

What is Public Finance

Public finance is the management of a country's revenue, expenditures and debt load through various government and quasi-government institutions.

There are different components of the Public Finance, like Tax Collection, Budget, Expenditure etc.

A country's financial position can be evaluated in much the same way as a business' financial statements.

Public finance is concerned with the income and expenditure of public authorities and the adjustment of one with the other



What is Public Finance

The term “public finance” may be defined as the identification of specific financial relationships and functions running between public administration bodies and institutions (i.e. public sector entities – the state) as one party and in mutual interaction with other entities of the economic system as the other party (i.e. private entities – households and companies etc.)



Public Revenue



The study of various sources of government's income, the principles guiding the raising of income (e.g. canons of taxation), their relative merits and demerits and their effects on the economy (e.g. impact and incidence of taxation)



Tax collection is the main revenue source for governments.

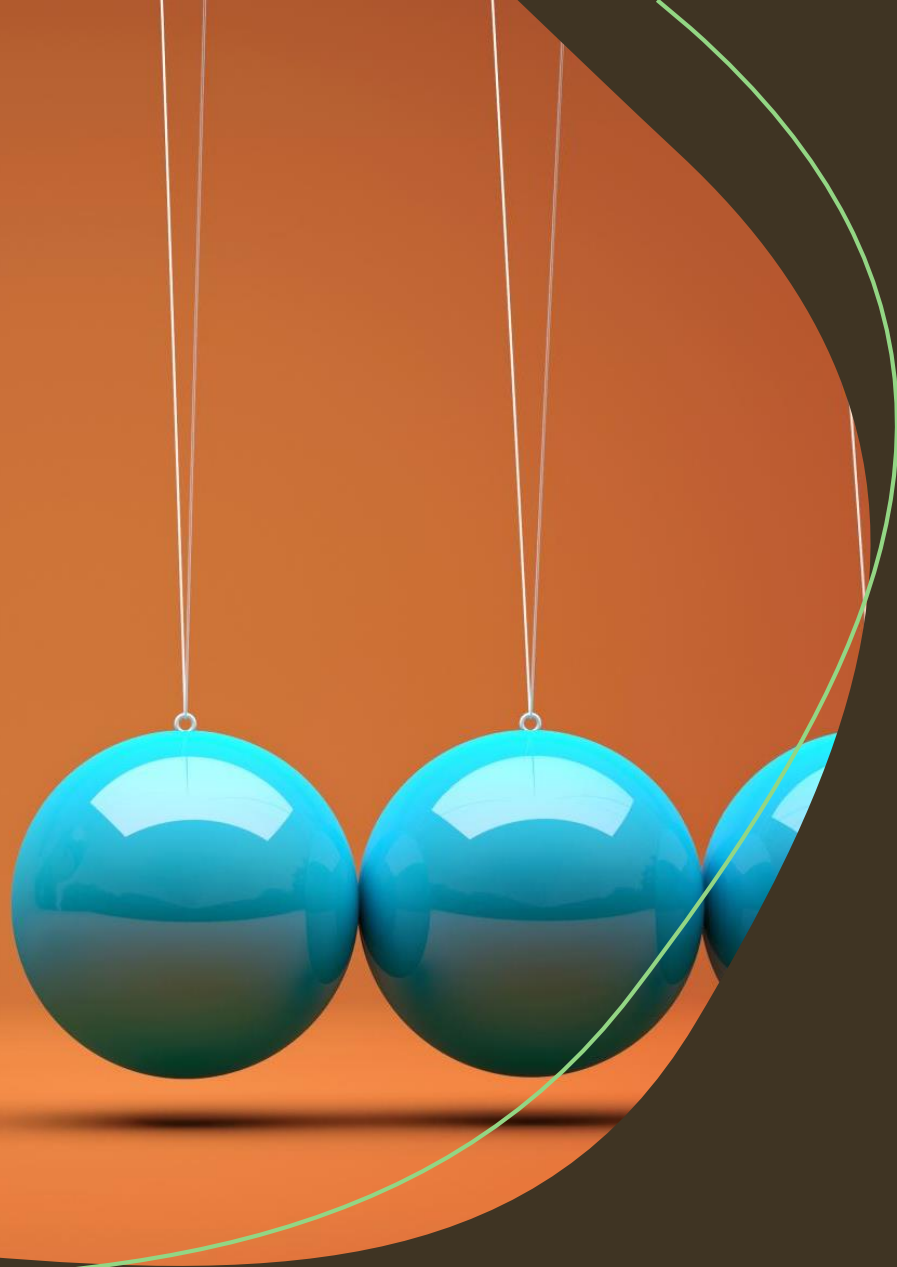
Taxation

According to the classical school of thoughts, taxes are harmful because they adversely affect willingness and ability to work, save and invest.

Taxation was expected to be kept at a minimal limit.

High progressive taxation will lead to slow economic progress.

Redistributive effects of taxation were ignored.



Cannons of Taxation

- Equality or Equity
- Certainty
- Economy
- Convenience
- Productivity
- Simplicity
- Diversity

Public Expenditure

The study of the manner in which public expenditure is classified, the principles guiding public expenditure (canons of public expenditure), causes of growth and effects of public expenditure.

Expenditures are everything that a government actually spends money on, such as social programs, education, and infrastructure. Much of the government's spending is a form of income or wealth redistribution, which is aimed at benefiting society as a whole

Cannons of Public Expenditure

Principle of Maximum Social
Advantage

Cannon of Economy

Cannon of Sanction

Cannon of Elasticity

Cannon of Surplus

Public Debt



The study of public debt forms a very important part of public finance in modern times as governments are increasingly resorting to debt to meet the growing needs of the people.



Public finance studies the sources, burden and impact of public debt



If the government has a deficit (spending is greater than revenue), it will fund the difference by borrowing money and issuing national debt

Classification of Public Debt

Internal and external debt

Short term and long term loans

Funded and unfunded debt

Voluntary and compulsory loans

Redeemable and irredeemable debt

Productive or reproductive and unproductive debt/deadweight debt

FRBM

- Sets limits for over all Borrowings of the Government
- Sets limits for Annual Borrowing
- Sets limits for Guarantees
- Sets Limits for Deficits
- Ensures improvement in the quality of expenditure

Financial Administration

This includes the study of the preparation, passing and implementation of the budget,

budgetary policies and their socio-economic impact,

inter-governmental financial relations,

fiscal management and fiscal responsibility

Economic Activities of the State

- The scope of public finance was confined to the traditional functions of the state, that is, provision of defense, law and order, justice and civic amenities.
- But with the emergence of welfare states the scope of public finance was broadened public finance now includes the use of the budget as a tool to correct distortion in the economy, to mobilise resources, to maintain price stability create employment prevent market failure, achieve growth equity and maximize social welfare

Budget

A government budget is a projection of the government's revenues and expenditure for a particular period of time often referred to as a financial or fiscal year

According to Article 112 of the Indian Constitution, the Union Budget of a year, also referred to as the annual financial statement, is a statement of the estimated receipts and expenditure of the government for that particular year.

Types of Budget

Traditional Budget

Zero Based Budget

Performance Budget

Programme Budget

Outcomes Budget