WELCOME

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Public Finance in India

- Topics Covered
- Reasons for Growth in Public Expenditure
- **Sources of Public Revenue**
- **Types of Taxes**

Reasons for Growth in Public Expenditure :

It is observed that there is a continuous growth in public expenditure in a developing country like India.

Let us study some of the important reasons :

1) Increase in the Activities of the Government : As mentioned earlier, the modern government performs many functions for the social and economic development of the country.

These functions include spread of education, public health, public works, public recreation, social welfare schemes etc. It is observed that new functions are continuously being undertaken and old functions are being performed more efficiently on a large scale by the government. This leads to increase in public expenditure.

2) Rapid Increase in Population : Population of developing countries like India is increasing fast. In 2011 Census, it was 121.02 crores. As a result, the government has to incur greater expenditure to fulfil the needs of the increasing population.

3) Growing Urbanization : Spread of urbanization is a global phenomenon of the day. This leads to increase in the government expenditure on water supply, roads, energy, schools and colleges, public transport, sanitation etc.

4) Increasing Defense Expenditure : In modern times, defense expenditure of the government is increasing even in the peace time due to unstable and hostile international relationships.

5) Spread of Democracy : Majority of the countries in the world are democratic in nature. A democratic form of government is expensive due to regular elections and other such activities. This results in the increase in total expenditure of the government.

6) Inflation : Just like a private individual, the government has to buy goods and services from the market for the spread of economic and social development. Normally, prices show a rising trend. Due to this, the government has to incur increasing costs.

7) Industrial Development : Industrial development leads to an increase in production, employment and overall growth in the economy. Hence, the government makes huge efforts for implementing various schemes and programme for industrial development. This results in increase in government expenditure.

8) Disaster Management : Many natural and man-made calamities like earthquakes, floods, cyclones, social unrest etc. are occurring more frequently. The government has to spend a huge amount for the disaster management which increases total expenditure.

Modern governments are working for ‘welfare state’. Hence, there is a continuous increase in the public expenditure

II) Public Revenue

Public revenue means the aggregate collection of income with the government through various sources. Public revenue holds the permanent position in the study of public finance which is part of study of economics. Thus, the necessity of public revenue arises due to public expenditure.

The main sources of public revenue are as follows.

Sources of Public Revenue :

A) Taxes B) Non-tax Revenue :

A) Taxes :

According to Prof. Taussig : “The essence of a tax as distinguished from other charges by government is the absence of a direct quid pro quo between the tax payer and the public authority.”

2) According to Prof. Seligman, "A tax is a compulsory contribution from the person to the government without reference to special benefits conferred."

A tax possesses following essential characteristics :

1) It is a compulsory contribution to the government and every citizen of the country is legally bound to pay the tax imposed upon him. It is a major source of revenue to the government. If any person does not pay a tax, he can be punished by the government.
2) Tax is paid by a taxpayer to enable government to incur expenses in the common interests of the society.

3) The payment of a tax by a person does not entitle him to receive any direct and proportionate benefits or services from the government in return for the tax.

4) Tax is imposed on income, property or commodities and services

Types of Taxes :

There are two main types of taxes. They are

1) Direct Tax and 2) Indirect Tax.

1) Direct Tax : It is paid by the taxpayer on his income and property. The burden of tax is borne by the person on whom it is levied. As he cannot transfer the burden of the tax to others, impact and incidence of direct tax falls on the same person. For example- personal income tax, wealth tax etc.

2) **Indirect Tax :** It is levied on goods or services. It is paid at the time of production or sale and purchase of a commodity or a service. The burden of an indirect tax can be shifted by the taxpayer (producers) to other person/s. Hence, impact and incidence of tax are on different heads.

For example, newly implemented Goods and Services Tax [GST] in India has replaced almost all indirect taxes, custom duty.

A) Non-Tax Revenue Sources :

Public revenue received by the government administration, public enterprises, gifts and grants etc. are called as non-tax revenue. These sources are different than the taxes. A brief information about these sources are as follows :

1) Fees : A tax is paid compulsorily without any return service whereas, fee is paid in return for certain specific services rendered by the government. For example- education fee, registration fee, etc.

2) Prices of public goods and services : Modern governments sell various types of commodities and services to the citizens. A price is a payment made by the citizens to the government for the goods and services sold to them. For example- railway fares, postal charges etc.

3) Special Assessment : The payment made by the citizens of a particular locality in exchange for certain special facilities given to them by the authorities is known as 'special assessment.' For example- local bodies can levy a special tax on the residents of a particular area where extra/ special facilities of roads, energy, water supply etc. are provided.

4) Fines and Penalties : The government imposes fines and penalties on those who violate the laws of the country. The objective of the imposition of fines and penalties is not to earn income, but to discourage the citizens from violating the laws framed by the Government. For example, fines for violating traffic rules. However, the income from this source is small.

5) Gifts, Grants and Donations : The government may also earn some income in the form of gifts by the citizens and others. The government may also receive grants from the foreign governments and institutions for general and specific purposes. Foreign aid has become an important source of development finance for a developing country like India. However, this source of revenue is uncertain in nature.

6) Special levies : This is levied on those commodities, the consumption of which is harmful to the health and well-being of the citizens. Like fines and penalties, the objective is not to earn income, but to discourage the consumption of harmful commodities by the citizens. For example- duties levied on wine, opium and other intoxicants.

7) Borrowings : The government can borrow from the people in the form of deposits, bonds etc. It also gets loans from foreign governments and organizations such as IMF, World Bank etc. Loans are becoming more and more popular source of revenue for the governments in the modern times.

Thanks