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Public Finance
Topic - (i) Importance of Public Finance
(ii) Sources of Public Revenue

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5. IMPORTANCE

According to the economists the public finance occupies a place of vital importance for an over all economic development and maximisation of national welfare in the country. The essence of the importance of public finance can be easily acknowledged from its three main functions being allocation function, distributive function, and stabilisation function. Further, its vast importance in the vital economic, social and political areas can be observed by eminent academic scholars of various disciplines. A brief description of its importance in main economic, social and political areas may be as follows :—

I. Economic Area

(1) Financial arrangement—It provides adequate financial arrangement to the government to meet its owed national responsibilities. The government can play an effective economic role in promoting required economic activities and regulating undesirable economic activities in the country with the help of available adequate financial arrangement where public finance is of vital importance.

(2) Economic Planning—Economic planning is very important for the government to have steady economic development of the country. Public finance assists the government in evolving the necessary economic planning. With the help of public finance, the government can determine the allocation of public expenditures in various overheads of public budget, the accruing of public revenue from its various sources (particularly its monetary and fiscal operations), economic stabilisation measures, etc. which are very important in its economic planning. Thus, the importance of public finance is quite obvious in economic planning.

(3) Optimal distribution of factors—The budgetary policy and policy measures are important organs of public finance which are very useful for the public authorities in determining optimal distribution of factors of production of capital and consumer goods and public utility services. Thus, the importance of public finance in this area has to be considered by the public authorities in consonance with the public interests to avoid unutilisation and wastage of limited and scarce natural and man-made resources in the area of production of products and services in the country.

(4) Capital Formation—Capital formation is another area where the public revenue and public expenditure measures of the government are very important. Savings and investment incentives through these measures motivate the common people for capital formation because this capital formation is effected by the nature of taxation system of the government and public expenditures in the existing social set-up. Thus, the public finance operations of the public authorities under the government's administration play a key role in capital formation in the economy which is a must for the economic development of the country.

(5) Employment—The canons of public finance and practically viable public finance operations of the public authorities and the government play key role in generating employment opportunities for the existing varied types of manpower through the public welfare programmes. It provides economically viable solutions to the unemployment problems in different regions of the country upto some satisfactory extent depending upon the availability of limited and scare resources of production of goods and services and the nature of their utilisation technology. Besides, public funds and loans are useful in public investments in those industrial areas which are of prime national importance and can generate employment on a mass scale for the common people. This amply proves the importance of public finance in employment sector of an economy.

(6) National Income—The vital organs of public finance are public works programmes, monetary and fiscal operations of government, utilisation of public funds and public debts, financial administration, etc. which are useful in large scale public capital investments in various sectors of an economy particularly production, trade, commerce, public utility services, etc. These are the means of increasing gross national income of an economy. Thus, public finance plays key role in the growth of national income in the country.

(7) Income Distribution—The justified even distribution of wealth, property and income is necessary for the general interests of common people in the society to curb social and economic exploitation of common mass by few monopolists who are also capitalists. In this area, there is wide use of good taxation system, public distribution system, public welfare programmes, etc. which are possible with the help of conducive public financial role of public authorities under the administration of the government. Thus, public finance has its importance in fair income distribution among the common people in the society to provide them genuine social justice.

(8) Regional Development—The balanced regional development is possible through adequate public works programme and allocation of resources for regional development on priority basis wherein the public finance plays its vital role. These factors are considered in economic planning and public budget by the government and its administration. Backward regions are given preferences in the public expenditure allocation in the public budget to have balanced development of all the regions in the country. Thus, public finance is indeed very important in this area of regional development.

(9) Public Sector—The public finance is very useful for the growth and development of public sector in an economy. The public budget is an important means of growth and development of public sector in an economy. Top priority is given to large industries and public utility services which are of prime national importance. The budgetary role cannot be neglected in this area at any cost of public interests. Thus, public finance has its unique importance in the growth and development of public sector in an economy.

(10) Trade—Public finance is important in the formulation of import-export levy policy and adjustment of balance of payments account of the country. It has its indirect role in determining terms of trade in favour of the country and maintaining equilibrium exchange rate. This importance of public finance has been realised by the government and public authorities in the country.

II. Social Area

The public finance occupies a place of vital importance in promoting standard of living of down-trodden people and uplifting their mental constitution, education, training, occupation, and other standards through fair public distribution, public works, public vocational education-cum-training programmes. It plays an important role in eradicating social and religious conservative traditions, customs, beliefs, etc. which are bottlenecks of social welfare. Labour welfare and social security schemes are based upon the fiscal measures of the public authorities. Thus public finance is very important in maximising social welfare in the society.

III. Political Area

The public finance is very important in the area of strengthening national defence system, maintaining law and order throughout the length of the country, and having political activities of political parties in the country. The public revenue and public expenditure activities have not only national importance but also have international importance. With the help of public budget and economic planning the political activities can also be carried on for the national interests. Thus, public finance is an important discipline in the political area of an economy.

8.3. PUBLIC REVENUE

The public revenue analysis is of vital importance in public finance. It describes one of the main public finance operations of the public authority, *i.e.* the government, out of its many public finance operations. Its brief account may be as follows :—

I. SOURCES OF PUBLIC REVENUE

According to the modern economists the public income of the government from diverse sources is necessary for the government to perform its various activities to achieve socio-economic and political objectives. This public income refers to public receipts in its broad sense while it refers to public revenue in a narrow sense. The public receipts include taxes, fees, fines, donations, income from public undertakings, market borrowings, income from currency and sale of public assets, etc. The public revenue includes income from all sources of the government but it does not include public borrowings, income from currency, and income from the sale of public assets.

The main sources of public revenue may be described as follows :—

(1) Taxes—The accruing of taxes is a main source of public revenue. According to an economist Seligman a tax is a compulsory contribution by a person to the government to defray the expenses incurred in the common interest of all, without reference to special benefits conferred. Thus, the salient features of a tax may be as under :—

(*i*) A tax is an imposed compulsory levy by a public authority on various overheads/items which has to be paid by an individual who consumes it.

(*ii*) A tax imposes a personal obligation on the tax- payer to pay it because the payment of tax is the liability of tax-payer.

(*iii*) The proceeds from the taxes are spent for the general purposes of the state in the common interest of the public and not to confer benefits on an individual or a group of individuals.

(*iv*) The tax-payer cannot claim any direct benefit for his paid tax as a matter of his right. However, the tax-payers do get many benefits from the public authorities.

(*v*) A tax is imposed on income, property, commodity, service but actual tax-payers are persons and not the things.

(2) Fees—The fee is another source of public revenue. It is a compulsory payment in return for a service rendered by the state. It is charged by the public authorities to meet the cost of administrative services rendered primarily in the public interest, but providing special benefits to the individuals. For example—fees for issuing licences, permits, passports, etc. are charged from the fee-payers who get special privilege in return for their paid fees. Generally, the charged fee is less than the cost of service rendered to the public on account of public interests.

There are certain differences between the fee and tax as follows :—

(*i*) A fee is a payment for a special service rendered by a public authority whereas tax is a payment for collectively provided services by the public authorities.

(*ii*) The tax has to be paid compulsorily but the payment of fee is optional.

(*iii*) Fee charges are fixed and these charges are not based upon the ability to pay. The direct taxes are often imposed on the basis of the tax-payer's ability to pay.

(*iv*) Unlike the tax, there is quid pro quo in the case of a fee.

(*v*) If the charged fee is more than the cost of service, it includes surplus over cost of service as tax for collective benefit purpose. On the contrary if the charged fee is less than the cost of service, then it is meant for special benefit becoming a common benefit. This nature of fee does not exist in the case of tax.

(3) Fines—Fine is another source of public revenue. Its payment is compulsory. The offenders of law have to pay it. The imposition of fine is to prevent the occurrence of crime in the country.

(4) Prices—The price charging is another source of public revenue. The prices are paid for specific services provided by the state and public enterprises. For example—postal charges, railway fares and freights, electricity charges, etc. Prices are always voluntary payments whereas fees may have an element of compulsion.

(5) Special Assessment—Special assessment levies are imposed by the public authorities which are to be paid by the beneficiary persons. In return special benefits are provided by the public authorities to the tax-payers. it is a compulsory payment but it differs from a tax in that there is direct *quid pro quo* in case of special assessment. The motive of levying special assessment is mostly to finance some capital development scheme or to meet the running expenses of public authorities or both. The basis of levying special assessment is benefit and it is imposed for a specific improvement whereas the basis of taxation are income, property, expenditure, etc. and the range of a tax is wide. A special assessment partakes of price but it differs from it in the sense that price payment is optional but special assessment charges are to be paid compulsorily.

(6) Other Sources—There are other sources of public revenue which may be grants and gifts, customs and excise levies, interests on capital investment and advances, royalties from mines, incomes from sale of public assets, incomes from lotteries, incomes from ownership, forfeitures, profits from public undertakings, etc.