16.11	2712.75	1651.09		
3. Bihar	424 (7.10)	0.97	960 (11.50)	2.01	2580 (15.03)	4.91	3934 (11.78)	6.82	6549 (13.50)	10.44	1444.58	976.29		
4. Gujarat	313 (7.10)	1.54	738 (10.40)	3.46	1348 (9.18)	5.56	2145 (7.33)	7.79	3962 (8.04)	12.81	1165.81	731.82		
5. Haryana					739 (13.31)	8.07	1297 (11.08)	12.57	1845 (7.99)	16.16	149.66	100.25		
6. Jammu & Kashmir	7 (0.94)	0.18	168 (6.70)	4.62	72 (1.60)	1.76	1777 (18.31)	37.57	1897 (13.09)	36.34	27000	20088.89		
7. Karnataka	375 (7.06)	1.70	744 (7.92)	3.06	1652 (10.49)	6.12	2583 (7.91)	8.60	4540 (8.50)	13.75	1110.67	708.82		
8. Kerala	181 (6.07)	1.16	449 (6.77)	2.57	1133 (9.14)	5.78	1983 (9.70)	9.03	3799 (9.13)	15.58	1998.90	1243.10		
9. Madhya Pradesh	184 (3.65)	0.61	547 (6.39)	1.63	2047 (11.57)	5.39	2834 (9.78)	6.60	4878 (8.34)	10.11	2551.09	1557.38		
10. Maharashtra	712 (6.19)	1.28	1236 (8.44)	3.03	2566 (8.25)	5.58	4278 (6.57)	8.26	7257 (6.44)	12.64	919.24	887.50		

...cont.

Table VII-1

States	1957-58		1962-63		1967-68		1972-73		1977-78		TE % increase over 1957-58		PE % increase over 1957-58	
	TE	PE	TE	PE	TE	PE	TE	PE	TE	PE	TE % increase over 1957-58	PE % increase over 1957-58	TE % increase over 1957-58	PE % increase over 1957-58
1	2	3	4	5	6	7	8	9	10	11				
11. Orissa	384 (16.35)	2.33	713 (10.80)	3.95	1711 (15.11)	8.48	2535 (13.15)	11.26	4269 (12.52)	17.17	1011.72	636.91		
12. Punjab	716 (19.70)	4.14	1135 (13.87)	5.84	1143 (11.94)	9.05	1675 (8.85)	12.08	3967 (11.57)	26.05	454.05	529.23		
13. Rajasthan	158 (5.04)	0.85	625 (11.00)	2.99	1985 (14.56)	8.42	3504 (14.48)	13.21	5769 (12.52)	19.50	3551.27	2194.12		
14. Tamil Nadu	512 (8.66)	1.58	904 (7.42)	2.62	2284 (9.79)	6.05	3226 (9.61)	7.61	5339 (7.56)	11.59	942.77	633.54		
15. Uttar Pradesh	718 (7.22)	1.03	1466 (7.77)	1.94	3299 (10.02)	4.00	5012 (8.75)	5.56	9940 (9.35)	10.21	1284.40	891.26		
16. West Bengal	593 (8.45)	1.88	831 (7.32)	2.30	1166 (5.71)	2.86	4286 (10.34)	9.41	7293 (10.40)	14.33	1129.85	662.23		

Note: 1. Figures for Gujarat under the column for 1957-58 pertains to 1960-61.

2. TE=Total gross interest payment; PE=Percapita gross interest payment.

3. Figures in brackets indicate percentage of gross interest payment to total Revenue Expenditure.

Source: Appendix Table A.41.

Table VII-2

Expenditure on Gross Interest Payment
at 1960-61 Prices.

Total Expenditure in Lakhs of Rs.
Per capita Expenditure in Rs.

States	1957-58		1962-63		1967-68		1972-73		1977-78		TE % increase over 1957-58		PE % increase over 1957-58	
	TE	PE	TE	PE	TE	PE	TE	PE	TE	PE				
Andhra Pradesh	560	1.64	787	2.13	1541	3.82	1849	4.15	1918	3.94	242.50	140.24		
Assam	110	1.00	141	1.10	528	3.67	454	2.92	947	5.32	760.91	432.00		
Bihar	456	1.05	914	1.92	1518	2.89	1891	3.28	2161	3.45	373.90	228.57		
Gujarat	313	1.54	703	3.29	793	3.27	1031	3.74	1308	4.23	317.89	174.68		
Haryana					435	4.75	624	6.05	609	5.33	40.00	12.21		
Jammu & Kashmir	8	0.20	160	4.40	42	1.03	854	18.05	626	11.99	7725.00	5895.00		
Karnataka	403	1.83	709	2.92	972	3.60	1242	4.13	1498	4.54	271.71	148.09		
Kerala	195	1.25	428	2.45	666	3.40	953	4.34	1254	5.14	543.08	311.20		
Madhya Pradesh	198	0.66	521	1.56	1204	3.17	1363	3.17	1610	3.34	713.13	406.06		
Maharashtra	766	1.37	1177	2.88	1509	3.28	2057	3.97	2395	4.17	212.66	204.38		
Orissa	413	2.51	679	3.76	1006	4.99	1219	5.41	1409	5.67	241.16	125.90		
Punjab	770	4.46	1081	5.56	672	5.32	805	5.80	1309	8.59	70.00	92.60		
Rajasthan	170	0.91	595	2.85	1168	4.95	1685	6.35	1904	6.43	1020.0	606.59		
TamilNadu	551	1.70	861	2.50	1344	3.56	1551	3.67	1762	3.82	219.78	124.71		
U.P.	772	1.10	1396	1.85	1941	2.35	2410	2.67	3281	3.37	325.00	206.36		
W.Bengal	638	2.02	791	2.19	686	1.68	2061	4.52	2407	4.73	277.27	134.16		

Note: 1. Figures for Gujarat under the column for the year 1957-58 pertains to 1960-61.

2. TE = Total gross interest payment; PE = Per capita interest payment.

Source: Appendix Table A.42.

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But in 1960-61 constant prices the percapita gross interest payment fell by 0.61% in Gujarat, 76.59% in Jammu & Kashmir, 4.32% in Punjab, 23.29% in West Bengal by 1967-68 over 1962-63; by 20.44% in Assam by 1972-73 over 1967-68 and by 5.06% in Andhra Pradesh, 11.90% in Haryana, 33.57% in Jammu & Kashmir by 1977-78 over 1972-73.

The percapita gross interest charges went up from Rs.4.14 in 1957-58 to Rs.26.05 in 1977-78 in Punjab and from 0.18 paise to Rs.36.34 in Jammu & Kashmir during the same period. The increase in the percapita gross interest payment was of the order of about 202 times in Jammu & Kashmir and 6 times in Punjab over twenty one years.

C. Total Revenue Expenditure and Interest Cost.

The proportion of total revenue expenditure absorbed by gross interest payment varied from 0.94% in Jammu & Kashmir to 19.70% in Punjab in 1957-58 and from 6.44% in Maharashtra to 13.50% in Bihar in 1977-78. A declining trend in the share of gross interest payment was observed in Andhra Pradesh, Gujarat, Haryana, Orissa, Punjab and Tamil Nadu. Though the share declined it remained fairly high in Orissa. Over the ^{one} twenty years period it remained almost stable in Maharashtra. At this juncture it may be useful to consider the probable

impact of the changes in the share of gross interest payment on the relative shares of other functions.

The percentage of total revenue expenditure allotted for education was higher than that of gross interest payment in all the states during the whole period under our analysis. Further the claim of education expenditure had an uptrend in all states except Maharashtra where it declined. The share of Medical and Public Health though increased continuously was lower than that of gross interest payments in all most all the states throughout the period. The states Haryana and Punjab allocated more for Transport and Communication than for interest payment. In all states Agriculture and Allied Services continued to obtain more. The proportion of the expenditure on Administrative services to total expenditure charged to revenue went down continuously in all states whereas that of gross interest payment increased in most of the states. In general we may conclude that the increase in the share of gross interest payment was not at the cost of other services.

D. Inter-State Disparity in Per capita Gross Interest Payment.

Table VII-3 : Measures ^{of} Inter-State Variations in the Per capita Gross Interest Payment.

I. Ratio Between the highest and lowest percapita gross interest payment.

1957-58	1:6.78
1962-63	1:5.03
1967-68	1:5.14
1972-73	1:6.75
1977-78	1:3.56

II.

Years	Mean (In Rs.)	Standard Deviation	Coefficient of Variation(In%)
1957-58	1.44	0.95	65.97
1958-59	1.64	1.09	66.06
1959-60	1.93	1.12	58.03
1960-61	2.07	1.25	60.38
1961-62	2.48	1.14	45.96
1962-63	2.89	1.2	41.52
1963-64	3.78	1.31	34.65
1964-65	4.01	1.71	42.64
1965-66	4.53	1.41	31.12
1966-67	5.43	2.1	38.67
1967-68	5.92	1.99	33.61
1968-69	6.86	2.19	31.92
1969-70	10.2	11.4	108.23
1970-71	8.61	2.75	31.93
1971-72	10.64	6.65	62.5
1972-73	10.63	7.53	70.43
1973-74	12.00	6.06	50.5
1974-75	10.84	3.9	35.97
1975-76	14.68	8.98	61.17
1976-77	15.66	9.03	57.66
1977-78	15.92	6.79	42.65

Table VII-3(contd.)

III Rank Correlation coefficient between 1957-58 percapita gross interest charges and the absolute variation in the percapita gross interest charges.

$$1957-58-1962-63 = + 0.039$$

$$1957-58 - 1967-68 = -0.0227$$

$$1957-58 - 1972-73 = + 0.2404$$

$$1957-58 - 1977-78 = + 0.0817$$

IV Rank correlation coefficient between 1957-58 percapita gross interest charges and the percentage variation in the percapita gross interest charges.

$$1957-58 - 1962-63 = -0.6588^{**}$$

$$1957-58 - 1967-68 = -0.936^{**}$$

$$1957-58 - 1972-73 = -0.9363^{**}$$

$$1957-58 - 1977-78 = -0.9448^{**}$$

** Significant at 1% level.

The above table shows that the variation in percapita gross interest payment is still very wide even though the states with low levels of percapita gross interest charges experienced growth. The percapita gross interest payment expanded fastly in the weaker states like Assam, Jammu & Kashmir, Orissa and Rajasthan and in the developed states like Maharashtra and Punjab. In the other states it increased at a lesser pace. Hence there seems to be a reduction in the inter-state disparity level.

E. Factors responsible for increase in gross interest charges.

The upward movement of the percapita gross interest payment may be caused either by the increase in the interest rate or increase in the quantum of public debt or both. The change in the composition of public debt also might have caused the upturn of the gross interest payment. This warrants an examination of the growth and composition of public debt and interest rate.

(i) Growth of Public Debt.

Under Article 292 of the Indian Constitution a state is permitted to borrow in India upon the security of the consolidated fund of the State within the limits fixed from time to time by its Legislature.¹ Further, as per the constitution if the states are indebted to the Union Government they cannot raise loans without its consent and the central government may give such consent subject to such situations as it may think fit to impose on the borrowing programmes.² The states have assumed greater responsibilities and they are burdened with expensive social and economic functions while the sources of

1 Kiran Barman. India's Public Debt and Policy Since Independence. (Chugh Publications, Allahabad), 1978, p.114.

2 Ibid, p.116.

tax revenue assigned to them are rigid. Their fiscal needs have expanded on account of their ever increasing activities.

So, with the increasing capital expenditure it is impossible for the States to finance the entire expenditure on Capital account out of tax revenue. Richard Musgrave holds that, "the occasion for borrowing by state and local governments occurs primarily when substantial capital expenditures are to be financed."³ James M. Buchanan feels that, "Government should borrow only to finance long term or capital investment projects which are expected to yield benefits over future time periods".⁴

The public debt of the state governments consists of permanent debt, floating debt, unfunded debt loans from the Central Government and other debts received from various autonomous bodies such as Life Insurance Corporation of India, The National Cooperative Development Corporation, The Khadi and Village Industries Board, The Central Warehousing Corporation and loans from The National Agricultural Credit Fund of Reserve Bank of India.

Permanent debt covers loans raised from the public in the open market having a currency of more than twelve months.

3 Richard A. Musgrave and Peggy B. Musgrave: Public Finance in Theory and Practice. (McGraw-Hill Kogakusha Ltd., New Delhi), 1976, p.601.

4 James M. Buchanan: Public Principles of Public Debt. (Richard D. Irwin, Illinois), 1958, p.166.

Mostly these loans were for a period varying from nine to twelve years. It includes cash and conversion loans as well. The states raised market loans for financing development projects and for paying compensation to ex-Jamindars.

The floating debt refers to borrowing of a purely temporary character repayable within twelve months, viz., ways and means advances from the State Bank of India, Reserve Bank of India and temporary over drafts from other banks conducting Government treasury business. These loans are raised for bridging the temporary budgetary gaps. The term unfunded debt is used to describe a number of interest bearing obligations of the Government in respect of State provident funds, employees' insurance contributions etc.

Loans from the Central Government are mostly obtained for a variety of developmental schemes included in the Plan. The quantum of different loans varies according to the purpose for which it is sanctioned. Loans from the Centre are repayable in different periods of time ranging from one to twenty five years.

As Can be seen from Tables VII-4 and VII-5 public debt of state governments increased considerably both at current and constant prices. Only in Punjab the total and percapita public debt at constant prices declined in 1977-78 over 1957-58.

Table VII-4

Growth of Public Debt at Current Prices.

Total Public Debt in Lakhs of rupees.
Per capita Debt in Rs.

States	1957-58		1962-63		1972-73		1977-78		TE % increase over 1957-58		FE % increase over 1957-58	
	TD	PD	TD	PD	TD	PD	TD	PD				
Andhra Pradesh	13948	40.86	28574	77.48	84988	190.68	124500	256.01	792.60	256.55	526.55	
Assam	3072	27.80	8489	66.42	39989	257.50	62500	350.93	1934.51	1162.34		
Bihar	10125	23.22	25307	53.05	78991	137.02	131300	209.57	1197.78	802.54		
Gujarat	8592	42.24	14691	68.81	43623	153.40	78400	253.48	812.48	500.09		
Haryana					25602	248.08	41800	366.02	165.48	107.37		
J & K			5546	152.36	29128	615.81	60800	1164.75	1676.74	1186.59		
Karnataka	8363	37.89	19527	80.42	54646	181.91	86700	262.57	936.71	592.98		
Kerala	4156	26.59	11533	65.98	41779	190.16	71000	291.22	1608.37	995.22		
M.P.	7676	25.65	19885	59.43	50985	118.68	94000	194.90	1124.60	659.84		
Maharashtra	19950	35.80	31922	78.14	86792	167.52	141800	246.91	610.78	589.69		
Orissa	11027	66.91	19590	108.41	56290	249.96	86500	347.81	684.44	419.82		
Punjab	22065	127.69	30776	158.23	30976	223.33	59900	393.30	171.44	208.01		
Rajasthan	7143	38.44	20404	97.77	79962	301.40	114000	385.27	1495.97	902.26		
TamilNadu	13746	42.37	26492	76.92	64186	152.03	104000	225.69	656.58	432.66		
U.P.	23812	34.06	44885	59.51	105979	117.47	196600	201.89	725.63	492.75		
W.Bengal	21193	67.17	36348	100.74	84954	186.47	144000	282.91	579.47	321.19		

Note: 1. Figures for Gujarat under the column for 1957-58 pertains to 1960-61.

2. TD = Total Public Debt; PD = Per capita Public Debt.

Source: Appendix Table A.43.

Table VII-5

Growth of Public Debt at Constant Prices.

Total expenditure in Lakhs of Rs.
Per capita Expenditure in Rs.

States	1957-58		1962-63		1972-73		1977-78		PD % increase over 1957-58		PD % increase over 1957-58	
	TD	PD	TD	PD	TD	PD	TD	PD	TD % increase over 1957-58	PD % increase over 1957-58	TD % increase over 1957-58	PD % increase over 1957-58
Andhra Pradesh	14998	43.93	27213	73.79	40860	91.68	41089	84.49	173.96	92.33		
Assam	3303	29.89	8085	63.26	19225	123.79	20627	115.82	524.49	287.49		
Bihar	10887	24.96	241.02	50.53	37976	65.87	43366	69.16	298.33	177.08		
Gujarat	8592	42.24	13991	65.53	20973	76.15	25876	83.66	201.15	08.06		
Haryana					12309	119.27	13795	120.80	36.68	6.76		
J & K			5282	145.11	14004	296.07	20066	384.41	474.63	316.12		
Karnataka	8992	40.74	18597	76.59	26272	87.46	28614	86.66	218.22	112.71		
Kerala	4469	28.59	10984	62.84	20086	91.42	23432	96.11	424.32	237.22		
Madhya P.	8254	27.58	18938	56.60	24512	57.06	31023	64.32	275.85	133.21		
Mahara-shtra	21452	38.50	30402	74.42	41727	80.54	46799	81.49	118.16	111.66		
Orissa	11857	71.95	18657	103.25	27063	120.17	28548	114.79	140.77	59.54		
Punjab	23726	137.30	29310	150.69	14892	107.37	19769	129.80	-16.68	-5.46		
Rajasthan	7681	41.34	19432	93.11	38443	144.90	37624	127.15	389.83	207.57		
TamilNadu	147.81	45.56	25230	73.26	30859	73.09	34323	74.49	132.21	63.50		
U.P.	25604	36.62	42748	56.67	50951	56.47	64884	66.63	153.41	81.95		
W.Bengal	22788	72.23	34617	95.95	40843	89.65	47525	93.37	108.55	29.27		

Note: 1. Figures for Gujarat under the column for the year 1957-58 pertains to 1960-61.

2. TD = Total Public Debt; PD = Per capita Public Debt.

Source: Appendix Table A.43.

When we consider the growth of gross interest payment along with the growth of public debt in real terms, the up surge of the percapita gross interest payment was faster than that of percapita public debt in all states over the twenty-one years. In current prices the growth of public debt over the 21 years varied from 208% in Punjab to 1186.56% in Jammu & Kashmir whereas the growth of gross interest payment varied from 529.23% in Punjab to 20088% in Jammu & Kashmir. During the same period gross interest payment in real terms went up by 92.60% whereas the percapita public debt decreased by 5.46% in Punjab during the same period. Therefore the expansion in the volume of public debt is not the lone factor that pushed up the gross interest payment. It accounts for a part of the increase in gross interest payment. The remaining part of the growth in the interest charges may be attributed to the composition of public debt and increase in interest rate. Let us first look at the composition of public debt.

Table VII-6 shows the composition of public debt of the State governments. We could observe that in Karnataka, Kerala, Madhya Pradesh, Maharashtra, Tamil Nadu and Uttar Pradesh the share of permanent debt decreased. In the other states it went up. In all the selected three years the share of the loan from the Central government formed the major part of the public debt though its share in the total indebtedness fell in all states

Table VII-6

Composition of Public Debt for Selected years at current prices.

In lakhs of Rs.

States	1957-58 (As on April 1958)			1966-67 (As on March 1967)			1975-76 (As on March 1976)		
	FD	LC	UD	FD	LC	UD	FD	LC	UD
Andhra Pradesh	1156 (8.29)	522 (3.74)	12186 (87.37)	9540 (14.9)	800.6 (1.4)	1525 (2.7)	18972 (18.36)	77038 (74.57)	2655 (2.57)
Assam	499 (4.93)	362 (3.58)	3045 (99.06)	1503 (7.4)	322 (1.6)	236 (1.2)	5830 (11.07)	44307 (84.13)	284 (.54)
Bihar	499 (4.93)	362 (3.58)	3045 (99.06)	4757 (9.4)	1032 (2.0)	1303 (2.6)	11972 (10.84)	83735 (74.44)	532 (.47)
Gujarat	580 (6.75)	7719 (89.84)	293 (3.41)	4032 (15.3)	19785 (77.6)	639 (2.5)	15441 (25.09)	39350 (63.93)	2628 (4.27)
Haryana					15187 (96.5)	318 (2.0)	15745 (17.05)	24165 (68.16)	1231 (3.47)
J & K	64 (2.46)	3326 (57.22)	11 (0.32)	169 (1.4)	11011 (92.7)	80 (0.7)	1382 (2.11)	41121 (90.65)	308 (.67)
Karnataka	2368 (28.32)	5938 (71.0)	57 (0.68)	5714 (16.0)	1180 (3.5)	2080 (6.1)	33924 (18.73)	48539 (68.97)	3342 (4.75)
Kerala	600 (16.36)	432 (10.39)	3029 (72.89)	3538 (15.4)	17521 (76.2)	576 (2.5)	22990 (12.66)	40857 (66.43)	1544 (2.51)
M.P.	1107 (14.42)	196 (2.55)	6267 (81.64)	4225 (10.0)	722 (1.7)	1587 (3.8)	940 (12.08)	43880 (64.66)	2799 (3.74)
Maharashtra	5820 (29.17)	1360 (69.47)	257 (1.29)	12192 (23.3)	956 (1.7)	1716 (3.1)	24525 (19.73)	71370 (59.84)	2978 (2.40)
Orissa	2 (.02)	111 (1.01)	10867 (98.55)	3692 (10.2)	420 (1.2)	784 (2.2)	10214 (13.77)	55990 (75.49)	2254 (3.04)
Punjab	204 (0.92)	21746 (98.55)	116 (.53)	2013 (8.3)	20695 (85.1)	624 (2.6)	24309 (14.95)	24813 (54.57)	1747 (3.84)
Rajasthan	314 (4.40)	979 (13.71)	32 (0.45)	5299 (12.5)	1751 (4.1)	1051 (2.5)	42551 (12.25)	81044 (79.75)	2312 (2.27)
Tamil Nadu	5623 (40.91)	382 (2.78)	72 (0.52)	11674 (25.3)	29381 (64.8)	2312 (5.1)	23539 (29.01)	48547 (59.82)	3492 (4.30)
Uttar Pradesh	9157 (38.41)	14563 (61.16)	92 (0.39)	16280 (22.2)	52033 (71.0)	1317 (1.8)	27470 (16.21)	108525 (64.04)	4244 (2.50)
West Bengal	2206 (10.41)	18983 (89.57)	4 (0.02)	6904 (12.7)	44131 (81.1)	1296 (2.4)	13235 (11.24)	94964 (80.69)	3044 (2.59)
									5845 (4.97)

Note: 1. Figures for Gujarat under the column 1957-58 pertain to 1960-61.

2. Figures in brackets indicate percentage to total public debt.

3. FD - Permanent debt; LC - Floating debt; UD - Loans from Central Government; OD - Other debts; UD - Unfunded debt.

Source: Combined Finance and Revenue Accounts of Union and State Governments in India, Volumes 1957-58, 1960-61, 1966-67 and 1975-76.

barring Tamil Nadu and Uttar Pradesh where a small rise occurred. Not only in the selected three years but throughout the period under our study the states' indebtedness to the centre was the predominant component of the total debt burden.

Central Loans and Interest Rates.

As the loan from the Centre bearing higher rate of interest occupy major proportion in the total debt the gross interest payment continued to be higher. The burden of Central loan forced the states to plead for the write off of the Central loan partly or wholly and refixation of interest rates so that the burden of interest payment is reduced.

A closer look at the purpose-wise utilization will exhibit why the loans from the Centre intensified the burden of gross interest payment.

The VII Finance Commission estimated the amounts of Central loans which may be deemed to have been utilised towards non-productive, semi-productive and productive purposes.

Capital outlay on Public Works, roads and bridges, education, social security and welfare which are not likely to yield to the State budgets are put under unproductive purposes.

Outlays which ought to yield sufficient direct returns, assuming good managements, to meet interest charges but which do not yield enough to enable states to meet the repayment liabilities of the principal are termed as semi-productive. Capital outlay on housing, a part of the outlay on agriculture and allied services, outlay on multi-purpose river schemes etc. and loans for power projects have been considered as semi productive purposes. Loans to various parties which the States ought to be able to make recoveries sufficient to meet their interest and repayment liabilities have been considered as productive asset. They have taken the Central loans to the States for the last 12 years, that is, from 1967-68, the year following the reorganisation of the erstwhile State of Punjab as they felt this period is long enough to provide reliable results for their analysis. The table VII-7 informs the utilization of Central loans.

From the above mentioned table we could understand that only three states Karnataka, Punjab and Tamil Nadu spent the loans from the Centre for productive purposes. In the remaining states except Haryana major portion had been invested on semi-productive purposes. Among the semi-productive purposes the yield from multi-purpose river projects and power projects are not sufficient even to meet working expenses let alone

Table VII-7 : Purpose-wise Utilisation of loan from the
Central Government. (In Percentage)

States	Non-Pro- ductive purposes	Semi-pro- ductive purposes	Productive purposes	Total
1	2	3	5	5
1. Andhra Pradesh	-	90	10	100
2. Assam	45	50	5	100
3. Bihar	-	75	25	100
4. Gujarat	-	100	-	100
5. Haryana	60	40	-	100
6. Jammu & Kashmir	40	60	-	100
7. Karnataka	-	30	70	100
8. Kerala	25	75	-	100
9. Madhya Pradesh	-	90	10	100
10. Maharashtra	-	70	30	100
11. Orissa	10	90	-	100
12. Punjab	-	-	100	100
13. Rajasthan	5	95	-	100
14. Tamil Nadu	-	25	75	100
15. Uttar Pradesh	-	70	30	100
16. West Bengal	5	60	35	100

Source: Report of the Seventh Finance Commission, 1978, p.113.

interest charges. Therefore it is clear that as the higher interest bearing loans, that is, the loans from the centre constitutes the major portion of the states' indebtedness the burden of gross interest charges has become enormous.

Not only the magnitude of the loans from the Centre has

swelled up but the rate of interest also. For instance in 1957-58 the rate of interest varied from 1% to 5%. Even though the maximum interest rate was 5% the loans bearing 4 to 4½% interest constituted the major portion of the Central loan in 1957-58⁵. The Sixth Finance Commission consolidated the outstanding loans upto 1974-75 at 5 per cent interest rate.⁶ Since 1974-75 most of the Central loans carried 5.2% interest rate. Further the rate of interest differed from 5% to 10.25%. Many loans like block loans, special assistance loans carried 5.25% and loans from small savings carried 6.25% rate of interest. The rates of interest for other categories like loans for Road Transport Corporation^{are} 10.25%, cooperative Bank 8%, Employment Programme 7.5%, Agricultural Credit 7.75% and Rural Industry 7.5% etc.⁷ This escalation in the rate of interest is also responsible for the increase in the gross interest payment.

The strain inflicted by the interest payment made the states to plead for refixation of interest rates charged by the centre. As early as 1956-57 the states like West Bengal, Bombay (Maharashtra), Madras (Tamil Nadu), Uttar Pradesh and

5. Government of India. Report of Finance Commission: 1957, p.210.
6. Government of Bihar - Memorandum to Seventh Finance Commission, Forecast on Capital Account, Revised 1978, p.35.
7. Ibid, p.35.

Assam contended that the average rate of interest charged on the loans had been appreciably in excess of the average cost of Centre's own borrowings. These states argued that in fixing the rates of interest, the Central Government should take into account the foreign assistance received as grants or as loans at concessional rates of interest and the resources raised by deficit financing. Some State Governments complained that even though particular projects in their states were being financed by grants from foreign governments, the capital sum advanced were treated as normal interest - bearing loans. Many of them suggested that the loans they had taken for unproductive or semi-productive purposes should be written-off or should bear nominal or reduced rates of interest.⁸

Considering the views of State Governments the Second Finance Commission opined that, "The Union should not deal with the States as if it were a commercial banker. The union and the States are partners in the big enterprise of national development and while there is no reason why the Centre should lend to the states at less than the true cost of its borrowing there is no justification either for charging more than the true cost."⁹ The Commission further added that in calculating

8. Report of the Finance Commission, 1957, p.55.

9. Ibid, p.56.

such costs all factors which affect the cost of borrowing should be taken into consideration. As such, the commission estimated the average cost to the Government of India of all its borrowings including treasury bills and small savings during the period from 15th August 1947 to 31st March 1956 and came to the conclusion that the reasonable rate to be charged to the States by the Union should be 3% in general. The Commission recommended that all loans which bear a rate of interest of 3% or more should be consolidated for each state at 3 per cent and loans carrying rates of interest below 3 per cent should be consolidated at an average rate of 2.5%.¹⁰ However the Government of India repudiated these recommendations.

The Third Finance Commission, 1961, did not make specific recommendations about the Central government's loans to the States. However it observed that "the position is far from satisfactory and requires analysis and review."¹¹ The Fourth Finance Commission, 1965, was in favour of "conducting a survey to assess the soundness of the present system of inter-governmental borrowing."¹² The Fifth Finance Commission wanted to regularise the use of loans funds and so spelt out that,

10. Ibid, p.57.

11. Government of India, Report of the Finance Commission, 1961, p.42.

12. Government of India, Report of the Finance Commission, 1965, p.53

"the use of loan funds should be restricted mainly to the requirement of loans and advances to be given by the States and for investment in their time schemes which can in the long-run earn enough to meet their interest charges at normal rates in addition to working expenses and depreciation. The Government of India have given adhoc loans to the States for covering the unauthorised over drafts. We consider that the use of loan funds for such purposes is not desirable in the interest of sound finance. We have therefore not made any provision for interest on any borrowings for such purposes".¹³

In view of the very high burden of the Central loans and interest payment thereon the Sixth Finance Commission was asked to, "undertake a general review of the States' debt position with particular reference to the Central loans advanced to them and likely to be outstanding at the end of 1973-74 and suggest changes in the existing terms of repayment having regard inter-alia to the overall non-plan gap of the States, their relative position and purposes for which the loans have been utilised and requirements of the Centre."¹⁴

Accordingly the State Governments urged the Commission,

13. Govt. of India, Report of the Finance Commission, 1969, p.60.

14. Govt. of India, Report of the Finance Commission, 1973, p.84.

"that a broad distinction should be drawn between productive and unproductive debt and that on the basis of such a classification a significant percentage of the debt should be written off. One State suggested 50 per cent write off. The study Team on Centre-State relations of the Administrative Reforms Commission also supported writing-off of central loans to states.¹⁵ But the Government of Assam, in its Memorandum opined that, "writing-off of all outstanding debts will not be correct solution of the problem as this will mean a corresponding reduction in the resources available to the Centre for financing the national Plan and all the States and the financially weaker States in particular will be victims of this policy."¹⁶ The Sixth Finance Commission did not accept the suggestions to write off the loans as put forward by most of the State Governments as it observed that, "While the mounting debt liabilities of the States have attracted considerable attention in various forms in recent years, we would like to observe that there is nothing intrinsically alarming about this growth of public debt. The continuous increase in the indebtedness of the States to the Centre only reflects the assistance provided by the Centre to States year after year for financing not only their Plan outlay but also for meeting the

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15. Govt. of India: Report of the Study Team on Centre-State Relations of the Administrative Reforms Commission, 1967, p.63.
16. Govt. of India: Report of the Finance Commission, 1973, p.85.

non-Plan needs such as those arising from relief expenditure on natural calamities. In other words, the magnitude of the debt burden of any state as at the end of the Fourth Plan is also a measure of the assistance that the State Concerned has secured from the Centre."¹⁷ Further the Commission felt that the Conversion of the whole or part of the outstanding debt into grants on the basis of a distinction between productive and unproductive debt did not appear to be a practicable proposition as, "there is practically no state in which the returns from productive schemes are large enough to provide for both payment of interest and amortisation. We would, therefore, be pursuing with of the wisp if we seek to formulate any scheme of debt relief on the basis of a distinction between productive and unproductive debt."¹⁸ Hence it recommended for the revision of the terms of Central loans to reduce the repayment obligation of the States during the Fifth Plan period to the extent of Rs.1970 crores.¹⁹

Since the Sixth Finance Commission did not recommend to write off the loans the State Governments continued to urge the Seventh Finance Commission to recommend for the conversion of past-loans into grants. In its Memorandum to the Seventh Finance Commission the Government of Bihar urged that, "Loans

17. Ibid, p.84.

18. Ibid, p.85.

19. Ibid, p.95.

for creation of social and economic infra-structure, for example, education, health and building of roads etc. do not yield any direct monetary returns. The Central assistance in such fields, should therefore necessarily be in the shape of grants and not loans. The State Government would therefore urge the Commission to recommend conversion of such past loans into grants."²⁰ The Government of Gujarat pleaded for the large scale write-off of the states' debt to the Centre.²¹ The Government of Kerala also argued that loan assistance should be confined only to financially productive schemes and for the other kind of schemes, the Central Assistance should be in the form of grant. It has further pointed out that the scheme of Central aid to the States so far has been resulting in a mounting burden of repayment liabilities as well as interest charges from year to year so much so when a net position is struck the inflow of Central resources to the States is reduced to a negligible magnitude. Virtually this would amount to a recycling of Central aid out of the receipts of central loan repayments and interest there on made by the States."²²

20 Government of Bihar: Memorandum to Seventh Finance Commission, 1978, p.58.

21 Government of Gujarat: Memorandum to Seventh Finance Commission, 1978, p.54.

22 Government of Kerala: Memorandum to the Seventh Finance Commission, 1978, pp.17-18.

The Government of West Bengal stressed that, "As regards the rate of interest the approach adopted by Government of India so far has not, in our view, accorded due recognition to the Cost of obtaining funds. The surprising feature of the interest structure has been that even in the case of foreign assistance relayed to the State Government such as in the case of I.D.A. assistance received on soft terms normal rate of interest is charged. We consider this irrational and inequitable we would suggest that the rate of interest on Central loans should be revised having regard to the actual cost of borrowing by the Central Government after taking into consideration the quantum of deficit financing and foreign assistance on soft terms etc. Apart of the money made available as loans to the State Governments is obtained through deficit financing and since the States are at least equal partners with the Government of India in the risks of deficit financing, there is no reason why there should be further burden of interest payment on such funds."²³

The Government of Assam pleaded that, "In the case of Assam a very large debt is accounted for by flood control works. Loans outstanding of Rs.50/- crores account for flood protection works for which assistance has been given without

23 Government of West Bengal: Memorandum to Seventh Finance Commission, 1978, p.19.

any grant element at all. Schemes for such works are largely of an experimental nature. In fact the technical feasibility of the schemes has to be tested against the actual experience of the floods. Such loans should qualify for scaling down or writing off."²⁴

On the plea made by the States the Seventh Finance Commission recommended that loans made available by the Centre to the States for semi-productive purposes should be consolidated and the rate of interest to be charged may be 4.75 per cent; and the loans for productive purposes should be consolidated and the rate of interest to be charged may be fixed at 5 per cent per annum; and that part of the Central loan utilized for unproductive purposes and outstanding to the tune of Rs.942.82 crores in 11 states may be written off.²⁵ The states Assam, Jammu & Kashmir, Kerala, Orissa, Rajasthan and West Bengal benefitted from the recommendation for writing off the loan as the Central Government accepted it.²⁶

E (ii). Growth of Interest Rate on Market Borrowings.

The state governments raise market loans for productive purposes. The quantum of the loan as well as the

24 Govt. of Assam: Memorandum to Seventh Finance Commission, 1978, p.40.

25 Report of the Finance Commission, 1978, pp.115-116.

26 Govt. of India: Explanatory Memorandum as to the action taken on the recommendations made by the Seventh Finance Commission, 1978, p.2.

terms of floatation are decided for each state by the Central Government and the Reserve Bank of India. There is no disparity in the rates of interest offered by the States. The increase in the rate of interest offered by the States for loans they raise in the market also accounts for the increase in the gross interest payment. The rise in the rate of interest is shown in Table VII-8.

Table VII-8 : Interest Rates on Market Loans (In percentage)

Years	5 years	10 years	11 years	12 years	13 years
1957-58				4.25	
1958-59				4.25	4.25
1959-60				4.00	
1960-61	4				
1961-62			4.25		
1962-63				4.50	
1963-64					
1964-65				4.75	
1965-66				5.50	
1966-67				5.50	
1967-68				5.75	
1968-69				5.75	
1969-70				5.75	
1970-71				5.75	
1971-72				5.75	
1972-73				5.75	
1973-74				5.75	
1974-75		6			
1975-76		6			
1976-77		6			
1977-78		6			

Source: Report on Currency & Finance, various issues.

The rate of interest for the loans of 12 years maturity was 4.25 per cent in 1957-58 and it raised to 4.50% in 1962-63 and to 4.75% in 1964-65 and to 5.50% in 1965-66 and to 5.75% in 1967-68. Since 1974-75 the State governments raise loans of 10 years maturity at the rate of 6% per cent. The state governments have to raise their market borrowings at a higher rate (i) due to the dear money policy of the Reserve Bank of India; and (ii) The availability of other opportunities where the investors could earn higher rates of return than by investing in Government securities.

The states like Maharashtra, Gujarat, Tamil Nadu and West Bengal were able to float market loans at larger volumes easily than Assam, Bihar and Orissa because of the existence of organised capital markets. It will be appropriate to point-out here that, "on the supply side of the market for funds a state or local government, unlike the federal government has no control over the money market condition which it must borrow. The best it can do is to obtain funds on as favourable terms as happen to be open to it; and the cost of borrowing differs widely depending on the fiscal position of the jurisdiction and its credit rating."²⁷ Though the rate of interest offered by the States was same there were differences in the

27 Richard A. Musgrave and Peggy B. Musgrave: op.cit., p.601.

issue price. In 1957-58 only Maharashtra (Bombay) and Karnataka (Mysore) raised 4.25 per cent State Development Loan. The issue price was Rs.99.75 in the case of Maharashtra and Rs.98.75 in the case of Karnataka. In 1958-59 the State Governments issued 4.25 per cent State Development Loan 1970. The issue price was Rs.100 in the case of Maharashtra (Bombay) and in other states the discount rate ranged from 0.25 paise to Re.1/-. In 1959-60 the State Governments issued State Development Loan 1974. The issue price was at par in the case of Maharashtra (Bombay), Rs.99.50 in the case of Uttar Pradesh, Andhra Pradesh, Rajasthan, Bihar, Tamil Nadu, Karnataka, West Bengal and Rs.99 in the case of Madhya Pradesh, Assam, Orissa, Kerala and Punjab. From 1960-61 to 1964-65 State Development Loans at the discount rates varying from .25 % to .50 % were raised by all states except Maharashtra and Gujarat. These states raised the loan at par. From 1966-67 to 1968-69 the issue price of the State Development Loans varied from Rs.99.50 to Rs.97.00. Since 1970-71 the issue price is same in all the states. Since 1970-71 to 1973-74 all the states issued 5.75% State Development Loan at par. From 1974-75 all states float 6 per cent State Development Loan of 10 years maturity at the issue price of Rs.99.²⁸ These variations that prevailed before 1970-71 in the issue price caused variations in the cost of

28 Reserve Bank of India: Report on Currency & Finance, various issues.

market loans mobilised by the states. Jammu & Kashmir raised market loans for the first time in 1972-73.

Burden of Debt Servicing.

Having seen the growth of expenditure on debt servicing and the factors that were responsible for its increase we may now proceed to examine as to how debt servicing entailed strain on the community during the period under our review. The burden or otherwise of debt servicing depends upon the character of the growth of public debt and its proportion to total tax revenue and State Income. Let us, therefore, study the growth of public debt and its character in the beginning and assess the burden of debt servicing subsequently.

A. Growth of Public Debt and Variations in the Levels of percapita Public Debt.

We have already seen that the upsurge in gross interest payment is due to the mounting public debt. The public debt increased because of ⁽ⁱ⁾ rapid rise in the plan outlay; (ii) heavy borrowings by the state governments to service the debt. For instance a considerable portion of the over drafts was cleared by the States in 1966-67 with the help of special assistance from the Union Government. The special assistance granted by the Union to States mainly for clearing their

over drafts with Reserve Bank of India amounted to Rs.152 crores, of which Rs.108 crores were made repayable in 2 to 5 years and the balance in the same year. Prior to 1965-66 such advances by the Union amounted to Rs.22 crores in 1963-64 and Rs.34 crores in 1964-65. In 1965-66 about Rs.101 crores was received by the States under this category.²⁹ The Central Government disbursed a loan of Rs.511 crores to the State Governments in 1972-73 to clear their outstanding overdrafts with Reserve Bank of India so that they need not resort to overdrafts again.³⁰ This loan was converted by the Sixth Finance Commission, 1973, from 6 years loan into a fifteen year loan.³¹ However from 1974 onwards State Governments resorted to overdrafts.

Once again, as per its schemes to rectify situation arising from the persistently large over drafts by the States the Central Government issued special non-plan loans amounting to Rs.426 crores and Rs.125 crores in August 1978 and December 1978 respectively. Some of the States benefited were Bihar (Rs.79.3 crores); Kerala (Rs.14.8 crores); Madhya Pradesh (Rs.65.6 crores); Orissa (Rs.13 crores), Punjab (Rs.68.4 crores),

29 Reserve Bank of India: Report on Currency and Finance, 1966-67, pp.118-19.

30 Reserve Bank of India: Report on Currency & Finance, 1972-73, p.178.

31 Government of India: Report of Finance Commission, 1973, p.92.

Rajasthan (Rs.14.9 crores), Uttar Pradesh (Rs.175.2 crores), and West Bengal (Rs.105.1 crores). A loan of Rs.4 crores was also sanctioned to clear the deficit of Jammu & Kashmir though it does not maintain accounts with Reserve Bank of India. These were given to the states as five-year medium-term loans.³² Thus the financial position of the States is just like the Indian farmer who raises new loans only for the repayment of old loans and gets himself in deeper and deeper waters.

Let us now see the variations in the levels of percapita public debt so as to find the variations in the per capita levels of gross interest payment. The levels of percapita public debt was higher in the developed states like Punjab, Tamil Nadu and West Bengal in 1957-58. The percapita level was highest in Punjab at Rs.127.69 followed by West Bengal Rs.67.17 in that year. Orissa also had relatively higher percapita level at Rs.66.91 even if it is a less developed state. But the percapita debt level was relatively lower in the less developed states like Assam, Bihar, Madhya Pradesh and Uttar Pradesh. The developed states had higher percapita public debt because they mobilised higher volume of public debt owing to their quest for faster development. But during the subsequent years the percapita level of public debt increased in the less developed states also. For instance by 1977-78

32 Reserve Bank of India, Bulletin, September, 1978, pp.616-617.

the percapita public debt ^{in the} less developed states like Assam, Orissa, Rajasthan were higher than that in some developed states like Gujarat, Maharashtra, Tamil Nadu and West Bengal. Other backward states like Bihar, Madhya Pradesh and Uttar Pradesh had lower levels of percapita public debt. We have seen the same situation in the levels of percapita gross interest payment.

A look at the growth of public debt reveals that it increased faster in the backward states than in the developed states. At 1960-61 constant price the percapita public debt declined in Punjab by 5.4% in 1977-78 over 1957-58 and almost remained stable in Tamil Nadu and West Bengal. Similar trend is reflected in the growth of percapita gross interest payment.

What is the reason for the lesser rate of growth in the percapita public debt in the developed states. Will an analysis of the investment of borrowed funds tell us the reason? It discloses the heavier investment was on the development of infra-structure. This is because of the fact that the government had to undertake heavy investment in the early stages of development to build the infra-structure. "Assuming that the public sector will not enter into newer and newer fields often strengthening the infra-structure, the size of governmental investment will be relatively small and the volume of

government borrowing will also be relatively small".³³ This seems to be true in the case of the States. Table VII-9 provides the availability of infra-structural facilities in various states.

Table VII-9 : Index Numbers of Availability of Infra-structural Facilities in Different States.

States	1966-67		1977-78	
	Index	Rank	Index	Rank
1. Andhra Pradesh	93	10	91	13
2. Assam	73	13	106	9
3. Bihar	98	9	104	10
4. Gujarat	111	7	117	6
5. Haryana	129	5	156	2
6. Jammu & Kashmir	83	12	85	14
7. Karnataka	90	11	102	11
8. Kerala	135	4	141	5
9. Madhya Pradesh	53	16	63	16
10. Maharashtra	117	6	113	7
11. Orissa	69	14	99	12
12. Punjab	201	1	209	1
13. Rajasthan	59	15	75	15
14. Tamil Nadu	171	2	154	3
15. Uttar Pradesh	107	8	107	8
16. West Bengal	152	3	149	4
All India	109		100	

Source: 1. Column of Index in the year 1966-67. Commerce Annual No.1969, p.20.
 2. Column of Index in the year 1977-78. Commerce Budget Number, 1980, p.48.

³³ Sreekantardhya: Public Debt and Economic Development in India. (Sterling Publishers, New Delhi), 1972, p.86.

It is interesting to observe that the rate of growth of percapita public debt in the states like Punjab, Tamil Nadu, West Bengal, Haryana and Gujarat where the availability of infra-structural facilities are more, is less than that in states like Assam, Bihar, Madhya Pradesh, Rajasthan and Karnataka where the availability of infra-structural development is less. It is evident from the above analysis that the growth of gross interest charges was influenced by the growth of public debt.

Public Debt and State Income.

The relative magnitudes of the public debt and state Income have been taken into consideration for assessing the burden of growing public indebtedness. The ratio of public debt to national income or State income is an important indicator of the manageability or otherwise of public debt in an economy.

Prof. E.D. Domar holds that, "the burden of public debt / should be defined as the ratio of the total debt to the national income. If the rate of growth in national income falls short of the rate of growth in public debt, the burden of public debt increases; if the two rates are the same, burden remains constant; and if former rate exceeds the

latter rate, the burden decreases".³⁴ For the purpose of examining the debt burden of the states in relation to their ability to pay we have related the outstanding debt to the State Income as shown in Table VII-10.

As seen from the above mentioned table the ratio of public debt to State Income* was around 20 to 25% in Andhra Pradesh, Haryana, Karnataka, Madhya Pradesh and West Bengal, 26 to 27% in Kerala and Bihar, 36 to 40% in Assam, Orissa and Rajasthan, 106% in Jammu & Kashmir and below 19% in Gujarat, Maharashtra, Punjab and Tamil Nadu in 1975-76. The ratio is relatively low in developed states. Among the backward states the burden is relatively high in Assam, Orissa and Rajasthan. The position of Jammu & Kashmir is shocking.

Further in Maharashtra, Orissa, Tamil Nadu, Uttar Pradesh and West Bengal the ratio remained almost constant. It drastically declined in Punjab. Fall in the ratio occurred in most of the states since 1972-73.

In general the above analysis purports that during the period 1960-61 to 1975-76 the debt burden of the states in

34. Quoted by G.S.Ial in Public Finance and Financial Administration in India. (H.P.J. Kapoor, New Delhi), 1976, p.139.

* We have restricted our analysis for the period from 1960-61 to 1975-76 because only for these years State Income figures are available.

Table VII-10 : Percentage of Public Debt to State Income.

States	1960- 61	1961- 62	1962- 63	1963- 64	1964- 65	1969- 70	1970- 71	1971- 72	1972- 73	1973- 74	1974- 75	1975- 76
Andhra Pradesh	18.79	20.35	22.82	22.40	21.41	28.87	29.24	28.75	28.62	22.68	20.42	24.41
Assam	11.34	14.62	19.60	22.10	24.77	34.97	41.85	45.29	41.13	44.09	35.57	36.65
Bihar	17.86	20.36	22.67	22.92	22.49	29.21	29.37	29.77	27.19	28.13	23.80	27.26
Gujarat	11.08	13.45	16.52	16.87	16.25	18.64	16.26	16.63	20.83	16.73	19.88	16.89
Haryana						18.67	20.14	22.40	22.64	22.79	21.77	21.18
Jammu & Kashmir	38.88	47.52	57.17	58.90	61.51	95.17	86.93	96.58	100.54	102.32	90.14	106.03
Karnataka	20.19	21.83	24.40	24.78	24.66	24.53	23.28	24.29	24.44	21.00	18.72	21.08
Kerala	16.28	18.10	19.53	22.29	21.23	23.41	24.31	27.79	26.65	26.57	25.27	26.13
Madhya Pradesh	16.10	17.49	21.08	21.65	22.37	24.46	23.69	21.36	19.99	19.71	18.48	20.10
Maharashtra	14.84	17.48	18.09	17.66	17.83	18.37	17.47	17.83	19.04	17.72	14.61	15.47
Orissa	38.57	42.45	41.41	39.39	39.68	40.50	39.56	43.59	39.28	36.81	37.83	36.71
Punjab	37.79	37.77	38.71	34.63	31.65	19.59	18.58	18.08	18.47	17.37	16.47	18.44
Rajasthan	28.26	29.79	33.44	37.86	34.47	51.61	42.30	49.07	49.52	39.98	40.05	39.93
Tamil Nadu	17.90	18.87	20.99	21.02	21.86	23.14	23.21	21.75	21.34	19.19	18.15	18.74
Uttar Pradesh	20.93	21.61	22.80	21.78	18.30	19.75	20.44	20.81	18.72	20.43	20.58	22.36
West Bengal	22.65	24.16	23.74	22.38	23.71	21.25	21.63	21.26	23.71	23.36	20.82	21.53

Source: Appendix Table A 45

relation to their ability to pay has remained almost constant in Gujarat, Orissa, Maharashtra, Tamil Nadu, Uttar Pradesh and West Bengal. The debt burden dramatically declined in Punjab obviously due to the rapid growth of state income. Though the ratio had increased in Andhra Pradesh, Bihar, Karnataka, Kerala and Madhya Pradesh the burden in relation to their ability to pay is not higher. Relatively the burden is high in Jammu & Kashmir, Assam, Orissa and Rajasthan.

Public debt as a percentage of state income went up by three times by 1975-76 over 1960-61 in Assam and Jammu & Kashmir.

We have already stated that if the rate of growth of public debt is greater than the rate of growth of State Income the debt burden will increase and vice-versa. Though the ratio of public debt to State Income is comparatively small in all states except Jammu & Kashmir, the rate of growth of public debt is higher than the rate of growth of State Income in all but three states namely Orissa, Punjab and West Bengal as shown in Table VII-11.

Since the growth of State Income was far higher than that of public debt the ratio of letter to the former declined in Punjab. Though the growth of State income is lower than that of public debt the difference between them is not too high

Table VII-11: Growth of Public Debt and State Net Domestic Product.
(In lakhs of Rs.)

States	Public Debt			State Net Domestic product		
	1960-61	1975-76	% increase	1960-61	1975-76	% increase
Andhra Pradesh	21128	103200	388.45	112400	422624	276.00
Assam	4638	52600	1034.10	40900	143515	250.89
Bihar	17724	112500	534.73	99200	412557	315.88
Gujarat	8592	61600	616.94	77500	364527	370.35
Haryana	16473	35500	115.50	88194	167546	89.97
Jammu & K.	3694	45600	1134.43	9500	43004	352.67
Karnataka	13793	70300	409.67	68300	333384	388.11
Kerala	7573	61500	712.09	46500	235347	406.12
Madhya Pradesh	14144	74800	428.84	87800	372048	323.74
Maharashtra	24350	124300	410.47	164000	803227	389.77
Orissa	15160	74200	389.44	39300	202091	414.22
Punjab	26118	45500	74.20	69100	246617	256.89
Rajasthan	15264	101700	566.27	54000	254649	371.57
Tamil Nadu	20682	82200	297.44	115500	438567	279.71
Uttar Pradesh	37424	155900	316.57	178800	697132	289.89
West Bengal	30152	117800	290.68	133100	546894	310.88

Note: Figures for Haryana under the column for the year 1960-61 pertains to 1969-70.

Source: Appendix Tables A.45.

in Maharashtra, Karnataka, Tamil Nadu and Uttar Pradesh. Hence in these states the debt burden in relation to their state net Domestic Product remains almost constant. States like Assam, Jammu & Kashmir had very high rate of growth of public debt and so the burden is higher in these states.

Here the main problem is the low rate of growth of State Income rather than the rapid increase in public debt. The mounting public debt as a percentage of State Income is feared because it may eventually lead to higher taxes for servicing the debt. Thus the problem of 'debt servicing' becomes a problem of increasing State Income.

It may be argued that in the early stages of planned economic development, the rate of increase of public debt will be higher than the rate of increase of state income as the state governments have to undertake heavy investment to build-up the infra-structure. However it is absolutely necessary to speed up the rate of growth of the State Income from the point of view of making the burden of debt-servicing less onerous. In the words of P.E. Taylor, "A high national income by sheer weight of proportion reduces the burden of debt."³⁵

B. Burden of Debt Servicing.

Now let us turn towards the burden of debt servicing. The Burden of debt servicing may be discussed either in terms of national income or in terms of tax revenue or of both. David M.C. Wright observes, "The financial burden of the national debt is to be measured by the effects of the interest charges and the taxes levied to meet them. The relation which

35 P.E. Taylor: The Economics of Public Finance. (Macmillan, New York), 1957, p.197.

the taxes for interest bear to the national money income is the question of primary importance."³⁶

The appropriations for reduction or avoidance of debt are made by the State Governments and are charged to the revenues of the Government in the same way as that of interest charges. The omission of this item will be an under estimation of total debt services of the state governments. Hence we have added this item with the gross-interest charges.

The ratio of total debt services to State Income shows the proportion of State Income that is redistributed through the servicing of debt, while the ratio of total debt services to tax revenue shows the extent of tax revenues that are spent on the servicing of debt. Both the ratios signify the implications of debt servicing in the states.

B.1 Total Debt Services and Tax Revenue.

Table VII-12 shows that the rates of total debt services to tax revenue fluctuated significantly in all the states. The ratio had gone up from the 1957-58 level in all states and assumed a falling trend since 1974-75 in all the states. The fact that the ratio of total debt services to tax revenue was higher may mean that income transfers took place

36 Quoted by Kiran Barman: op.cit., p.34.

Table VII-12: Percentage of Total Debt Service to Total Tax Revenue

States	1957-58	1958-59	1959-60	1960-61	1961-62	1962-63	1963-64	1964-65	1965-66	1966-67	1967-68	1968-69	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78
Andhra Pradesh	19.07	17.17	13.61	17.43	18.68	17.89	24.19	17.47	25.52	41.23	34.95	13.26	46.38	32.24	33.22	35.31	26.45	16.44	15.89	15.47	15.79
Assam	8.32	5.57	7.86	13.91	14.36	12.41	29.92	30.73	37.85	44.56	42.84	58.74	47.56	53.35	68.93	36.91	90.27	47.81	42.05	41.18	36.48
Bihar	25.60	58.59	27.55	22.79	24.14	23.90	25.88	20.73	47.68	40.26	40.74	45.95	78.09	88.62	83.59	38.03	61.34	29.26	29.11	27.20	30.61
Gujarat																					
Haryana																					
Jammu & Kashmir	6.86	22.05	16.15	12.86	78.72	76.36	92.61	102.22	18.98	18.35	15.28	11.79	331.74	101.40	199.36	149.95	92.59	53.18	130.14	124.59	61.97
Karnataka	26.93	22.65	24.23	31.10	31.85	29.32	28.62	30.39	33.63	54.72	40.76	42.46	45.95	40.17	32.34	31.42	43.86	24.49	21.71	18.31	19.92
Kerala	15.21	14.74	15.23	16.55	17.05	19.68	19.70	18.54	21.53	23.56	27.14	26.84	27.73	27.82	28.90	27.99	29.01	23.06	21.44	20.27	19.66
Madhya Pradesh	11.14	13.87	15.31	18.04	17.55	19.20	34.01	24.68	31.09	40.69	39.66	39.75	34.44	33.32	31.53	29.08	27.10	19.65	19.05	18.20	20.83
Maharashtra	18.32	19.97	18.73	22.60	21.65	22.72	19.84	20.91	21.73	32.17	28.91	32.73	29.86	29.00	29.17	28.39	34.75	21.36	20.10	17.50	18.33
Orissa	65.47	66.85	53.86	43.30	106.57	75.65	73.97	70.35	84.75	95.96	95.21	99.30	89.54	80.73	91.95	82.61	85.33	55.93	51.48	48.06	51.58
Punjab	37.55	42.35	37.13	45.47	33.38	35.51	39.43	37.54	34.68	35.15	33.15	27.51	24.71	22.83	23.92	18.34	17.77	16.15	18.92	12.72	19.00
Rajasthan	10.79	26.39	25.62	37.34	32.05	31.05	37.76	34.32	61.54	50.19	50.16	50.45	49.17	60.09	60.48	51.50	58.26	44.44	39.01	41.61	33.40
TamilNadu	18.90	25.08	20.83	23.70	21.46	19.33	20.17	19.34	20.88	28.74	27.90	28.67	28.31	25.41	25.90	19.39	18.57	15.52	18.45	19.39	19.62
Uttar Pradesh	29.39	42.72	40.10	53.71	39.17	35.93	37.02	39.82	36.55	46.46	42.29	47.32	18.23	43.78	65.83	64.97	54.96	31.60	27.03	27.94	28.86
West Bengal	20.63	19.91	18.93	19.30	25.23	19.86	18.77	18.13	23.56	25.72	15.66	22.41	22.76	35.56	29.30	28.39	26.47	23.20	22.33	23.39	23.60

Source: Appendix Table A.46.

on a large scale from poor to richer since whenever the interest payment are made they would go to upper income groups, as they alone could subscribe loans to government. Hugh Dalton maintained that, "there will be a direct real burden, if the proportion of taxation paid by the rich towards the cost of the debt service is smaller than the proportion of public securities held by them. There will be a direct real benefit if it is larger. Owing to the large inequality of incomes, which is a feature of nearly all modern communities, the bulk of public securities are generally held by wealthier classes, either directly or indirectly in the form of shares in companies which themselves hold public securities among their assets. On the other hand, taxation, even if progressive, is seldom likely to be so sharply progressive as to counter balance, among the wealthier classes, the income derived from public securities. In most actual cases, therefore, an internal debt is likely to involve transfers from poorer to richer and hence a direct real burden."³⁷

Judging from the tone of the above statement we could conclude that the burden on the community in terms of total debt services as percentage of tax revenue was relatively high in the less developed states like Assam, Bihar, Jammu & Kashmir,

³⁷ Hugh Dalton: Principles of Public Finance. (Allied Publishers, Bombay), 1970, pp.181-182.

Orissa, Rajasthan and Uttar Pradesh. It was relatively less in developed states.

We have seen that the burden of debt servicing as the ratio of total debt services to tax revenue increased in all states from the 1957-58 level upto 1973-74 and declined from 1974-75. Emergence of this trend is due to the foster rate of growth of tax revenue. This trend is contrary to the one found by James A. Maxwell and Richard Armonson for the American States. They have brought out that, "Debt service charges generally increased faster than state and local general revenues".³⁸

As seen from Table VII-13 the tax revenue increased faster than or more or less equal to that of debt services in most of the states. Owing to the faster growth rate of the tax revenues the ratio of debt services to tax revenues declined by 1977-78 over 1957-58 in Andhra Pradesh, Gujarat, Karnataka, Orissa, Punjab and Uttar Pradesh. It almost remained stable in Maharashtra and Tamil Nadu. The ratio increased in the States like Assam, Bihar, Jammu & Kashmir, Kerala, Madhya Pradesh, Rajasthan and West Bengal where the debt services had grown faster than tax revenue.

However, the real burden depends not upon the ratio of the debt services to tax revenue but upon the nature of tax.

38 James A. Maxwell and Richard Aronson: Financing State and Local Governments. (The Brookings Institution, Washington), 1977, p.195.

Table VII-13 : Growth of Total Tax Revenue and Total Debt Services. (In lakhs of Rs.)

States	Tax Revenue			Debt Servicing Charges		
	1957-58	1977-78	% increase by 77-78 over 1957-58	1957-58	1977-78	% increase by 77-78 over 1957-58
Andhra Pradesh	3057	36821	1104.	583	5815	897
Assam	1273	7864	517	106	2869	2606
Bihar	1986	21398	977	592	6549	1006
Gujarat ()	2078*	32926	1484	739*	3962	436
Haryana	2635**	14768	460	1328**	2355	77
Jammu & Kashmir	102	3061	2900	7	1897	27000
Karnataka	1745	29727	1603	470	5923	1160
Kerala	1321	21336	1515	201	4195	1987
Madhya Pradesh	2118	26025	1128	236	5422	2197
Maharashtra	7346	71280	879	1346	13069	870
Orissa	646	8377	1196	423	431	921
Punjab	1960	23512	1099	736	4468	507
Rajasthan	1463	17271	1080	158	5769	3551
Tamil Nadu	3099	36141	1066	586	7092	1110
Uttar Pradesh	4007	46731	1066	1178	13488	1044
West Bengal	3620	34464	852	747	8132	988

Source: Appendix Table A.46.

* belongs to 1960-61

** belongs to 1967-68

We have already noted that, "an internal debt is likely to involve transfers from poor to richer and hence a direct real burden." The burden will be heavier when in the tax structure of the economy indirect taxes are in majority and if we suppose that indirect taxes are generally, borne by poor section of the society. For instance in 1977-78 the states' own Tax Revenue was Rs.434924 lakhs. Out of this total tax revenue a sum of Rs.241429 lakhs, that is, about 55.51% accrued to the states through sales-tax which is an indirect tax. This exhibits that the realburden of debt services on the community is severe.

B.2 Total Debt Services and State Income :

The ratio of total debt services to State Income shows the proportion of State Income that is redistributed through the servicing of debt.

Table VII-14 shows that though there were fluctuations in the ratio of debt services to State Income during the period 1960-61 to 1975-76* the ratio increased over the 15 years in all states except Panjab and Uttar Pradesh. This upward bias may mean that income transfers took place on a large scale from poor to richer and that the income-inequalities may have increased. Not without surprise we could observe that the ratio

* We have confined our analysis to the period because the estimates of State Net Domestic Product are available only for the years from 1960-61 to 1975-76.

Table VII-14 : Percentage of Total Debt Services to State Income.

States	1960-61	1961-62	1962-63	1963-64	1964-65	1967-68	1968-69	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76
Andhra Pradesh	0.62	0.62	0.71	1.07	0.69	1.27	1.50	2.11	1.71	1.66	1.55	1.35	0.88	1.22
Assam	0.42	0.51	0.44	1.06	1.05	1.30	1.70	1.79	1.82	2.70	1.36	3.15	1.31	1.74
Bihar	0.72	0.79	0.89	0.91	0.67	1.19	1.57	2.75	2.93	2.87	2.46	2.11	0.99	1.34
Gujarat	0.95	1.13	1.60	1.76	1.40	1.30	1.50	1.49	1.22	1.28	1.52	1.13	0.75	1.02
Haryana						1.86	2.26	1.83	1.73	1.65	1.76	1.48	1.35	1.47
Jammu & Kashmir	0.23	0.57	1.73	2.46	2.54	0.41	0.40	10.93	2.85	5.95	6.13	4.15	2.23	5.37
Karnataka	1.11	1.14	1.18	1.22	1.20	1.84	2.17	2.42	2.09	1.78	1.84	2.13	1.40	1.54
Kerala	0.72	0.78	0.83	0.98	0.90	1.43	1.41	1.35	1.41	1.58	1.48	1.40	1.28	1.45
Madhya Pradesh	0.56	0.55	0.66	1.21	0.88	1.42	1.64	1.44	1.43	1.31	1.26	1.09	0.90	1.19
Maharashtra	0.88	0.89	0.99	0.99	1.03	1.58	1.93	1.85	1.33	1.83	1.89	2.16	1.37	1.47
Orissa	1.05	2.66	2.14	2.14	2.03	2.48	2.53	2.33	2.29	2.73	2.30	2.03	1.52	1.74
Punjab	1.68	1.35	1.52	1.85	1.69	1.50	1.50	1.44	1.37	1.46	1.20	1.04	1.08	1.33
Rajasthan	1.25	1.13	1.29	1.67	1.40	1.97	3.05	2.55	2.27	2.65	2.39	2.31	1.93	2.00
Tamil Nadu	0.99	0.76	0.80	0.89	0.91	1.52	1.57	1.58	1.51	1.72	1.43	1.36	1.14	1.34
Uttar Pradesh	1.73	1.22	1.29	1.28	1.07	1.28	1.65	1.60	1.55	2.28	2.03	1.98	1.25	1.53
West Bengal	0.71	0.96	0.79	0.76	0.78	0.63	0.93	0.99	1.50	1.23	1.38	1.16	1.00	1.15

Source: Appendix Table A.47

of debt servicing to State income is relatively higher in the backward states like Assam, Bihar, Jammu & Kashmir, Orissa, Rajasthan and Uttar Pradesh.

B.3 Net Burden of Debt Services on the Community.

We now take up the basic question. Should the increasing interest payment be considered burdensome at all or whether at anytime the interest payments were burdensome to the states during the period under our review?

It is true that the burden of interest payment rests upon the character of public debt and the purpose for which the debt is utilised. The interest payments inflict strain when the deadweight debt accumulates faster than the productive debt. Let us trace how public debt had been put to use in the states.

We could observe from Table VII-15 that the portion of public debt utilized for productive purpose, that is, for creating interest yielding assets was less only in 1957-58. In the subsequent years major portion of the public debt was put into productive purposes by all the states except Rajasthan. The productive investment of public debt resulted in the formation of important assets in the public sector like transport, cooperative organisations, power projects, multi-purpose river projects, and dairies etc.

Table VII-15 : Percentage of Productive Debt (Interest Yielding Assets) to total Public Debt.

States	1957-58	1958-59	1959-60	1960-61	1961-62	1962-63	1963-64	1964-65	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76
Andhra Pradesh	37.86	47.80	55.87	63.71	65.58	70.45	74.82	89.84	93.72	94.11	96.69	97.96	92.40	95.11	105.39
Assam	47.52	50.97	53.32	69.29	65.30	61.51	64.14	59.49	54.48	51.26	50.84	51.92	44.08	47.00	50.42
Bihar	46.31	51.48	58.51	61.40	65.35	64.40	66.31	72.80	81.11	83.50	84.50	88.65	81.69	83.21	83.37
Gujarat			35.49	48.09	56.45	66.55	71.79	93.47	102.0	112.8	113.86	103.8	107.6	119.38	
Haryana								39.67	68.71	56.54	70.73	77.42	87.94	100.78	
Jammu & Kashmir			27.00	39.06	45.91	48.50	50.00	48.09	49.18	50.95	50.93	51.18	45.43	47.64	52.65
Karnataka	34.01	42.51	53.81	67.54	72.86	93.22	93.81	95.61	114.8	114.0	111.4	115.4	108.0	116.2	125.92
Kerala	28.92	35.08	39.11	43.93	72.57	68.65	72.09	75.50	94.67	91.24	86.95	87.06	72.40	73.64	71.59
Madhya Pradesh	75.42	78.41	75.79	74.71	76.46	77.04	77.26	77.48	84.33	89.76	96.58	103.2	90.84	91.29	96.08
Maharashtra	48.17	55.35	65.15	82.70	79.26	85.29	90.72	92.22	116.0	120.0	117.0	124.4	107.5	116.7	118.2
Orissa	19.57	25.49	30.07	33.56	35.06	37.73	39.39	50.30	61.80	63.51	70.55	68.72	59.84	59.75	60.62
Punjab	24.08	28.09	31.21	41.51	50.35	54.39	58.60	66.66	187.8	194.5	204.9	203.3	188.7	202.8	180.5
Rajasthan	28.18	34.30	41.23	40.62	37.47	32.79	32.68	34.42	36.15	33.81	33.01	34.73	29.35	28.46	29.30
Tamil Nadu	83.70	85.23	88.00	90.44	90.60	91.57	93.94	93.42	99.33	206.6	100.0	104.3	99.53	99.41	98.91
Uttar Pradesh	27.26	32.21	35.38	38.64	44.84	48.87	54.91	62.71	102.9	111.6	123.4	124.5	115.2	118.2	126.1
West Bengal	31.01	35.04	37.80	41.09	43.52	46.85	53.20	53.54	56.21	56.82	60.11	59.96	52.28	54.22	57.54

Source: Appendix Table A.48

Table VII-16 : Expenditure on Net Debt Services and its ratio to Tax Revenue.(IN %)

States	1958-59	1960-61	1961-62	1962-63	1963-64	1964-65	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78
Andhra Pradesh	12.89	15.11	16.01	0.24	2.55	-6.47	20.51	7.06	7.55	4.74	6.38	-1.33	0.27	-3.40	-7.39
Assam	4.73	11.71	13.56	11.16	28.73	29.36	46.94	52.57	68.50	34.92	89.07	45.46	39.20	37.20	32.33
Bihar	37.06	20.80	22.75	18.47	17.99	16.76	65.40	76.09	71.60	55.45	52.17	28.64	29.06	26.26	29.71
Gujarat	27.28	27.35	25.21	27.69	18.22	11.54	5.21	7.57	6.27	7.53	-1.03	2.40	-1.31	-4.81	
Haryana							15.91	15.47	11.03	12.85	15.41	4.38	8.02	2.47	1.96
Jammu & Kashmir	2.33	20.74	49.09	69.74	57.46	318.9	58.87	154.1	115.8	60.20	19.83	94.02	93.50	30.83	
Karnataka	8.84	18.13	21.12	10.99	11.31	9.88	8.13	18.85	14.53	10.23	10.54	4.88	5.30	-5.23	2.61
Kerala	6.00	11.99	13.71	8.36	13.51	9.31	17.33	20.62	9.31	17.23	24.92	12.13	15.45	16.02	13.44
Madhya Pradesh	3.45	10.69	0.78	14.02	-0.68	12.73	15.82	16.87	14.59	14.03	15.90	9.67	9.38	6.87	14.30
Maharashtra	11.30	13.88	15.95	12.86	9.51	9.61	20.06	20.01	18.94	16.79	24.36	12.79	12.31	8.62	9.34
Orissa	61.35	42.32	96.23	38.80	42.59	36.17	40.09	44.72	54.79	49.83	-13.76	18.10	24.16	16.51	19.70
Punjab	36.87	28.21	7.97	0.96	9.37	7.75	-0.17	-5.19	9.76	6.80	9.06	9.27	11.68	7.25	13.64
Rajasthan	22.25	33.31	28.56	20.18	23.55	21.36	31.91	32.25	39.19	23.14	39.88	21.03	13.42	16.30	13.98
Tamil Nadu	9.75	10.88	2.43	-10.62	2.10	2.45	13.85	12.37	9.51	3.60	12.36	3.95	12.39	12.01	11.64
Uttar Pradesh	39.82	44.38	28.95	15.67	16.80	15.59	15.69	11.09	34.65	34.86	28.35	18.92	11.88	12.22	17.48
West Bengal	18.17	16.35	22.03	14.13	12.73	14.10	19.12	33.48	25.97	25.38	21.92	18.56	19.46	-0.02	20.47

Source: Appendix Table A.49

In the eventuality of recovering interest payment from the assets created the net burden of debt services ought to have been minimum to those states where the percentage of productive debt was high.

As seen from Table VII-16 the burden on the community in terms of the ratio of net debt services to total tax revenue was high in Assam, Bihar, Jammu & Kashmir, Kerala, Madhya Pradesh, Orissa, Rajasthan and West Bengal where the debt incurred for the productive purposes was low. Even if the percentage of debt incurred for productive purposes was higher in Punjab and Uttar Pradesh the burden of net debt services to total tax revenue was high in Uttar Pradesh.

Table VII-17 exhibits that the burden on the society in terms of the ratio of net debt services to State Net Domestic Product was high in Assam, Bihar, Jammu & Kashmir, Kerala, Rajasthan and West Bengal. By 1975-76 the ratio increased in Assam, Bihar, Jammu & Kashmir, Kerala, Madhya Pradesh.

The increase in the ratio of net debt services to tax revenue and the ratio of net debt services to State Income means that the cost of debt servicing went up during the period under our review. In general the net debt services

Table VII-17 : Percentage of Net Debt Services to State Income.

States	1960- 61	1961- 62	1962- 63	1963- 64	1964- 65	1969- 70	1970- 71	1971- 72	1972- 73	1973- 74	1974- 75	1975- 76
Andhra Pradesh	0.53	0.52	0.009	0.11	-0.25	0.93	0.37	0.37	0.20	0.32	-0.07	0.02
Assam	0.35	0.47	0.39	1.02	1.00	1.76	1.79	2.67	1.28	3.10	1.24	1.62
Bihar	0.65	0.74	0.68	0.63	0.54	2.30	2.51	2.45	2.00	1.79	0.96	1.31
Gujarat	0.73	0.85	0.97	1.08	0.73	0.57	0.25	0.40	0.42	0.36	-0.06	0.15
Haryana							0.73	0.55	0.65	0.65	0.28	0.56
Jammu & Kashmir	0.04	0.41	1.11	1.71	1.42	10.50	1.65	4.59	4.73	2.69	0.83	3.88
Karnataka	0.64	0.75	0.44	0.48	0.37	0.42	0.97	0.79	0.59	0.51	0.27	0.37
Kerala	0.52	0.62	0.35	0.66	0.45	0.84	1.04	0.50	0.91	1.19	0.67	1.04
Madhya Pradesh	0.33	0.02	0.48	-0.02	0.45	0.66	0.72	0.60	0.60	0.63	0.44	0.58
Maharashtra	0.54	0.65	0.56	0.47	0.47	1.24	1.26	1.18	1.11	1.51	0.81	0.89
Orissa	0.96	2.40	1.09	1.23	1.00	1.04	1.26	1.62	1.39	-0.32	0.49	0.81
Punjab	1.04	0.32	0.04	0.44	0.35	-0.01	-0.31	0.59	0.44	0.53	0.61	0.81
Rajasthan	1.11	1.00	0.83	1.03	0.87	1.48	1.21	1.71	1.07	1.58	0.91	0.68
Tamil Nadu	0.37	0.08	-0.43	0.09	0.11	0.77	0.73	0.63	0.26	0.90	0.66	0.90
Uttar Pradesh	1.42	0.89	0.56	0.58	0.41	0.52	0.39	1.19	1.08	1.02	0.74	0.67
West Bengal	0.60	0.83	0.56	0.51	0.60	0.83	1.37	1.08	1.23	0.96	0.79	0.99

Source: Appendix Table A.50.

may be high at any time due to (a) slow growth in the recoveries from the assets created and (b) the concept of productivity used in measuring the productive debt. The second point warrants clarification in the light of technical distinction between a debt which creates interest yielding assets and another which though productive does not create interest yielding assets. For example when a loan is used in providing social overheads—roads, schools, community development etc. it does not create any interest yielding asset. But when the loan is invested in irrigation, power projects and commercial undertakings it would create interest yielding assets. We have already stated that by productive assets we mean only interest yielding assets. The burden of net debt services was high in those states where the debt incurred on interest yielding assets was low. The higher burden of net debt services in some states even if the debt incurred on productive assets was high may be due to the slow growth in the recoveries from the assets created. We have seen in the previous chapter that the yields from multi-purpose river projects, power projects and other public sector undertakings are not sufficient enough even to meet the working expenses let alone interest charges. Though loans lent by the State Governments are interest yielding assets in nature the return from the loans granted for agriculture, community

development, education, urban development, social surity and welfare is practically very low. On account of the slow growth in the recoveries from the assets created the burden of net debt services continues to be high.

CONCLUSIONS.

(1) The level of gross percapita interest payment was at the highest level in Punjab at Rs.4.14, Rs.5.84, Rs.9.05 in 1957-58, 1962-63 and 1967-68 respectively. Jammu & Kashmir topped the list in 1972-73 and 1977-78 with its percapita gross interest payment at Rs.37.57 and Rs.36.34 respectively.

(2) In money terms the percapita gross interest charges increased in all states over every period of six years. The increase in the percapita gross interest payment was of the order of about 202 times in Jammu & Kashmir and 6 times in Punjab over the twenty-one years.

(3) The proportion of total revenue expenditure absorbed by the gross interest payment varied from 0.94% in Jammu & Kashmir to 19.70% in Punjab in 1957-58 and 6.44% in Maharashtra to 13.50% in Bihar in 1977-78. Its share declined in Andhra Pradesh, Gujarat, Haryana, Orissa, Punjab and Tamil Nadu and almost remained stable in Maharashtra during the whole period under our review.

(4) The less developed states like Assam, Orissa, Rajasthan had higher percapita gross interest payment and their percapita expenditure on other services were relatively lower. In Bihar, Madhya Pradesh, Uttar Pradesh the percapita levels in interest payment and other services were low. In the developed states the percapita levels in other services were relatively higher.

(5) Though the variations in the levels of percapita gross interest payment tends to shrink, the disparity is still wider. The tendency towards the shrinkage is due to the faster rate of growth in the less developed states than in the developed states.

(6) The growth in the gross interest payment was caused by the mounting public debt and interest rates. The interest rates increased as a result of dear money policy of the Reserve Bank of India. The rate of interest on market borrowings went up from 4.25% in 1957-58 to 6% in 1977-78. In 1957-58 most of the Central loans carried interest rate from 4 to 4.5 per cent. But in 1977-78 the loans bearing 5.25% interest rate were predominant in the states' indebtedness to the Centre. Further the interest rate on loans from the Centre varied from 5.25 per cent to 10.5 per cent by 1977-78.

(11) Except in 1957-58 throughout the period under our analysis a major portion of the public debt was utilized for productive purposes, that is, for the creation of interest yielding assets in all states.

(12) The net burden of debt services on the community in terms of the ratio of net debt services to total tax revenue and the ratio of net debt services to state Income was high in Assam, Bihar, Jammu & Kashmir, Kerala, Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh and West Bengal. Mostly the burden is more in less developed states. The burden of debt services on the community is higher because of the slow growth in the recoveries from the productive assets.