



WELCOME



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Public Finance in India ,part 1

- ▶ **Topic Covered**
- ▶ **Introduction**
- ▶ **Meaning and Nature of Public Finance**
- ▶ **Definitions of Public Finance**
- ▶ **Classification of Public Expenditure**



Introduction

- ▶ Public finance is one of the old branches of economics which highlights the role and functions of the government in an economy. Government is a formal or informal institution created by the people in a specific region to perform various functions such as protection from external attacks, protection of private property of the people, generation of employment, maintaining internal law and order, provision of social needs like education, health, etc.



These functions of the government can be classified as

- 1) Obligatory functions** : Protection from external attacks, maintaining internal law and order etc. are obligatory functions of the government.
- 2) Optional functions** : Provision of education and health services, provision of social security like pensions and other welfare measures etc. are optional functions of the government.



Meaning and Nature of Public Finance :

- ▶ To perform the above mentioned functions, adequately and efficiently, any government needs funds which can be received from various sources. The concept of public finance is a combination of two words 'public' and 'finance', 'Public' is a collective for the individuals living within an administrative territory. In economics, it is used to signify the government which represents the public. 'Finance' simply means income and expenditure. Thus, 'public finance' is nothing but a study of the principles of income and expenditure of the government at central,



state and local levels. This study is done under the public finance branch in economics.



Definitions of Public Finance

1) According to Hugh Dalton : “Public finance is one of those subjects which are on the borderline between economics and politics. It is concerned with the income and expenditure of public authorities and with the adjustment of one with the other.” Since we study the activities of the governments in political science too, public finance also constitutes a part of the study of political science.

2) According to Prof. Findlay Shirras : “Public finance is the study of the principles underlying the spending and raising of funds by public authorities.”



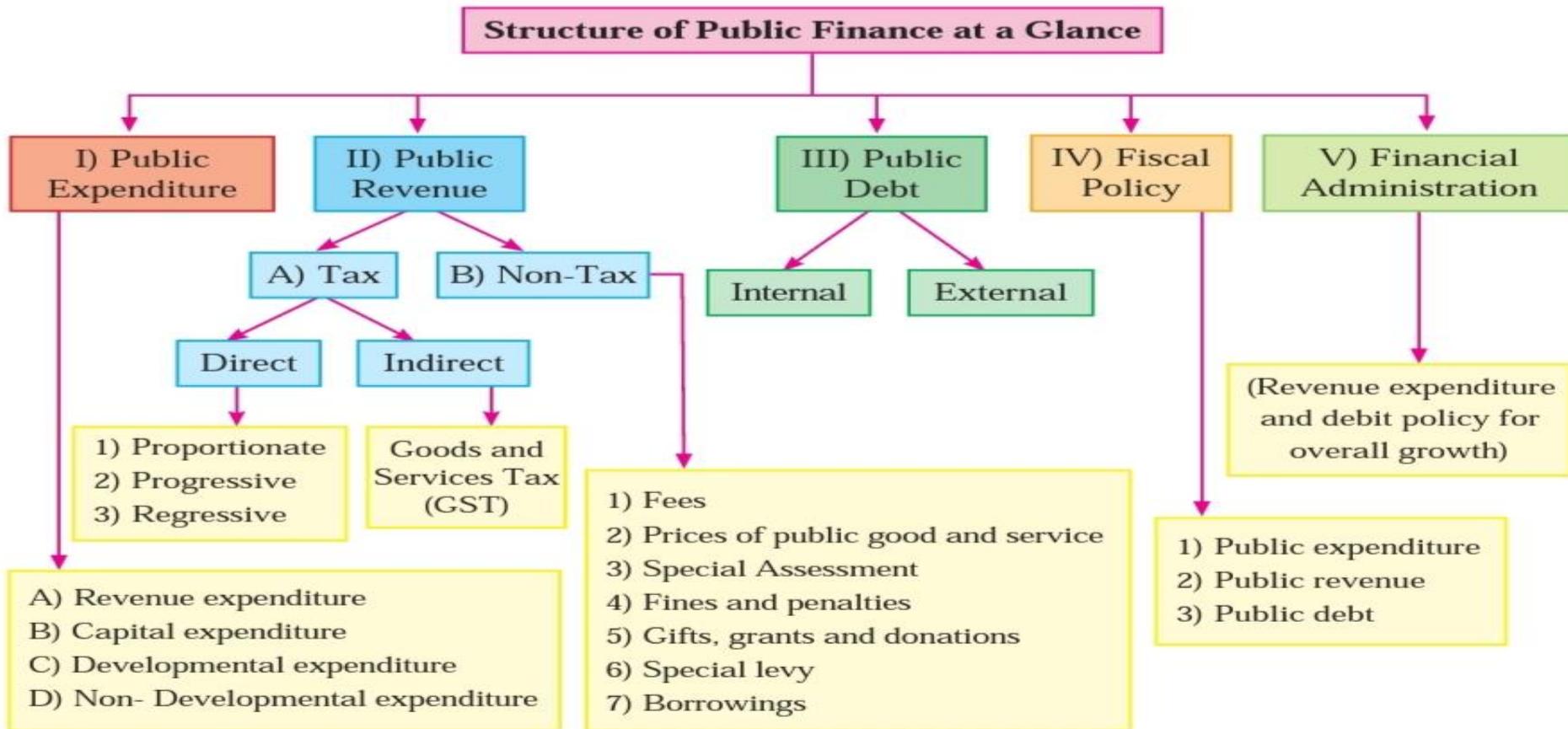
Differences Between Public Finance and Private Finance :

Points of difference	Public finance	Private finance
1) Objectives	To offer maximum social advantage to the society	To fulfil private interests
2) Determination of expenditure	Government first determines the volume and different ways of its expenditure	An individual considers his income and then determines the volume of expenditure
3) Credit status	High degree of credit in the market	Credit of a private individual is limited
4) Right to print currency	The Government can print notes through Reserve Bank of India	Private individual does not enjoy such right
5) Elasticity of finance	Public finance is more elastic	There is not much scope for changes in private finance
6) Effect on economy	Tremendous impact on the economy of country	Marginal effect on the national economy

Structure of Public Finance :

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The components or scope of public finance can be shown as below :





1) Public Expenditure :

Public expenditure is that expenditure which is incurred by the public authority [Central, State and Local Bodies] for protection of their citizens, for satisfying their collective needs and for promoting their economic and social welfare.

Till 20th century, the majority of the governments had adopted a policy of laissez faire. Under this policy, the functions of government were restricted to the obligatory functions.



But, the modern governments not only perform the obligatory functions such as defense and civil administration, but also perform optional functions for promoting social and economic development of their countries. Therefore, study of public expenditure is an important part of study of public finance.



Classification of Public Expenditure

► Different economists have classified public expenditure on different bases. We shall now study some of the important classification of public expenditure.

A) Revenue Expenditure : Revenue expenditure of the government is for incurred carrying out day-to-day functions of the government departments and various services. It is incurred regularly. For example, administration costs of the government, salaries, allowances and pensions of government employees, medical and public health services etc.



B) Capital Expenditure : Capital expenditure of the government is expenditure for progress and development of the country. For example, huge investments in different development projects, loans granted to the state governments and government companies, repayment of government loans etc.

c) Developmental Expenditure : Developmental expenditure is productive in nature. The expenditure which results in generation of employment, increase in production, price stability etc.



is known as developmental expenditure. For example, expenditure on health, education, industrial development, social welfare, Research and Development (R & D) etc.



D) Non-Developmental Expenditure : On the other hand, that government expenditure which does not yield any direct productive impact on the country is called non- developmental expenditure. For example, administration costs, war expenditure etc.



Thanks