



## Debt burden

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**APROPOS the article ‘Approaching the IMF’ (Sept 8). Debt is a complex issue as it involves interaction among Keynesian concepts of interest, capital accumulation, growth, national income, debt servicing, and deficit financing.**

Many post World War-II ‘burden of debt’ and ‘growth’ models are based on simplistic assumptions. Yet they provide an insight into our economic problems. Take Domar’s ‘Burden of Government Debt’ model. This model deals with the question whether government debt represents a burden on future generations and whether it is sustainable in the long run.

Professor Evsey D. Domar through various case-study scenarios inferred that increasing the growth rate of nominal gross domestic product will tend to lower debt-to-GDP ratios.

According to Domar, the interest burden may be affected by increases in interest rates, but the higher growth will reduce the relative impact of the fixed coupon interest of already outstanding bonds.

Ideally, the higher growth rate is the result of higher real growth, but the rising inflation will also have this effect. In sum, debt burden is not bad if it offsets debt servicing through rise in growth rate and increase in national income.

On the other hand the Harrod-Domar Growth model stresses the importance of ‘capital accumulation’. The debt/capital injections should stimulate growth in productive capacity (and productivity). It is appreciable if government stops all revenue expenditure that does not add to productive capacity.

But it is questionable whether ‘thrift’ alone can bring about an economic turnaround.

The Chinese banking system promotes government’s productivity-oriented invest policies. Unfortunately in Pakistan, banks are the handmaids of industrial robber barons. They grant loans to traders to make fast bucks, so to say.

We need to re-orientate our economic policies and also perhaps the Madina-model simplistic frugal mindset.

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