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UNIT-I

TOPIC- PRIVATE FINANCE AND PUBLIC FINANCE

Private Finance is the study of income and expenditures of private individuals or private institutions and it can be classified into two categories-the personal finance and business finance.Public Finance on the other hand refers to the systematic study of the operations of public income and expenditures of the public authorities.

COMPARISON OF PUBLIC AND PRIVATE FINANCE:

There are similarities as well as dissimilarities between private finance and public finance.

SIMILARITIES:

1. Maximum Advantage - The objective of both is to secure the maximum advantage out of the expenditure. Both are thus based upon the principle of rationality.Private individual tries to maximize utility out of his expenditure while the government wishes to achieve maximum social advantage out of its expenditure.

2. Precedence of Income- In private finance the income preceeds expenditure. In public finance as well the revenue has to be raised before the expenditure can be met.

3. Scarcity of Resources-The private individual as well as the state have to adjust their scarce resources to meet multiple ends.Thus the problem of economizing is common to both.

4. Borrowing- Both the private individual as well as the state have to resort to borrowing when their expenditure exceeds revenue.

5. Adjustment of Income Expenditure- Both the public and private finance face the same problem of adjustment of income and expenditure.

DISSIMILARITIES:

There are certain differences between private finance and Public Finance which are given below.

1. Determination of Expenditure- A public authority like government first determines the volume of expenditure that it has to incur on different heads and then tries to to find out resources to meet it while an individual first considers his income and then determines the volume of expenditure,it has to incur.

2. Differences in Credit Status- The credit of a private individual is limited has he can borrow a limited sum of money for a limited period whereas the government enjoys very high degree of credit in the market.

3. Right to Print Currency- The government can print notes which are legal tender within the country and act as a source of income for it, which is not available to the private individual as he enjoys no such right of printing the currency.

4. The Law of Equi-Marginal Utility- The private individual arranges his expenditure in accordance with the law of equi-marginal utility to secure the maximum utility out of his expenditure whereas the government does not give as much importance to this law and modern Government sometimes incur certain types of expenditure from which they do not derive any advantage.

5. Nature of the Budget- A surplus budget is always good for a private individual but it may not be good for the government. In case of of the governmental surplus budget two things may be implied:(i) The government is is levying more taxes on the people than necessary,(ii) The government is not spending as much on the welfare of the people as it should.

6. Secrecy of the Budget-The budget of a private individual is secret, where is in a democratic country the government presents its budget before the parliament where it is widely discussed and subjected to criticism.

7. Elasticity of Finance- Public finance is more elastic then private finance as there is not much scope for changes in private finance why drastic changes can be made in government finance.

8. Differences in Objectives- The objective of private Finance is to fulfill private interests where is the objective of public finance is to secure the maximum social advantage for society. The motive of private expenditure his personal benefit whereas of public expenditure is social benefit.

9. Effect on Economy- Private expenditure being very small in relation to public expenditure has only a marginal effect on the national economy whereas public expenditure because of its large size has a tremendous impact on the economy of a country.

10.Differences in Perspective - Individuals always seek quick returns and they save only a small amount for future and spend more to satisfy their current needs. Individual tend to think more on present as they are dead in the long run.Similarly they seldom spend if it does not yield any money income. On the other hand, State has a long term perspective of its expenditure. It does not care only for immediate benefit.Similarly sometimes government may have to spend on schemes which may not yield any money income at all (e.g. Public Health).

11.Differences in pattern of expenditure- The pattern of expenditure in the case of private finance is often influenced by customs, habits, social status etc whereas the pattern of government expenditures is guided by the general economic policy followed by the government.

12. Private Finance is always a secret affair- Individual need not reveal their financial transactions to anyone except for filing tax returns.Public accountability is an important feature of public finance.

13.Differences in character of expenditure - Individuals can plan to postpone their private expenditure. But the state cannot afford to put off vital expenditure like defence, famine relief etc. Findlay Shiraz says that compulsory character is an important feature of public finance.

14.Coercive Method-The government can use coercive methods to collect revenue whereas private individuals cannot use force to get their income and they have to earn it by their own methods.

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