

Theoretical Foundations of Public Debt: Form and Reasons

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Abstract--The article analyzes the evolutionary development stages of public debt and its role in the history of and economic doctrines, as well as the views of local and foreign scholars on it. Forms of public debt and the reasons for its formation are systematized, and on the basis of researches, scientific conclusions are formed.

Key words--public debt, forms of public debt, the evolution of public debt, causes of public debt.

I. INTRODUCTION

It is important to use economic laws prudently to ensure economic equilibrium in the country and to effectively allocated economic resources. Proper use of economic regulations can be seen as a key factor in ensuring macroeconomic stability. This involves not only the use of own funds, but also the use of borrowed funds.

The emergence of public debt stems from the deficit of funds for the implementation of social obligations of the state. The attraction of necessary resources to the budget from taxes entails an increase in the tax burden, resulting in the attraction of resources from other sources. Economic schools have different approaches to the emergence of public debt. While representatives of the classical school have opposed public debt, some have supported the practice. Representatives of the classical school recommended that the public debt should be paid by increasing taxes, however its financial burden would be on society.

II. LITERATURE REVIEW

A. Smith does not share his opinion as a public debt advocate. In his opinion, the state is a non-production entity that why it is not effective. This leads to diversion of resources available to industry. In this context, he comes to the conclusion that budget financing of public debt creates conditions for the reduction of private capital, thereby decreasing efficiency.

D. Ricardo's opinion also does not imply a precise support for public debt. He points out that agriculture, commerce, and business experience stable growth in the absence of government interference. The source of public funds are formed at the expense of the people's capital. In this case, debt will not lead to loss of capital and will not reduce national wealth. It is possible that interest payments on debt can be transferred from taxpayers to national creditors. Therefore, the main debt on the loan will be significant. He believes that the use of debt will not create value in the future, but will have an effect on capital depletion. A borrower can also make a profit by directing this money to production, but he strives to earn income at the expense of citizens.

Ricardo does not make conclusions in favor of public debt paid out of taxes, but rather believes that it is better to collect the current value in the form of taxes, rather than paying the amount needed for the current period

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with a percentage of future taxes. This is because it reduces the future value of individual property and affects the consumption.

Jean Batist Sei does not support the formation of public debt, continuing the views of classical economists. The government is believed that the debt will be realized by reflecting the provision of value-free consumption. According to him, there is a significant difference between the private debt and the public debt; the first involves the efficient use of funds, the second financing the consumption that does not create value.

In his opinion, public debt does not increase the value of money in circulation. In turn, public debt also does not increase national wealth, but wealth is believed to be "ownership, not parchment."

In our opinion, public debt is not supported by classical economists. In their view, the national debt will be a burden for future generations of taxpayers and create economic instability. In other words, interim economic justice is undermined, and it is noted that in the future, there will be a payment by others for current consumption.

While this seems to be true, it is possible to achieve an equitable distribution of the financial burden of the debt or economic justice as a result of the rational management of the public debt management system. Secondly, the borrowing of public debt for the purpose of implementing certain government programs and social objectives can provide the current consumption and foster future economic growth. From this point of view, considering government debt as a complete threat to the economy cannot be part of the modern economic views.

It should be noted that the introduction of a new approach to debt management in our country in 2020 can be considered as a priority. In particular, the adoption of the Law of the Republic of Uzbekistan dated December 9, 2020 No. 589 "On the State Budget of the Republic of Uzbekistan for 2020" has taken these reforms to a new level. According to it, the criteria for determining the size of the foreign debt to be secured under the guarantee of the Republic of Uzbekistan and the criteria for expenditure on external debt are included. In particular, the limited amount of new foreign debt agreements to be signed under the guarantee of the Republic of Uzbekistan by 2020 will amount to 4 billion US dollars and the limited amount of foreign borrowings to be repaid at the expense of the State Budget approved at 1.5 billion US dollars. Establishment of this threshold is a positive mechanism for introducing a new management mechanism for public debt in Uzbekistan, especially with respect to the amount of debt to be repaid in the future.

In our opinion, it is advisable to introduce such threshold value in the future as a percentage of the state budget, and not as a sum of interest, but as a benchmark for the total public debt and GDP.

After school economists and mercantilists presented their conclusions in support of public debt. By the eighteenth century, many scholars had come to conclusions about the existence and positive aspects of public debt. For example, Hamilton recommends the effective use of public debt to fully support and stimulate the state's economy.

In his opinion, if the national debt is not above the limit, it will promote national stability. He also said that it would create a tax base, develop industry and create conditions for the country to break out of isolation.

In our view, it is important that public debt is considered as a significant category in the macroeconomic system of the country. This will help prevent the increase in the current financial burden at the expense of taxes and allow the intermittent distribution of this financial burden.

III. ANALYSIS AND RESULTS

Looking at the current global trends, the countries show a rising trend in attracting public debt. Therefore, it is important now to formulate strategies that ensure the effective use of government debt instead of public debt absence. That is why public debt comes in many forms. In particular, public debt from various external and internal sources is formed for various terms. Domestic public debt involves the attraction of funds from the national level entities (individuals and legal entities) through the financial market. One of the main reasons for external debt is a low or no domestic borrowing capacity. At the same time, it is important to consider the impact of external debt on economic security.

Kosenkova, a Russian scientist, notes that foreign investment in state-owned enterprises affects both external debt and economic independence. According to him, 60% of all investments in Russian oil and gas industry are US investments. It also notes that 36.4% of total US investments are direct investments and microloans consist of 56%. This, in turn, increases the economic dependence of the Russian oil and gas industry due to the high US investments.

In his scientific conclusions, Russian scientist N. Lushnina has systematically formed various public debt management and scholarly approaches (Table 1.1). According to him, the emergence of the financial burden of repayment of the public debt and the distribution of it leads to the fact that the creditor causes a reduction in the taxpayer's income. At the same time, it can form the conclusion that effective public debt management can have a positive impact on macroeconomic stability.

Table 1.1 The views of economic school representatives on the financial burden of debt

The direction of the economic school	Positive	Negative
Merchantalism (T.Mann, U.Stafford, A.Sera, A.Monkreten)	Debt is an important source of government revenue. There was no comment on the debt burden.	
Physiocrats (F. Kene, A. Thurgo, V. Mirabo, G. Letron, P. Mercé de La River)		“The nature of the rule”, the “natural order”, the non-interference of the state in the economy
Classical Economic School (A. Smith, D. Ricardo,		Debt will be a heavy burden on future

D.Yum, etc.)		generations
Keynesian School (D. Keynes, B. Hansen)	Budget deficit and borrowing are an inevitable factor of the crisis	
Neoclassical (A. Marshall)	The debt burden is passed on to generations	
Monetarism (I. Fisher, M. Friedmen, A. Melzer)		Those who oppose the use of debt institutions to stabilize the economy
Institutionalism (T. Weblen, D. Commone, G. Adams, etc.)	Government intervention in the economy is supported. Debt is a collective obligation. Not sharply criticized.	

According to A. Smith, public debt envisages financing public expenditure during the war, and in subsequent periods, its repayment through taxes will increase the tax burden. Therefore, he believes that public debt reduces people's wealth and affects savings. Therefore, Smith believes that public debt should not be used for emergency funding. At the same time, public debt is divided into external and internal forms.

Opinions on public debt are taken to a whole new level in the work of D. Keynes in the 30-40s of the last century in his book *General Theory of Money, Interest and Employment*. In his view, public debt is an integral part of public policy and will help stabilize it. The existence of a budget deficit is seen as an incentive for economic development. He also points out that the state budget deficit creates conditions for economic recovery and that debt is not a financial threat in the long run. In general, by the middle of the twentieth century, approaches to public debt had changed, and those who had relied on the theory of Keynesian had grown.

For example, even the proponents of monetarism do not provide a supportive approach to public debt, but they advised not to cover the budget deficit by money supply. They also does not suggest a way to raise funds for implementing certain government programs in situations where the government cannot raise taxes. In this context, future debt stabilization should reflect the interim allocation of financial liabilities to reduce the current high tax burden.

In our view, public debt can have a positive impact on the macroeconomic equilibrium, rather than as an economic risk, by creating effective governance.

In the context of different approaches to public debt, M. Gerowitz and D. Ittondevelop the economic model to ensure the security of the state in the international financial market. The study examines the experiences of more than 40 developing countries and demonstrates that the following factors contribute to debt emergence: export

change, share of import in GDP, GDP growth, real GDP, population, debt ratio to total budget expenditures. As a result of these factors, some conclusions are drawn, and notes that external debt increases when revenues from exports rise. It is argued that the emergence of non-payment of external debt may create economic sanctions on the part of the international community to obtain new loans. As a result, debt causes serious economic problems for the state.

M. Ostonakulov, an Uzbek scholar, linked the export value of the debt to the national debt and makes the following statement: "The size of the national debt and its repayment and the interest payable are compared to the country's exports, as the ability to repay loans depends on the volume of exports. The ratio of public debt to volume of government exports by more than 2 percent is the limit of the public debt risk. If the ratio equals to 3 percent, public debt causes high risk. In comparison with the ratio of interest payments to exports, the risk limit for public debt is 15-20%, and the high debt limit is 25-30%. The calculation of external public debt as a percentage of gross domestic product is used as a comprehensive indicator". Within the framework of projects implemented in Uzbekistan in cooperation with international financial institutions, the long-term value of public debt is determined in several ways. In particular, the International Monetary Fund's April 2019 debt sustainability analysis suggested that the level of public debt that our economy can bear is chosen as the maximum limit. According to the Debt Sustainability Analysis, our country's ability to repay its debt has been rated "strong." The maximum acceptable rate of debt for the countries included in this group is 70% at present value of GDP (PV) and 75% in nominal value.

In summary, public debt plays an important role in maintaining macroeconomic stability and creating long-term consumption in terms of aggregate demand. From this point of view, it is impractical to consider public debt as a factor of instability. The modern approach to public debt is developed by the American economist D. Soros, a theory of reflexivity. According to this theory, there is a reflexive relationship between the debtor and the donor country. It states that the donor country calculates the amount of international debt with respect to exports and GDP, using the debt repayment ratio by determining the borrower's solvency. The essence of the reflexivity theory is that the coefficient of redemption is determined not by the willingness to pay the debt but on the ability to repay it. Debt readiness is determined by the difference between the amount of new credit received during the debt repayment period and not the payment of debt.

This theory is built on the idea of monetarism, which, under pressure from the government, Central Bank reduces the debt or increases money supply without affecting inflation rise. Conversely, if the government avoids large debt, and the bank avoids cash supply, it can affect inflation.

A. Moiseev bases his conclusions on the link of the amount of money in circulation and the money supply in circulation. In particular, "internal" money for the economy is the money provided by banks to borrowers on demand. This process is based on the standards and policies established by the Central Bank, and the credit money issued by banks is considered as a real money and can be exchanged for "external" money. "External" money is money issued by the Central Bank. It is argued that if the money provides employment and economic potential, as promised by the government and the Central Bank, then this is a net debt of the government.

Based on the research, the following conclusions can be drawn:

- The size of the public debt should be based on scientifically based threshold values;
- its management on the basis of established criteria and its calculation to GDP in relation to state budget revenues;
- establishment of the maximum volume of long-term consumption at the expense of public debt, or maximum value-oriented consumption;
- not to envisage full tax debt repayment.

An important element in the study of public debt is its emphasis on terms. One of the key aspects of this is that public debt is calculated against the current GDP, but its repayment can be made after a certain period, for example, 3-5 or 10 years. This requires taking into account the time factor in public debt management.

IV. RESULTS

In our view, the systematic management of public debt forms will provide a solid foundation for economic stability. According to it, public debt can be divided into the following types:

Loans can be divided into three in terms of time:

- first, short-term, up to one year;
- secondly, a medium term, up to five years;
- third, long-term, up to ten years.

By the source of attraction:

- External Financing Directions - wherein the government attracts funds directly from governments or international financial institutions or international financial markets;
- domestic financing directions - it is understood that the state attracts residents' funds through the financial market.

By source of financing:

- Budget Revenue Financing – obtained from future tax or other government revenues;
- Private income financing - loans that are to be repaid from legal entities that do not have a state share.

In terms of Repayment:

- active debt - total debt payable on which the public debt matures and is due during the reporting period;
- passive debt - total debt, which does not have repayment period and does not mean repayment in the reporting period.

Based on the research, we have examined a number of factors that may contribute to the emergence of public debt, which we believe may be the following:

- for financing of emergencies;
- to emerging of budget deficit or to attract revenues from the financial market to the budget;

- to attract into the implementation of government programs.

As a result of emergencies, the government will need to attract loans from the state budget to cover its losses. This is most often reflected in the processes associated with natural disasters, the spread of various outbreaks, or the spread of agricultural pests.

Budget funding is not planned because it is not possible to predict in advance of these situations. Thus, this requires debt relief for emergencies. At the same time, the increasing number of military actions and the continued focus on their implementation will make it impossible to cover the budget.

Therefore, it is important to prevent emergencies in the economic policy of the state, which are aimed at ensuring economic stability, and to eliminate the factors that cause them.

The emergence of the state budget deficit may be linked to increased social spending in the country. This is because government financing of economic costs, especially through debt, contributes to increased government interference in the economy. In this regard, it is advisable to ensure that, in case of attraction of foreign borrowings to finance investment activities in the real sector, the state guarantees will not be fulfilled.

Uzbek scientist M. Ostanakulov point out that budget deficit is one of the reasons for public debt emergence. According to him, the deficit of the state budget and its growth will affect the functioning of the economy normally.

He also highlights the following reasons for the emergence of public debt:

- Increase of capital investments from the state budget for economic development;
- emergencies - wars, ongoing riots, natural disasters;
- the slowdown in GDP growth, the loss of production;
- insufficient budget revenue base;
- Continuous increase of centralized long-term investments, financing of socio-cultural events without achieving growth rate of GDP;
- economic crises and etc..

In our opinion, it should be noted that several of the factors cited by Professor M. Ostanakulov are related to the budget deficit. This is due to the fact that the state budget increases capital investments, unstable budget base, increasing long-term investments in centralized investments and financing of socio-cultural events. From this point of view, we have divided into three groups the factors that cause public debt.

In addition to budget deficits, public debt may also arise as a result of government involvement in the financial market. The development of this situation has ensured our country's participation in the international financial market in the history of independent economics. As a result of this trend, in 2019, 1 billion US dollars of public debt was attracted, which allowed the commercial banks to attract non-tax revenues through the allocation of these funds. In this regard, the Resolution of the President of the Republic of Uzbekistan dated April 2, 2019 "On the

effective use of funds from the placement of the first sovereign international bonds of the Republic of Uzbekistan" was approved.

Analyzing the initial objectives of this resolution, A.Sherov, an Uzbek researcher, notes in his article that this trend will allow:

- the tax burden on the formation of budget tax revenues tends to decrease;
- With the abolition of mandatory contributions to extra-budgetary funds, the costs of extra-budgetary funds are covered by budget subsidies;
- the formation of a significant volume of non-tax revenues for the budget;
- The trend of attracting foreign funds to the budget is entering a new phase.

G.Kasimova is one of the scientists who made the scientific conclusions that the budget deficit is one of the main factors in the formation of public debt. In her conclusion, she stated that the deficit of the primary budget is the difference between the total deficit and the outstanding debt. The emergence of the primary budget deficit is a major factor in increasing the debt burden. Debt service expenses (main debt and interest for debt repayment) are the main items of the state budget. Government borrowing is the financial activity of the state in raising funds necessary for financing public expenditures by borrowing from the financial markets. Public debt has two objectives: attraction of funds to the state treasury and promoting economic development.

This scientist also summarizes the positive impact of public debt on macroeconomic stability. In our time, this should be considered as a positive economic reality with respect to public debt.

The state implements programs with different terms for social functions. In this regard, they can use external funding to develop social infrastructure without increasing the tax burden or to carry out activities aimed at long-term maintenance of the aggregate demand.

Examples of these are improvements in water supply or road upgrades in the country. For example, the Decree of the President of the Republic of Uzbekistan dated November 30, 2018 No PP-4040 "On Additional Measures for the Development of Drinking Water Supply and Sewerage System in the Republic of Uzbekistan" envisages improvement of drinking water supply. According to the decree, the Fund for the Development of Water Supply and Sewerage Under the Ministry of Finance of the Republic of Uzbekistan was reorganized. Significant of this decision is that the state program provides for the use of capital investments and concessional loans from international financial institutions and foreign government financial institutions as sources of funding for the water supply objectives.

V. CONCLUSION

A study of the causes of public debt can help prevent from them. In other words, it is important that the effectiveness of government debt management is that it should eliminate triggering causes of it, or, when it does, it should be directed to creation for consumption.

In summary, the forms of public debt and the factors that contribute to its formation are represented by a number of macroeconomic elements. From this point of view, it is important to develop and implement a management strategy that is compatible with the forms of public debt in its management.

At the same time, we believe that early identification and timely assessment of the factors that lead to public debt can help ensure debt management.

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