

# Meaning of Public Finance

- **Public: General people**
- **Finance: Resources**

**Public finance: Resources of the masses, how they are collected and utilized.**

*The discipline of public finance describes and analyses government services, subsidies, welfare payments and the methods by which the expenditures to these ends are covered through taxation, borrowing, foreign aid and the creation of money.*

# Definitions of Public Finance

- **Dalton-**

**Public finance is concerned with the income and expenditure of public authorities , and with the adjustment of one to another.**

- **Harold Groves-**

**Public finance is a field of enquiry that treats on income and outgo of governments (i.e. federal, state and local)**

# Scope of Public Finance

**Prof. Dalton categorized the scope of public finance into four areas:**

**(1) Public income**

**(2) Public expenditure**

**(4) Public debt and**

**(5) Financial administration.**

# Scope of Public Finance

## •Public Revenue-

Public finance deals with all those sources or methods through which a government earns revenue. It studies the principles of taxation, methods of raising revenue, classification of revenue etc.

## •Public Expenditure-

In public expenditure we study various types of classification, the principles which govern public expenditure and its effects on various factors like production, employment, income stability and growth.

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# Scope of Public Finance

## •Public debt-

**When public expenditure exceeds public revenue, the gap is filled by public borrowing or public debt.**

## •Financial Administration-

**It includes collection, custody and disbursement of public money, management of public debt, general control on financial operations of the govt. etc.**

# Functions of Public Finance

## 1. Allocation of resources-

**Market mechanism alone cannot perform all economic functions- thus public sector is used, to make provisions of social or collective wants; which are- defence, justice, social welfare, roads, railways etc.**

**Besides, public finance is used to divide resources between private and social goods- also to determine the proportion of production of different social goods.**

# Functions of Public Finance

## 2. Distribution of income and wealth-

Public finance may be used to reduce disparities in distribution of income and wealth. Measures for this are-

1. A tax transfer scheme

2. Progressive income tax may be used to finance public welfare services

3. Taxes on goods purchased by high income group and subsidies on goods purchased by low income group.

# Functions of Public Finance

## 3. Economic Stabilisation-

To remove economic fluctuations-

- 1.If involuntary unemployment prevails- increase demand by increasing public expenditure
- 2.If inflation prevails-reduce demand by increasing tax level
- 3.If full employment prevails-maintain current level of public expenditure and taxation



# Functions of Public Finance

## 4. Acceleration of economic development-

**In developing economies-increasing efficient use of resources-increasing the investment on capital investment- allocation of resources for increasing investment and restraining consumption-remove inequalities etc. To use fiscal instruments for activating finance.**