Course Name:-B.A.LLB-IIth Sem

Subject:-Economics-II

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Topic:- Public Finance

Meaning of Public Finance

The **concept of public finance** is one of the oldest and most prevalent component of the social economic theory. The concept of public finance emerged with the formation of governments and public social institutions. **Definition of public finance** has been provided by various economists and institutions. In totality if we want to know, **what is public finance?** The following points shall be included:

- When we think of what is public finance? It pertains to management of financing activities and expenditures of public authorities like central or state governments and all other public governing bodies.
- Public finance implies the study and managing public treasury or commingled funds of society addressing social wants.

Objectives of Public Finance

Public finance strives to achieve societal benefits like higher growth, wealth creation and sharing, factors controlling stability of income, property and economy etc. The **objectives of public finance** are achieved by managing and drafting policies pertaining to key areas such as taxation, management of public revenue and expenditure, raising and servicing public debt, fiscal administration at various levels.

Public finance is required at all social levels considering different levels of government, management and analysis with an eye on key focus areas:

- Financial Management: Collection of revenues from public and arranging the required finance together with allocation and use of public funds in an efficient and effective manner is the essence of public Finance Management.
- Revenue Management: Government revenues are from both tax and non-tax sources. Effective measures to increase revenue base and improvising revenue collection is important for effective management of public finance.
- Expenditure Management: Appropriating and usage of all the expenditures in a proper manner reflects the effectiveness of proper development and maintenance of the project as well as society. Misappropriation of funds by means of inflating bills,

unnecessary expensing, allocating funds for discretionary expenses are common while spending public commingled funds.

- Fiscal Policy Amendments: Government finances are mostly burdened by budget deficits and continuous leverage slows down current as well as future growth. Therefore, amendments to fiscal policies are necessary to rationalize and prioritize Government operations for a sustainable economic growth.
- Regulatory Changes: Continuous scrutiny and changes to underlying regulations is required to achieve and check targeted development.
- Public Policy: Implementing and laying down sound policies is important for development of public as well as private sectors.
- Public Debt Management – All debts either raid raised by the Government or for public projects has direct costs associated inform of interest as well has associated opportunity costs, which burdens the expenses. Effective management of public debt through restructuring and rationalization is required to control financing costs.
- Process Improvement: A systematic approach is required to help Governments and public bodies to carry the operations and processes swiftly to achieve maximum societal benefits.
- Management of Information System: Powerful IT system is required in today’s world as correct information supports effective and corrective decision making.

- Capacity Creation: Adequate capacity to serve requirements in times of stress and considering future needs is required at institutional as well as individual level.
- Interdepartmental Synchronization: To run a society efficiently and ensuring maximum benefits requires synchronization and alignment of working various departments all together.

Need of effective Public Finance Management

State as well as central governments formed worldwide have been witnessed on-going and continuous fiscal imbalances, financial failures due to underlying complex financial systems and products. Public-finance institutions like state and central governments, **public funds**, tax authorities, central banks, regulators, **public auditors** and rating agencies foresee a lot of manipulations, amendments and reforms to manage public finances for existing and future wellbeing of society. Concerned and responsible authorities in the field of public finance are aiming to improve their performance by closing the loopholes and increasing transparency.

In order to quick fix the adverse event in times of stress societal wellbeing at current time and for existing members sometimes lead to lethal consequences. Mismanagement of public finances lead to digging much deeper holes in public financial accounts, like:

- Balancing accounts with one-time fixes following aggressive revenues and conservative expenses policy.
- Ignoring long term costs and consequences associated with current actions.
- Keeping excess of assets and funding than required at the sustainable level.
- Overspending current surpluses in the public finance accounts, rather than following a reserve for future deficits or investment requirements.
- Ignoring or manipulating the funding status of pension or future investment obligations.
- Overestimating returns and allocating excess funds on discretionary projects without having proper consensus and analysis of project benefits and opportunity costs.
- Ignoring continuous monitoring and control of public finance accounts on standalone and consolidated basis.

Importance of Public Finance

1. Steady state economic growth

Government finance is important to achieve sustainable high economic growth rate. The government uses the fiscal tools in order to bring increase in both aggregate demand and aggregate supply. The tools are taxes, public debt, and public expenditure and so on.

2. Price stability

The government uses the public finance in order to overcome form inflation and deflation. During inflation, it reduces the indirect taxes and genera expenditures but increases direct taxes and capital expenditure. It collects internal public debt and mobilizes for investment. In case of deflation, the policy is just reversed.

3. Economic stability

The government uses the fiscal tools to stabilize the economy. During prosperity, the government imposes more tax and raises the internal public debt. The amount is used to repay foreign debt and invention. The internal expenditures are reduced. During recession, the case is just reversed.

4. Equitable distribution

The government uses the revenues and expenditures of itself in order to reduce inequality. If there is high disparity it imposes more taxes on income, profit and properties of rich people and on the goods they consume. The money collected is used for the benefit of poor people through subsidies, allowance, and other types of direct and indirect benefits to them.

5. Proper allocation of resources

The government finance is important for proper utilization of natural, man made and human resources. For it, on the production and sales of less desirable goods, the government imposes more taxes and provides subsidies or imposes taxes lightly on more desirable goods.

6. Balanced development

The government uses the revenues and expenditures in order to erase the gap between urban and rural and agricultural and industrial sectors. For it, the government allocates the budget for infrastructural development in rural areas and direct economic benefits to the rural people.

7. Promotion of export

The government promotes the export imposing less tax or exempting from the taxes or providing subsidies to the export oriented goods. It may supply the inputs at the subsidized prices. It imposes more taxes on imports and so on.

8. Infrastructural development

The government collects revenues and spends for the construction of infrastructures. It has to keep peace, justice and security too. It has to bring socio-economic reformation too. For all these things it uses the revenues and expenditures as fiscal tools.