

**SUBJECT- ECONOMICS**

**CLASS- B.Sc.Part-II**

**PAPER-IV PUBLIC FINANCE**

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### **UNIT-I**

#### **TOPIC- NATURE,SCOPE AND SIGNIFICANCE OF PUBLIC FINANCE**

##### **INTRODUCTION: MEANING AND DEFINITION OF PUBLIC FINANCE**

The Government of every country has to perform certain special functions which can be classified under two heads:

- 1.Obligatory Functions**-eg. Defence of the country against foreign aggression, the maintenance of peace and security within the country.
- 2. Optional Functions**-eg. Provision of education, establishment of hospitals, building of parks,etc.

To perform all these functions adequately and efficiently, the government needs funds from the public.Public finance is that science which deals with the income and expenditure of the public authorities which includes all sorts of governments i.e.,central state and local.

##### **Definitions of Public Finance:**

According to **Prof. Findlay Shirras**, "Public finance is the study of the principles underlying the spending and raising of funds by public authorities."

According to **Prof.Dalton**, "Public Finance is one of those subjects which lie on the borderline between economics and politics, it is concerned with the income and expenditure of public authorities and with the adjustment of the one to the other."

In the words of **C.F. Bastable**, "Public Finance deals with expenditure and income of public authorities of the state and their mutual relations as also with the financial administration and control."

Public finance is a science as well as an art.

## **SUBJECT MATTER OF PUBLIC FINANCE**

**1. Public Revenues-** In this branch of public finance we study all the sources from which the government derives its revenues like the principles of taxation and the problem of the incidence of taxation.

**2. Public Expenditure-** In this we study the main principles of public expenditure, its allocation and the resulting effects on the economy and all those ways and means through which the government keeps a check on its expenditure.

**3. Public Debt-** In this we study the ways in which the borrowings are raised from the public and the manner in which the public debt is managed by the government.

**4. Financial Administration:** In this branch, we study the financial management by the government, the preparation of the budget and its final acceptance by the legislature and how the government keeps a check on its expenditure through auditing of accounts, etc.

**5. Fiscal policy-** It deals with the effects of financial operations of the government on the various aspects of the functioning of the national economy such as prices, employment, consumption, production, distribution of wealth etc.

## **SCOPE OF PUBLIC FINANCE**

The scope or subject matter of public finance is divided into the following heads:

1. Theory of Public Revenue
2. Theory of Public Expenditure
3. Financial Administration
4. Stabilization, Growth and Distributive Justice
5. Federal Finance

## **FUNCTIONS OF PUBLIC FINANCE**

According to modern economists, public finance performs three important functions:

**1. The Allocative Function-** A modern government has to perform a large variety of functions which necessitates large scale government expenditure on these items and the function of public finance is to allocate the total expenditure to the various heads in such a way as to maximize the social welfare of the people.

**2. The Distributive Function-** There are large disparities of income and wealth in a capitalist economy between the 'haves' and the 'have-nots' and the function of public finance in such a state is to lessen these inequalities through redistribution of income and wealth in favour

of the 'have-nots'. Public Finance correlates revenue expenditure and borrowing policies with the objective of reducing these economic inequalities.

**3. The Stabilizing Function-** The function of public finance in a capitalist economy is to eliminate or reduce the frequent business fluctuations by correlating its taxation, expenditure and public debt policies. Keynes suggested the policy of deficit budgeting at the time of depression and unemployment and surplus budgeting during inflation to promote economic stabilization in an economy.

Thus welfare, equity and stability are the three main functions of public finance.

**Modern Public Finance analysis the fundamental problems of government's physical activity such as:**

- i. The extent of state intervention in the economic field.
- ii. Size of public revenue
- iii. Size of public expenditure
- iv. Nature of tax system.
- v. Distribution of tax burden.
- vi. Formal and effective incidence of taxation on production, consumption, distribution and welfare.
- vii. Criteria for public expenditure.
- viii. Nature of the burden of public debt and its management, etc.

### **SIGNIFICANCE OF PUBLIC FINANCE**

Public Finance has come into the forefront on account of the new concept of "Welfare State" hence the importance of public finance has vastly increased in recent years which is evident from the following:

**1. Subsidies and Grants-** The government these days give subsidies and grants to different industries to enable them to increase the production of essential goods in the country.

**2. Policy of Taxation-** The governments often impose taxes to discourage the production of harmful commodities like wine, opium etc. in order to reduce the consumption of these commodities by the public.

**3. Protection to Infant Industries-** It is often given against foreign competition through tariff duties in backward and underdeveloped countries.

**4. Emphasis on Economic Planning-** Public Finance renders valuable help in the planned economic development of the country.

**5. Increase in Employment Opportunities-** Public Finance has a special place in the modern theory of employment and the government has to spend increasing amounts on public works to offer employment opportunities to the unemployed people within the country.

**6. Emphasis on Equal Distribution of Income and Wealth-** Public Finance helps in eliminating and reducing economic inequalities in capitalist countries and helps the government to transfer the purchasing power from the rich to the poor.

**7. Achieving Economic Stability-** The modern concept of public finance is one of functional or compensatory finance which plays an important role in achieving and maintaining economic stability in a country through suitable taxation, expenditure and public debt policies.

**8. Reconstruction of Economic and Social life-** It is done in socialist and communist countries with the help of public finance.

**9. Optimum Utilisation of Resources-** Public Finance emphasizes optimum utilisation of scarce resources in underdeveloped and developing countries of the world.

**10. Increase in the Rate of Savings and Investments-** Public Finance plays a vital role in increasing the rate of savings and investments.

#### **ECONOMIC AND SOCIAL SIGNIFICANCE OF PUBLIC FINANCE**

There is great economic and social significance of public finance both in developed and developing countries.

Economic stability and maintenance of full employment are the two main goals of public finance in developed countries.

In developing countries, the rapid economic development through capital formation and creation of infrastructure are the important goals of public finance.

Thus on the economic side, economic stability, full employment, balanced regional and sectoral development through mobilization of resources are significant responsibilities of the government.

On social side, social justice or equitable distribution of income, reduction of inequalities in income and wealth, helping the poor to raise the real income are some important functions of public finance.

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