Public Economics :-

Public Economics (or) public finance is the study of government policy through the len's of economic efficiency and high equity and equality. public Economics is a branch of economics that studies the taxing and spending activities of governments. The discipline of public Economic's describes and analyses Governments Services, Subsidies and welfare payments and the methods by which the expenditure to these ends are covered through taxations, borrowing foreign aid and the creation of money.

Definitions :-

According to findlay shirras :-

"Public Economics is the study of principles underlying the spending and raising of of funds by public Authorities.

According to HL Latz:-

"Public finance deals with the provision, custody and discarsement of resources needed for conduct of public or government functions."

According to Hugh Dalton:-

"public Economic's is concerned with the income and expenditure of public authorities, and with the adjustment of the one to the other.

Nature and Scope of public finance (or) public Economics:-

Public Economics not only includes the income and expenditure of the government but also the Sources of income and the way of expenditure of various government corporations public companies and quasi government ventures.

Thus the scope of public economics extends to the study of independent bodies acting under the governments direct and indirect control to the scope of public economics includes.

1. public Revenue
2. public Expenditure
3. public Debt
4. financial / fiscal Administration.
5. Economic stabilation and growth
6. Federal Structure.

1. Public Revenue:-

Public Economics deals with all those sources or methods through which a government earns revenue. It studies the principle's of tradition of Taxation, method's of raising revenue, classification of Revenue, deficit financing etc.

2. Public Expenditure:-

Public Expenditure is the how to go the government distributes resources for the fulfilment of various expenses. It is also studies principles that government should keep in view while allocating resources to various sector and effects of such expenditure.

3. Public Debt :-

It deals with borrowing by the Government from internal and external sources. at any time Government may exceeds its revenue. to meet the deficit, government raise loans. The study of public Economics focuses on the problems of raising loans and the methods of repayment loans.

4. Financial / fiscal Administration :-

The scope of financial administration is wider. it covers all the financial functions of the governments it includes drafting and sanctioning of the budget, auditing of the budget etc.

Financial Administration is concerned with the organization and functioning of the Government. machinery responsible for performing the various financial functions of the state. The budget is the master financial plan of the government.

5. Economic Growth and Stabilization :-

In present times, public Economics is mainly concerned with the economic stability and other related problems of a country. for the attainment of these objectives, the government formulates its fiscal policy comprising of various fiscal instruments directed towards the economic stability of the nation.

6. fiscal finance :-

Distribution of the sources of income and expenditure between the central and the state government in the federal system of government is also studied as the subject of matter of the public Economics. The b of public Economics is populary Known as Federal structure.

Importance of public Economics :-

1. Steady of state Economic growth :-

Government finance is important to achieve Sustainable high economic growth rate. The government uses the fiscal tools in order to bring increase in both aggregate demand and aggregate supply. The tools are taxes, public debt, and public expenditure and so on.

2. Price stability :-

The Government uses the public Economics in order to overcome from inflation and deflation.

3. Economic Stability :-

The Government uses the fiscal tools to stabilize the economy. During prosperity, the government imposes more tax and raises the internal public deb The amount is used to repay foreign debt and invention.

4. Equitable distribution :-

The Government uses the revenues and expenditure of it self in order to reduce in equality. If there is high disparity it imposes more taxes on income, profit and properties of rich people and on the goods they consume. The money collected is used for the benefit of poor people through subsititutes, allowance, and other types of direct and indirect benefits to them.

5. Proper allocation of resources :-

The Government use public Economics for proper utilization of natural, manmade and human resources.

6. Balanced Development :-

The Government uses the revenue and expenditure in order to erose the gap between urban and rural and agricultural & industrial sectors. For it government can make budget for balanced development between all.

7. promotion of Export :-

The Governments promotes these exports imposing less tax (or) exempting the taxes (or) providing subsidies to the export oriented goods.

8. Infrastructural development :-

The Government collects revenue and spends for the construction of infrastructural development. It has to keep peace, Justice and Security too. It has to bring Socio-Economic reformation too.

* Public Expenditure :-

Public Expenditure is spending made by the government of a country on collective needs and wants such as pension, provision, infrastructure etc.

Meaning :-

" The public Expenditure incurred by public authorities like central, state and local governments to satisfy the collective social wants of the people is known as public expenditure.

Classification of public Expenditure :-

Classification of public expenditure is refers to the Systematic arrangement of different Iteams on which the government incurs expenditure.

1. Functional classification :-

The government perform Various functions like defence, Social welfare agriculture, infrastructurals and industrial development. These functions are desived into Subsidiary functions. This kind of classification provides a clear idea about how the public funds are spent.

2. Revenue and Capital expenditure:-

Revenue expenditure are current (or) consumption expenditures incurred on civil administration defence forces, public health and education so on this type of expenditure is of recurring type which is incurred year after year.

On the other hand Capital expenditure are incurred on building durable assests like highways, multipurpose dams, Irrigation projects buying machinary and equipment. They are non-recurring type of expenditure in the form of capital investments such expenditure are excepted to improve the productive capacity of the economy.

3. Transfer and non-Transfer expenditure:-

According to AC pigou the british economist has classified public expenditure.

1. Transfer Expenditure
2. Non-Transfer expenditure.

1) Transfer Expenditure:-

Transfer expenditure relates to the expenditure against which there is no corresponding return.

Ex:-
→ National old age pension
→ Interests payments
→ Subsidies
→ Un employment allowances
→ welfare benefits to weaker sections
→ Raithu bandhu etc.

By this kind of expenditure the government does not anything in return, but it adds to the welfare of the people, espec belongs to the weaker sections of the society. Such expenditure basically results in redistribution of money incomes within the society.

ii) Non-Transfer Expenditure :-

The non transfer expenditure relates to the expenditure which results in creation of income or output. This expenditure includes developments as well as non-development expenditure that results in creation of output directly and indirectly.

a. Economic infrastructure such as power, Transfer of Transport, Irrigation etc.

b. Social infrastructure such as Education, health, and family welfare.

c. Internal law and order and defence

d. public administration etc.

By incurring such as expenditure the government creates a healthy conditions (or) Environment for economic activity.

Theory 2 :-

Peacock and Wiseman Hypothesis :-

The growth of public expenditure was put forth by peacock and wiseman, in their empirical study of public expenditure in UK. for the period of 1890-1955.

The main thesis of the authors is that public expenditure does not increase in a smooth and continuous manner, but in jumps and jerks or step like fashion.

Their analysis involves Three related elements

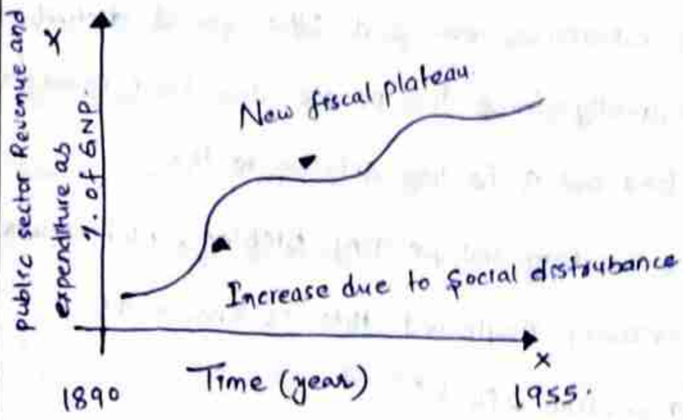
1. Displacement
2. Inspection
3. Concentration.

The Government fiscal activities, in the country have risen step by step to successive new plateaus. Moreover the absolute and relative increases (steps upward) in taxing and spending activities by the British Government have generally taken place during periods of major social disturbance or such as war or depression.

These kinds of fiscal changed situation cause the previous lower tax and expenditure levels to be replaced by new, higher, bugelary levels. This movement from the older level of expenditure and taxation to a new and higher level of is called as "Displacement effect".

The higher government revenues are used to support permanently higher levels of public sector allocation.

The map clearly shows the displacement effect.



The Tax Threshold behaviour.

Time (years) is measured along the horizontal axis public sector revenues (mostly taxes) and public expenditures as a percentage of gross national product measured on OY-axis.

In the above map explain about the social disturbance cause a relative expansion of the public sector, the displacement effects which occurs and explain the time pattern by which the government growth take place.

This displacement effect does not require that the new higher plateau of expenditure, continue the same expenditure composition that was created by the social disturbance.

ex :- Debt interest.

For instance, war and other social disturbance frequently force the people and their government to find out a lasting solution to the long standing and pending problems, which were previously neglected this is known as "Inspection effect"

This effect is the inadequacy of revenue in comparison with the 'required' public expenditure.

The apparent tendency for the central government economic activity to become an increasing proportion of total public sector economic activity when a society is experiencing economic growth. because central government has to initiate a number of measures to sustain higher economic activity. Since each major disturbances leads to a situation in which, the central government assuming a larger proportion of the total national economic activity called as "Concentration effect".

Wiseman - peacock hypothesis shows some relevant changes such as emphasizes jerks and jumps in public expenditure, on account of unusual and abnormal situations.

According to prof. Aronson, for wiseman and peacock expenditure growth is sporadic rather than constant and revenues create their own expenditures. we must not forgot the fact that, an account of the advance of the economy and the structural changes there in these are constant and regular increments in public expenditure and revenue.

The regular and dynamic changes in states activity and public spending caused by macro variables like population growth,
urbanization
awareness of civil rights.

Public Expenditure

Principle of Maximom Social Advantage
(with Diagrammatic Representation)

The revenue collected by the state through taxation and the dispersal of public expenditures can have significant influence on the consumption, production and distribution of the national income of the country.

The fiscal operations of the government resolve themselves into a serious of transfers of purchasing power from one section of the community to another along with the variations in the total incomes available in the community. In fact the fiscal activities of the State affect the allocation of resources, the use of resources from one channel to another, Hence the level of income, output and employment.

It follows, thus, that the particular financial activity of the state which leads to an increase in economic welfare is considered as desirable.

It may be the cause of a reduction in the general economic welfare. The guiding principle of state policy has been technically desirable as the principle of Maximum Social Advantage by Hugh Dalton.

According to Dalton, the principle of maximum social advantage is the most fundamental principle lying at the root of public finance. Hence The best system of public finance is that which secures Maximum social advantage from its fiscal operations.

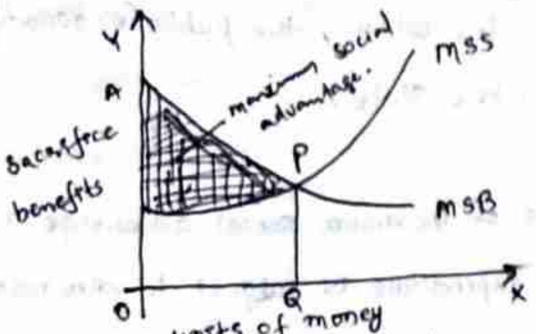
When the state imposes taxes, some desutility is experienced by the society.

When the state spends money, Some utility is created in the society. Some satisfication is experienced by a group of people in the society on whom, or for whom, the public expenditure is incurred by the State.

The principle of maximum social advantage implies that a public expenditure is subject to diminishing marginal social benefits and taxes are subject to increasing marginal social costs. Thus an equilibrium is reached when social advantais maximised. ie when the size of the budget is such that marginal social benefits of public expenditures are equal to the marginal social sacrifice of taxation.

Dalton states" public expenditure in every direction should be carried just so far, the advantages to the community of a further small increase in any direction is just counterbalanced by the disadvantage of a corresponding small increase in taxation or in receipts from any other sources of public expenditure and public income.

Diagrammatic Representation:-



In technical Jargon, the maximum social net advantage is achieved when the marginal social sacrifice (disutility) of taxation and the marginal social benefit (utility) of public expenditure are equated. Thus the point of equality between the marginal social benefit and the marginal social sacrifice is refered to as the point of aggregate maximum social advantage or least aggregate social sacrifice.

Here

→ MSS is the marginal social sacrifice curve. It is an upward sloping curve implying that the social sacrifice per unit of taxation goes on increasing with every additional unit of money raised.

→ MSB is the marginal social benefit curve. It is a downward sloping curve implying that the social benefits per unit diminishes as the public expenditure increases.

→ The curves MSS and MSB intersect at point P.

→ The equality (P) of MSS and MSB curves is regarded as per the optimum limit of the state' financial activity.

→ It is easy to see that so long as the MSB curve lies above the MSS curve, each additional unit of revenue raised and spent by the state leads to an increase in the net social advantage.

This beneficial process would then be continued till marginal social sacrifice (MSS) becomes just equal to the marginal social benefit (MSB).

Increase in the state's financial activity means the marginal social sacrifice exceeding the marginal social benefit, Hence the net social loss.

Only under the condition of MSS = MSB, the maximum social advantage is achieved.

→ The shaded area APB (area b/w MSS and MSB curves, till both intersect each other) represents the quantum of maximum social advantage. OQ is the optimum amount of financial activities of the state.

The following principles of financial operation are followed in the budget.

1. Taxes should be distributed in such way that the marginal utility of money sacrificed by all the tax-payers is the same.

2. Public spending is done, such that benefits derived from the last unit of money spent on each item becomes equal.

3. Marginal benefits and sacrifices must be equated.

Effects of Public Expenditure :-

1. Effects on production :-

a. Capacity to work and share.

b. Desire to work and save

c. Productive utilization of resources.

2. Effects on Distribution :-

a. Regional inequality

b. Distribution of devidances of industrial development.

c. Benefit to the weaker section.

d. Increase in the higher Ability to work of the poor.

3. Public Expenditure & Economic Stability :-

a. Control of Depression

b. control of Inflation

4. Other effects :-

Resources for increasing in public Expenditure :-

(or)

Objectives of public Expenditure :-

1. Military war.
2. Establishment of news public authorities.
3. Economic development.
4. Control population.
5. public Series
6. Welfare of the state.
7. Agricultural development
8. Management of Administration
9. market in Subsidiaries
10. Helping & Rehabilitation program.

Q. Role of state in Economic Development?

Introduction:- Today the state has emerged as an active participant in the process of economic development in many ways. The doctrine of laissez-faire in dead.

Now the government has started participating increasingly in the productive activities and through its monetary and fiscal policies are guiding the direction of economic activities. It also determines the distribution of goods and services the economy.

According to UNO study Group " In addition to the commission functions, governments normally perform, there is a large borderland as functions which they ought to perform for the simple reason, the are important and it form of not carried out sufficiently by private.sector.

This boarderland an - exist any country but it is wider in understaking under-development countries. Because private enterprise in the latter is more knowledge and more knowledge and more enterprising or them in the former.

For the economic development of under-developed countries state has involved itself directly and performs certain vital functions which are enumerated below.

1. Organizational changes:-

The organizational changes play an important role in the process of economic development. It includes the explansion of the size of market and the organization of labour market. The state can develop. That means of transport and communications for expanding the size of market because private enterprise can't be capable of understanding and understaking such schemes.

2. Social and Economic Overheads:-

The main obstacle in the way of economic development of under-development countries is the lack of economic overheads such as means of communications and transportations, posts, electricity, irrigation etc. In Industrially advanced countries. These facilities are provided by private enterprises.

3. Education:-

Education plays an important role in the process of economic development.

According to Myrdal To start on a national development programme. while leaving the population largely illiterate seems to be futile. The educational facilities provided in under-developed countries Increase Their geographic and occupational mobility raising Their productivity and facilitating innovations The quality of labour is very Important for economic growth.

There should be free and compulsory provision of primary education and the schools of secondary education should be opened Various training Institutions should be opened to mechanics, electricians, artisans, nurses, teachers etc.

Education is both a consumer and Investment Service Prof Galbraith regards that Investment in educating each other and every man is directly productive.

4. Public Health and family planning:-

The development and maintenance of public health Services are important functions to be performed by the government. It is necessary that the health of people should be maintained to increase the efficiency and productivity of labour.

public health measures generally include the important and Improvement of environmental Sanitation in both rural and urban areas, removal of stagnant and polluted water, better disposal of sewage, control of communicable diseases, provision for medical and Health services particularly in the field of maternity and child welfare healthy and family planning education and the training of health and medical personal and all this requires planned efforts on the part of public Authorities.

5. Changes in institutional frame work:-

Economic development cannot take place in static institutional frame work. The rigid institutional frame work is a positive hindrance in the path of development in UDC prof. paul streeten has rightly observed that, The difference between Economic growth in advanced countries... and development in so called developing countries is that in the former attitudes and institutions are by and large adopted to a change and the society has innovations and progress built into the system, while into the latter attitudes and institutions and even policies are stubborn obstacles, to development.

The people of a country most desire progress and their social economic, legal and political institutions are most be favourable to it"

6. Stepping up Rate of Investment:-

The process of development is accelerated by increasing the rate of Investment. The rate of Savings in UDC is highly Inadequate as compared to their Investment requirement. Thus it becomes essential for government to accelerate the rate of capital formation in these countries and government can achieve this through the taxation or Inflation.

7. Agricultural Development:-

In UDC majority of people depend upon agriculture for their livelihood. Lack of irrigation and credit facilities are main hurdles in the way of economic development. If the agriculture remains backward, the other sectors of the economy cannot develop because Agriculture is the basic Industry and other industries depends upon its for raw material.

Shriman Narayan has given the following main elements in the preparation of agricultural production plan's at the village level.

1. Full utilization of irrigation facilities Including maintenance of fields channels in good Conditions for the beneficiaries, repairs and maintenance of community irrigation works.

2. Increase in the area under multiple cropping

3. Multiplication in the village of improved seed. & its distribution to all cultivators

4. Supply of fertilizers.

5. Programmes for compost and green manure

6. Adoption of Improved agricultural practice eg. soil conversation, Contour bonding dry farming, drainages, land reclamation, plant protection etc.

7. Programme for a new minor Irrigation works to be undertaken in the village, both through Community participation and on Individual basis.

8. Programme for the introduction of Improved agricultural Implements.

9. Programme for the development of poultry, fish and dairy products.

10. Programme for Increasing production of Vegetables and fruits.

11. Animal husbandry eg. supply of stud bulls, establishment of artificial Insemination Centers. and Castration of scrub. bulls etc.

12. Programme for the development of the village fuel plantations and pastures.

The success of agricultural development programmes depends upon land reforms measures taken by the government.

The main objectives of land reform measures according to IPC have been two fold:

To eliminate all elements of exploitation and Social Injustice with in the agrarian system to provide security for the tiller and assure equality of status opportunity to all sections of all rural population.

Land reforms measures Include :-

→ Abolition of Intermediaries.

→ Security of Tenure as Tenants.

→ Right to purchase land which Tenants cultivate

→ Compensation for permanent Improvement made on land by Tenants.

→ To limit the rent charged by Landowners.

→ fixations of ceilings on agricultural holdings.

→ Consolidation of holdings.

8. Industrial Development :-

In LDC, the natural resources are under development or less development, this is due to the fact that these countries remained under the colonial rule for along period and their natural resources were mercilessly exploited for their selfish ends after attaining their freedom there was no logic to leave the development of these resources in the hands of foreign dominating Countries.

Further more, The poor countries lack in basic and key Industries like Iron, steel, Cement heavy, Engineering etc.

9. Influencing the use of Resources :-

UDC are generally characterized by under utilization and mis- utilization of resources Hence the government must takes measures to ensure proper utilization of resources there is problem of conservation of Natural resources like forests and minerals, they should not be allowed to be utilized in a wasteful manner.

10. Removal of Inequalities

Another Important function of state is the removal or at least reduction of Inequalities both economic and social, there is a great social disparity between various groups of Society due to the highly unequal distribution of Income. In fact, the economic and Social Inequalities are closely related to each other.

11. Options and optimum allocation of Resources

The UDC has the problem of optimum utilization of economic resources. In most of UDC natural resources are not only underutilized but misutilized. Conduct of a proper survey of natural resources and their proper exploitation is not possible without active participation of State.

The various economic policies should aim at proper balance in the rate of development of different sectors and in the rate of differences in industries in each sector.

12. Maintenance of peace and Securing:-

Peace and Security are the two things which are essential for economic growth Therefore, It becomes the responsibility of State to maintain law and order internally and to secure the country from external Invasion. It will bring Stability in Economic System. So as helpful in making bold decisions. A country involved in a prolonged war or internal strife cannot plan economic development in an effective manner.

13. Balanced Growth:-

The development of UDC is unbalanced and lop sided. It is realised that the UDC must adopt the strategy of balanced growth but this cannot be achieved by an individual enterprise. It to be planned in a System-

manner by the government.
The state ought to be a great innovator and Industrial pioneer to bring about the desired change Now a days state is considered as an Important agent promoting the balanced growth of economy.

14. Self Reliance :-
UDC are dependent on foreign Trade for their development projects. In fact, foreign aid is beneficial at initial stages of development but the process can't go endlessly. Sooner or later these countries stand on their own legs. Thus, Self reliance is most for these countries.

15. Monetary policy :-
A proper monetary policy helps economic and Industrial development by Increasing the Volume of Scarce resources raising the productivity of factor of production. Improving the economic and Social Conditions and removing the various bottlenecks in the process of economic development in developed countries control of money supply by the government is necessary as they had ensured the full of employment.

16. Fiscal policy :-
Fiscal measures Through changes in government revenue and expenditure patterns have increasingly come to be regarded as a desirable as a desirable Instrument of government policy of UDC. Taxation can be used for Increasing Savings by restricting consumption and directing Investment in promoting channels and preventing it from going into undesired lines.

17. price Policy :-
Another important field Economic activities of government in LDC is regulation and control of prices. In the initial stage of economic development prices Increase due to Increased Investment in the economy due to policy of

deficit finance followed by the government. Hence it is essential for the government to evolve a suitable price poly and keep the prices of essential commodities under control.

18. Increase in foreign Trade :-

Foreign trade is there in a UDC but the so of foreign Trade in Terms of value and quantity is small. The government can promote exports facilitate the Importance of goods necessary for promoting and accelerating economic growth and restrict the import of luxury goods.

Foreign exchange crisis in developing countries can be checked Through proper exchange control measure adopted by the government. So that scarce foreign exchange resources are consumed properly utilizes.

19. Strengthening of public sectors :-

Another vital role of the state economic development That encourages public sector for due to social welfare of the common masses.

20. Economic planning :-

To come over various problems planned process of priorities has to be followed Today the choice is not between planning and non planning but between different degrees of planning therefore government watches that the economic resources are used for socially described beneficial projects. public finance is used to secure balanced development in different projects.

21. Public Debt.

When government lacks Internal resources, It uses external assistance to accelerates the pace of economic development of the country. In this regard government adopts certain measures.

The Multiple Theory of House Hold :-

Introduction :-

Several Economists have paid much attention to the formulation of Theory that examine the problems of consumer households prof. Richard A. musgrave tries to find a Solution to their problem through this multiple Theory of public Economic household.

This Theory was based on the Structure of Society and Social and Economic values musgrave tried to Social analyses the problems of public finance and the methods of solving them through this Theory.

Major fiscal functions of the Budgetary policy :-

i. The allocation function.
ii. The distribution function.
iii The stabilization function.
iv. The growth function.

i) The Allocation function :-

Through budgetary means the government can play an important role in allocating productive resources from private to public use fiscal policy is essential at the heart of the government's allocation function. The aim of the government is to have an optimum allocation of resources through budgetary operations.

ii.) The Distribution Function :-

The modern government intend's to ensure a fair distribution of the country's income and wealth among the citizens. For this reason, a government tends to impose higher on progressive taxes upon the richer sections. So that there is equality in taxation and channelises public expenditure to confer larger benefits is the poorer sections.

iii). The stabilisation function :-

It refers to the maintance of a high level of resources utilization and stability of the value of money. In other words, full employment level and price stability are the important objects of the government in modern public Economics.

iv). The Growth Function:-

It refers to the budgets and fiscal instruments for the promotion of Economic growth and development in the Economy. It stresses the needs for growth oriented (or) developmental Public Expenditure in a developing Economy.

When a country has launched upon its economic planning, the budgetary operation's of government are to be co-ordinated with the planning programmes.

Here the rules and principles have to be framed for an efficient conduct of the activity of the public of the optimal theory of the public household.

Public goods:-

Public goods are those goods and services which are jointly and equally consumed by many people at the same time, and its consumption by one person does not allow it availability for another person. Its one which cannot be divisible in consumption and if provided are equally available to all. Hence consumption by one person doesn't alter the availability of exclusion of the good to another person. Similarly if a public good is produced no one can be denied their benefits as 'A' consumption Therefore consumption of public good is non-rival.

Ex:- public roads, dams, parks, defence, education etc.

According to J. Samon " A good or service which has the features of non-rivalry and non-excludabity and as result of provided by the free market.

Characteristics of public goods:-

i). These goods are collective consumption.

ii.) The consumption of public goods is always joint and equal.

iii. They are non Excludable.

iv. They are non rivalrous.

v. They are indivisible.

vi) These good's may not be produced through the free market pricing mechanism.

prof. R.A musgrave has classified public goods into two categories;

1) Social wants

ii. Merit wants.

i) Social wants goods:-

Social wants are those wants which are satisfied by the services that must be consumed in equal amounts by all.

Example:- City parks, defence, Judicial Education etc.

ii. Merit wants:-

Merit wants are those wants which are considered meritorious or desirable satisfied by the government on merit through the general budget. The government encourage and supports the use of such goods and services which are called Merit goods.

Ex:- Low cost housing being subsidised liquor & Cigarettes have heavy taxes, High Education.

Private goods:-

Private goods are those goods and services which satisfy individual wants and have the characteristics of rivalry and exclusiveness. These goods can be produced by the free market mechanism.

private goods are rival in consumption it means private good consumed by a person reduces the amount available to others, private goods are one we consume it will be excluded from theruse.

Ex:- Clothes, food, shelter, Transport ..... etc.

Characteristics of private goods:-

i). These goods are satisfy individual wants.

ii. These goods are subjects to the exclusion principle.

iii, Private goods are rivalrous in consumption

iv. private goods are divisible in so far as their use is concerned.

v. These can be produced through free market pricing mechanism.

vi) Marginal cost is providing a private goods to an extra consumer is always positive.

Principles of Taxation:-

Now a days Government requires income for performing several development functions which are vital for increasing the welfare of its citizens. welfare of people is much effected by the financial operation's of Government of all the sources of public revenue direct and indirect taxes contribute a major part of it.

Economist have suggested that various principles of taxation to guide the financial operations of the government which is aimed.

1. Equitable distribution of income and wealth.
2. Raising public Revenue.
3. Reduce unwanted activity.
4. Counter cyclical fluctuations. and also

such as a theories of Taxation.

1. The Benefit Theory.
2. The ability to pay Theory.
3. The Neutrality Theory.

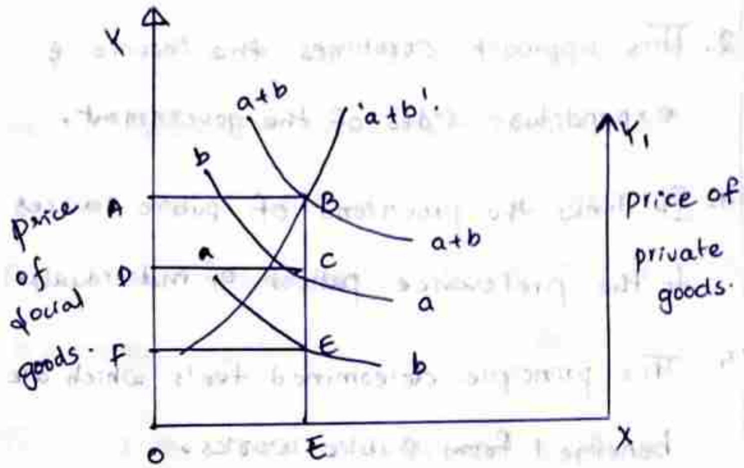
1. ## The Benefit Approach:-

This Benefit approach of taxation is very old and explains originated from the social contract Theory of the state. It explains the existence of contractual relationship between the State and Citizens. physicrate's Hobbes Locke's Hume and Rousseau supported the benefit principle of approach. They considered tax as the natural price to be paid to the state for the protection of life and property of citizens in the form of goods and services or for a membership fee in the association of organized Society by the State.

Principle:-

The benefit principle theory contains that in order to secure Justice in taxation the tax should the proportional to the benefit received by each individual under the protection of the State. This we enjoys a a greater benefit from the financial activities of the government should corresponding in pay more to meet such public expenses.

Graphical Explanation:-



According to the Bowmen two tax payers A, B demand schedule of social goods are shown curve a,b. Total demand for social goods a+b curve. The supply of social good represented (d+b') So here how much supply of social goods is there that much of revenue need government "OE" level. So that who are benefiting with social good's they will pay tax.

Merits :-

1. Tax levied on the basis of benefits received by the People from the government.

2. This approach combines the income & expenditure sides of the government.

3. It links the provisions of public services to the preference pattern of individuals.

4. This principle determined feel's which are benefited from public works.

Demerits :-

1. This Theory will not reduces income in equilibrium Society.

2. This principle will explain tax in only source of government but it is not correct.

3. Modern state are welfare gate and it is not to provide all free. This Theory is not accepted one.

4. Here there is no any standered measure to calculate or conclude benefit to be received by government.

2. Ability to pay principle approach :-

Introduction :-

Ability to pay principle is the most important principle to taxation which treats revenue and Expenditure of government separately. According to this person should contribute to the proportion to his ability to pay.

There is no quid pro quo [something that is given (or) received in return for something also). relationship between the tone payer and also the public authority. There are two approach regards here.

i, Subjective.

ii, Sacrifice principle of ability to pay.

iii) Objective test's of ability to pay.

Subjective (or) Sacrifice principle of ability to pay ability reactions of tax payers.

"J.S. mill" explains the tax payers are said to be treated Equally if their tax payments involve on Equal sacrifice or loss of welfare.

They are.

a. Equal absolute sacrifice.

b. Equal proportional sacrifice.

c. Equal marginal sacrific or least aggregate sacrifice.

a. Equal Absolute Sacrifice:-

Equal absolute sacrifice implies that the total loss of utility on account of tax should be equal for all tax players. This suggests that different income groups are required to pay tax differently in such away that the sacrifice, by each individual is the same provided that the marginal income utility schedule has a declining trend. This mean that the rich people with higher income should pay more tax than the poor and those who have lower income pay less tax but the total sacrifice undergone by each tax payer is the same. In other words, the difference between the aggregate utility from income before tax and after tax should be the same for each tax payer.

b. Equal proportional Sacrifice:-

According to this principle, the loss of utility on account of tax payment should be proportional to the total income of the tax payers. In this case also persons with higher incomes should pay more taxes and persons with lower income should pay less tax. However, the ratio of sacrifice to the income should be same for all tax payers. Thus, the tax burden on two persons A and B, according to equal proportional sacrifice should be expressed.

$$\frac{\text{Sacrifice made by } A}{\text{Income of } A} = \frac{\text{Sacrifice made by } B}{\text{Income of } B}$$

c. Equal marginal Sacrifice:-

According to equal marginal sacrifice principle taxation should be such that the marginal sacrifice involved in the tax payment of different individuals is equal. Thus, the marginal utility of income after tax payment of all tax the marginal utility of money A after payment of tax is equal to the marginal utility of money for B after payment of tax. Equal marginal sacrifice principle is also known as least aggregate sacrifice.

Mathematical representation:-

The Three principles of sacrifice can be stated mathematically. Let us assume now that the subjective sacrifice which each individual makes should be measured as a function of the income he surrenders in tax.

If Y = income

T = amount of tax paid

U = The total utility of money

U[Y] : Total utility obtained before the payment of tax.

U[Y-T] : Total utility obtained from disposable income after the payment of tax.

The subscripts A and B refers to different individuals. Three concepts of subjective sacrifice approach are represented mathematically as follows:-

Equal absolute sacrifice as:-

$$[U(Y) - U(Y-T)]_A = [U(Y) - U(Y-T)]_B$$

Equal proportional Sacrifice as.

$$\left[\frac{U(Y) - U(Y-T)}{U(Y)}\right]_A = \left[\frac{U(Y) - U(Y-T)}{U(Y)}\right]$$

Equal Marginal Sacrifice as:-

$$\left[\frac{dU(Y-T)}{d(Y-T)}\right]_A = \left[\frac{dU(Y-T)}{d(Y-T)}\right]_B.$$

Ability to pay - Objectives indices:-

prof. Seligman has advocated an objective approach to the public proble measuring the ability to pay. This is also known as faculty theory of to pay, which is based on "the money value of the taxable capacity". tax payer measured in terms of his income accumulated wealth, property and consumption expenditure.

property or wealth:-

property is an indication of one's ability to pay taxes, because level of living of the people is influenced by the income and accumulation wealth.

Further there may be some individuals with income without having any property. In such a case, thought of the individual is income he may not come under the purview of tax as he does not produce property.

Income:-

Income can be regarded as an index of ability to pay tax. Simmon suggested for levying only income tax by abolishing all other If income is considered as an index of ability to pay, then all sound income such as salaries, shares, debentures. etc. should be considered as income.

Wagner's Law of increasing state activities

Introduction:-

Adolph Wagner (1835-1917), German fiscal Theorist of the 19th century, believed that a functional 'cause and effect' relationship existed between the growth of an economy and the relative growth of its public sector. According to Wagner, the relative growth of the government sector was an inherent characteristic of industrialized economies. He referred to Great Britain, united State of America, France, Germany (in the west) and Japan (in the east). Wagner's hypothesis of the increasing state activity, holds that as per the capita income and ~~output~~ increase in the industrialized nations, the public sector of these nations necessarily grows as a proportion to total economic activity.

All kinds of governments, irrespective of their levels (central, state or local government) intentions (peaceful or warlike) size (Territorially small or large) etc. had shown the same tendency of increasing public expenditure.

Expenditure of the government was increasing because of the following reasons:-

Expansion of Traditional Functions:-

According to wagner There is a strong and persistent tendency towards both towards the "intensive" and an "extensive" increase in the functions of the state as new functions were continuously being undertaken by the government for the welfare of the people while old functions like defence, administration of justice, maintenance of law and order were being performed more efficiently and on large scale. The government also felt the need of expanding the spheres of public goods. There has been a shift in the composition of national product in favour of public goods and this requires the expansion of the public sector in industry, trade and commerce.

Growth of population:-

Another important factor of increasing public expenditure is the growth of population. Construction and maintenance of schools, roads, hospitals etc. have to be incurred to meet additional needs of growing population.

Urbanisation:-

An increasing shift of population to the urban cities has taken place, new cities have come up and old cities are growing. The continuous process of urbanization brings an expansion in the public Expenditure. with the growing population, it is so impossible to on the performance on public health, public education and other functions of the state on a small scale.

All these have been responsible for the increase in public Expenditure.

Social progress:-

Wagner believed that is industrialized economics, social progress was the basic cause of the relative growth of government functions which in turns leads to the absolute and relative growth of public Expenditure.

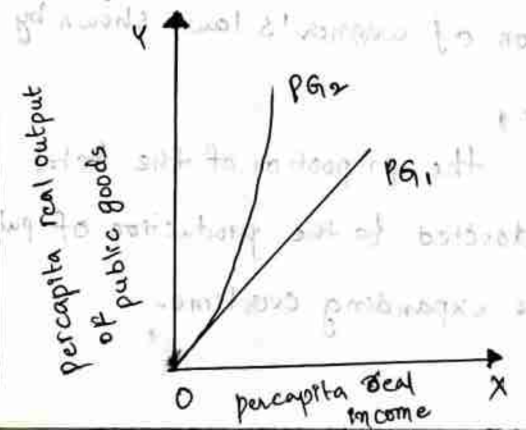
Defence:-

The most important reasons for increase in public Expenditure is war and preparation for war as the expenditure on defence was becoming expensive day by day. In almost all Countries expenditure on national defence generally accounts for half or more than half of the total budget expenditure.

Rises in prices and National Income:-

Rises in prices and National Income has led to Significant increases in the absolute amount of public Expenditure. The rises in the general price and services which it has to buy. Secondly, it has to find larger financial resources to meet its ever growing expenditure. To a certain extent, increased Government expenditure is itself one of the contributory factors responsible for the rise in prices. The present day government is omnipotent, omnipresent and omniscient pervading all aspects of community's life massive public Expenditure.

Wager's hypothesis of increasing government activity has been shown.



The per capita real output of public goods is shown on the Y-axis and the real capita income is shown on the X-axis.

Time is an important third dimension implicit in the graph because the growth in the per capita real output of public goods and in the per capital real income is realisation.

PG_1 line represents a situation in which the public sector maintains a constant proportion of the total economic production of the society over time.

The constant proportion line may now be used as a reference point to the graphical presentation of wagner's law shown by PG_2 curve,

the proportion of the total resources devoted to the production of public goods is expanding over time.

Effects of Taxation :-

The term "effects of taxation" refers to the changes in the economy generated by the tax system. The tax system affects the production and distribution of wealth in a country. Hence while framing tax policy the government has to consider economic consequences along with the revenue considerations. In view of Prof Dalton, the best system of taxation is which has the best or the least bad economic effects. Dalton discussed of economic effects under the three headings :-

1. Effects of taxation, on production.
2. Effects of taxation on distribution.
3. Others effects of taxation.

1. Effect of taxation on production :-

The level of production can be influenced by taxation. Prof. Dalton analysed the effects of taxation on production under the Three heads :-

A.) Effects of taxation on people's ability to work, save and invest.

B). Effects of taxation on people's willingness to work, Save and Invest.

c). Effects of taxation on allocation of resources between different employment and regions.

(A). Effect of taxation on people's ability to work, Save and Invest :-

Taxation mean transfer of purchasing power from the private sector to government resulting is an reduction of purchasing power of the tax payer. Hence the tax payer is compelled to purchase a smaller quantity of goods pertaining to the necessities, comforts and luxuries of life than before. As a result the standard of living of tax payers falls.

on the other hand taxation on the rich people may only reduce their consumption of luxury goods and this may not effect their efficiency and ability to work.

Therefore tax on lows incomes and articles of consumption of the poor people should either be avoided or should be minimum.

B) Effects of taxation on people's willingness to work, Save and Invest :-

Taxation affects the incentives of the people to work, save and Invest. If these are affected by the taxation, the production will automatically be effected. Because, the effects of taxation on economic incentives depends :-

1. On the nature of Tax.
2. on the psychological state of tax-payers.

1. Nature of Taxes :-

Some taxes have least bad effects while some taxes have distorting effects on the desire to work, Save and invest.

- Taxes on Commodities reduces the desire to work, Save and Invest.
- Income tax, property tax, etc.
- The rate of progression is high, the desire to work, Save and Invest will fall.

2. Psychology of the tax-payers :-

The psychology of the tax payers with regard to announcement of new tax or change in tax rates will differ from one person to another, this is governed by the elasticity of his demand for income.

C. Effects of taxation on Diversion of Resources :-

The government may use its tax policy even to divert scarce resources in the desired productive activities between industries and regions. Taxation can influence the size of production and patterns of the production in the economy. High taxes on harmful drugs and commodities will increase their prices resulting a decrease in demand. and so production of such goods will be discouraged and the resources engaged in their production will be diverted to more useful. i.e. beneficial diversion take place.

Tax concessions and exemptions on goods produced in backward areas can help to divert economic resources from over crowded areas to backward areas. This helps in promoting balanced regional economic development which in turn lead to an equal distribution of wealth and reduce regional inequalities.

2. Effects of taxation on Distribution:-

In modern times, taxes are used an effective measure for reducing the inequality of income and wealth in the economy.

German Economist Adolf. wagner, the first economist who insisted that taxation should be used to reduce inequalities of wealth and income in the economy. The effects of tax on distribution of income and wealth among the different sections of the society

1. Nature of taxation and tax rates.
2. Kinds of taxes.

1 Nature of Taxation and Tax rates:-

In a tax system the pattern of taxation may be progressive, proportional or regressive.

In proportional taxation:- The average tax rate and the marginal tax rate will be the same. It does not helping in reducing the inequalities of incomes as, it leaves the relative position of the tax payers unchanged. In the case of regressive taxation the average tax rate as well as the marginal tax rate decreases as the tax base increases. It tends to increase inequalities of income in the community. In case of progressive taxation, marginal tax rate will be more than may be income tax, wealth etc. Therefore progressive taxes have the effect of reducing inequalities of income and wealth.

2. Kinds of taxes :-

Different taxes affect the distribution of income and wealth differently in the economy. All the taxes can be broadly divided in to two classes-

1. Indirect taxes.
2. Direct taxes.

Indirect taxes and Distribution :-

The burden of indirect taxes like taxes on commodities which are widely consumed is generally regressive in nature, because poor people spend a larger proportion of their income on such goods than that of rich people. An advalorem tax is less regressive than that of rich people. An advalorem tax is less regressive than a specific tax.

Direct taxes and Distribution :-

Direct taxes like income tax, wealth tax, and inheritance tax etc which can easily be made progressive, fall heavily on the rich, can have favourable distributional effects tendency to reduce inequalities.

3. Other effects of Taxation :-

If taxes produces favourable effects on the ability and desire to work save and invest, there will be a favourable effect on the employment situation of a country. Further, if resources collected via taxes are utilised for development projects. It will increase employment in the ~~own~~ economy.

Conclusion:-

To conclude, in the modern world, the governments are getting most government on income, commodity or activity. Since, tax is a compulsory payment, it transfers income from individuals to government and that is used for the expenditures of the government.

A positive relation is assumed between the tax revenue and size of public expenditure. with increasing public expenditure the volume and range of taxation have increased.

Sources of public Revenue:-

Governments can collect tax from the various sectors or sources. The two important sources are

1. Tax Revenue
ii. Non-Tax Revenue.

i) Tax Revenue:-

The income of the government which is being collected from the public by imposing them on various taxes.

The revenue tax can be divided into

a. Direct Tax :→ Ex:- Income tax
Corporate tax
wealth tax
Gift tax
expenditure tax etc.

b Indirect tax:
↓
Customs duties
excise duties
Sale tax etc.

(ii) Non-Tax Revenue:-

The income of the government can be collected from the sources other than the taxes is called as

Non-Tax Revenue."

Non tax is derived from the fees, prices, penalties and other miscellaneous receipts.

a. Taxes :-

The most important source of public revenue is tax. According to

P.E. Taylor defines :- "Compulsory payments to governments without expectation of direct return or benefit to tax payer".

The tax is

a) A compulsory contribution made by individuals and institutions to the government.

b. It is meant for the general purposes of the government.

The individual cannot expect that the government should provide him specific services in return for the tax paid by him.

The main characteristics of Tax :-

i.) Tax is a compulsory contribution so that one cannot avoid its payment.

It is a legal collection.

ii. Taxes are imposed by the government only.

iii). Taxes are being paid for the general interest of the people.

iv). Tax is the sacrifice of income by the tax payer.

v. No relation b/w the tax paid to the government by person and the benefit received from the government by the person.

vi). Tax can imposed on Income, wealth, property, goods, services etc.

b). Sources of Non-Tax Revenue :-

a. Price or Commercial Revenues :-

The public sector has an Important place in the development of the economies. The governments generally launch public enterprises when private sector is either unwilling or unable to enter certain fields where the returns are either uncertain or long term in nature such as multipurpose project, railways, hydroelectric works, water works, etc.

b). Administrative Revenues :-

Government renders various services to the public through its various departments. These departments generate income to the government and is called administrative revenue. They are being discussed under :-

(i). Fee
ii. Special Assessment
iii. Rates
iv. fines and penalties.
v. Forfeitures
vi. Escheat
vii. Tributes and Indemnities.

i). Fee :-

Fee is also a compulsory payment made by those who obtain a definite service in return from the government. The fee is imposed to cover a part of the cost of the service provided by the government. It generally does not exceed the cost of the service. The governments generally have the welfare objective in mind while charging the fees. The educational fee is an ideal example.

A fee is charged for a specific service which is provided by the government.

The difference between a fee and a price is that in a fee public Interest is prominent, where as price is payment for a service of business character

eg. Charges for travelling on state railways.

price also differs from a tax. A tax is paid for a common benefit, where as both fees and prices are paid for specific benefits.

ii. Special Assessment :-

Special assessment is levied by the government or semi government organization like city municipal corporations.

prof. Seligman defines Special Assessment " a compulsory contribution levied in proportion to the special benefit derived to defray the cost of the specific improvement to property undertaken in the public interest".

When the government builds a road, public garden, marketing mal etc. all the property in the neighborhood will appreciate in value. In such cases the government has a right to appropriate a part of the appreciated value of the property. It is collected by the governments in the form of special assessment is compulsory like a tax. But the tax is imposed on a special purpose is called Special Assessment.

iii). Rates :-

Rates are levied by local bodies. i.e. panchayats, municipalities, city municipal corporations etc. for local purposes. They are generally levied on immovable party property of the residential but not necessarily for any special improvements effected or special benefits conferred. The rates generally vary from locality to locality.

iv.) Fines and penalties :-

Fines are imposed as a penality for breaking the law. A fine is compulsory like a tax but it is imposed more as deterent of crime than as a source of Revenue.

for example :-

fines charged by governments libraries for delay in the return of books.

Governments departments like judicial, revenue, police, forest etc. impose fines and penalties on persons, organizations and others who

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for example :-

fines charged by governments libraries for delay in the return of books.

Governments departments like judicial, revenue, police, forest etc. impose fines and penalties on persons, organizations and others who violate rules, orders etc.

v). Forfeitures :-

The surety or bond will be given by the person or organization involved in contract or facing criminal charges in the court of law. If an under trail fails to appear before the court or a party to contract fails to carry his part of the contract, the money deposited as surety or bond is forfeited. The money so forfeited goes to the state.

vi). Escheat :-

When a person dies heirless or without a successor or leaves no will behind, his party property or assets will go to the state. This claim of the state to the assests of the deceased person is called Escheat.

vii) :- Tributes and Indemnities :-

These are paid by foreign countries. Tributes are paid by conquered countries and Indemnities for any damage done to the country either by war or aggression or otherwise.

C) Grants and Gifts :-

Grants and gifts are other important sources of public revenue they are voluntary contributions by Individuals or nations :-

i) Grants :-

Grants are given by a government at a higher level to that at the lower level.

eg. from the central Government to the state govt. or from the state Government to a municipality, corporations or panchayats. Such system of grants are mainly found in federal countries like India, USA etc. The grants are given for a specific purpose.

eg. to carry out development activities, for undertaking public works programmes, for public health for general education. Governments also receive grants from foreign countries called "foreign grants". such grants may be

ex:- military aid

technical aid

economic aid etc.

ii. Gifts:-

Gifts are received either from governments or some private bodies or individuals. Gifts are also received from foreign government as relief measures in natural calamities like earthquake, floods, droughts, cyclones etc. The individuals also give donations to the govt. bodies for specific purposes such as building a hospital, construction of community hall in a town or a village etc.

Direct and Indirect Taxes:-

A direct tax is a tax which is to be paid by the person on whom the tax is levied. It cannot be shifted to others.

If the tax levied on a person is paid by some other person, then the tax is known as 'Indirect tax.

Indirect taxes can be shifted to others.

John stuart Mill defined a direct tax as one which is "demanded from the very person who it is intended or desired should pay it". on the other hand, an indirect tax is defined as one which " Demanded from one person in the expectation and intention that he shall indemnify himself at the expense of another. Accordingly, income tax, corporation tax, wealth tax, gift tax, death duties, expenditure tax. are the direct taxes.

On the other hand, excise duties, import and export duties, sales tax, entertainment tax, passenger tax etc.

Indirect taxes.

Direct Tax	Indirect tax
a. It is actually paid by persons on whom it is imposed.	a. Imposed on one person but is paid either partly or fully by another person.
b. Cannot be shifted	b. It can be shifted
c. Incidence and impact will be seen on the same person.	c. Incidence will be on one person while impact will be on another person.
d. Direct taxes are imposed on income and properties.	d. Indirect taxes are levied on goods and their consumption
e. Direct relationship exists b/w the taxpayer and the government	e. Indirect relationship exists between the tax payer and the government.

Merits of Direct Taxes:-

Direct taxes possess the following merits:-

1. Equitable :-
Direct taxes are based on the canon of equality. Their burden is equitably distributed as they are progressive in nature. As the income of a person increases, the rate of income tax also Increases.

2. Certain :-
Direct taxes satisfy the canon of Certainty. The taxpayer is certain as to the time and manner of payment and the amount to be paid incase of these taxes.

3. Economical :-
These taxes also satisfy the canon of economy. The cost of collection of direct taxes is low.

4. Elastic :-
Direct taxes are flexible and thus satisfy the canon of elasticity. The government can increase or decrease the rates of

direct taxes according to the requirements of the economy.

5. Simple :- Direct taxes are simple and easy to understand.

6. Reduce Inequalities :-

These taxes help reduce income and wealth inequalities because of their progressive nature.

Demerits of Direct Taxes :-

1. Unpopular :-

Direct taxes pinch the taxpayers because they have to pay them directly out of their incomes or salaries.

2. Inconvenience :-

Direct tax are inconvenient to tax payers as they are required to submit statement of income along with source of income. Then tax payers feel inconvience is disclosing income sources on account of various reasons.

3. Evasion :-

Direct taxes pinch every tax payer, he tries to evade them by filling wrong returns and even takes the help of income tax experts.

4. Discourage Saving and Investment :-

Direct taxes adversely affect saving and investment. Adversely affects their willingness to work, save and invest.

5. Corruption & Dishonesty :-

Income tax officials assess the tax liabilities of an individual by taking into account the sources of income.

6. Discourage production :-

Corporation taxes discourage those industries and firms which produce essential goods.

Merits of Indirect Taxes :-

1. Convenient :-

Indirect taxes are less inconvenient and less burdensome. They are paid only when a commodity or a service is bought. They paid is small amounts rather than in lump sum. Taxes are included in the prices of commodities, buyers do not feel the burden of these taxes. Such taxes are :- Sugar, coated pills.

2. Wide Coverage:-

These taxes reach the pockets of all income groups low, middle and high.

3 Elastic:-

Indirect taxes are also elastic in nature. The government can reduce or increase the rates of, say, excise duties, or custom duties according to its requirements.

4. Economical:-

These taxes are economical in the sense that they involve little cost of collection because the producers and sellers themselves deposits them with the government.

5. Diversity:-

Indirect taxes satisfy the canon of diversity. They can be levied on a variety of commodities and services.

6. Less Evasion:-

There is less possibility of evasion in the case of indirect taxes because they are included in the prices of commodities.

7. Check the Consumption of Harmful goods:-

Indirect taxes have the great merit of checking the consumption of harmful goods like wine, Cigarettes and other intoxicants.

8. Powerful Tool of Economic policies:-

Indirect taxes can be used as a powerful tool for implementing economic policies by the government. If the government wants to protect domestic industries from foreign competition, it can levy heavy important duties.

Demerits of Indirect taxes:-

1. Uncertain Revenue:-

The revenue from indirect taxes is uncertain because it is not possible to accurately estimate the effect of such taxes on the demand for products. If a heavy excise duty is levied on some luxury article its price will rise.

2. Regressive :-

Indirect taxes on necessaries, which are consumed by the poor, are regressive in nature.

3. Uneconomical :-

These taxes are uneconomical as the cost of collection to the state is heavy. The state has to appoint inspectors to check the accounts and stocks of producers, wholesalers, and retailers in order to find out whether they are paying taxes or not.

4. Adverse Effect on production and Employment :-

Some times these tax affets on production of commodities and employment. When the price of commodity increases with the levy of a tax its demand falls. as a result production also falls and employment also.

5. Fuel Inflation :-

Another demerits of this is fuel Inflation. Imposition of these taxes tends to raise the prices of commodities, Thereby leading to higher costs, to higher wages, again to higher prices.

6. Lack of Civic Consciousness :-

A person who buys a commodity does not know that he is paying a tax to the government in the price of the commodity.

Canons of Taxation:-

Adam Smith was the first economist who laid down four important canons of Taxation.

1. The Canon of Equality:-

The canon of equality, equity or justice is the most important canon of taxation.

Smith explained "The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion which they respectively enjoy under the protection of the state." It means that every person should pay the tax according to his ability and not the same amount."

2. The Canon of Certainty:-

According to Smith, there should be certainty in taxation, because uncertainty breeds corruption. By the canon of certainty he means that "the tax which each individual is bound to pay ought to be certain, and not arbitrary. The time of payment, the manner of payment, the quantity to be paid ought all to be clear and plain to the contributor and to every other person.

3. The Canon of Convenience:-

This canon lays down that both the time and manner of payment should be convenient to the taxpayer. In the words of Smith "Every tax ought to be levied at the time or in the manner in which it is most likely to be convenient for the contributor to pay". In India, the payment of land revenue is in keeping with this canon because it is to be paid after harvesting.

4. The Canon of Economy:-

Every tax should satisfy the canon of economy in two ways. First, it should be economical for the state to collect it. If the cost of collection in the form of salaries of tax officials is more than what the tax brings as revenue, such as tax is uneconomical, and Hence it should not be levied

Second it should be economical to the taxpayer. It means that he should have sufficient money left with him after paying the tax.

5. The canon of productivity:-

(According to this canon, a tax should be have a economical to the tax payer. It means that he should have sufficient money left with him after paying the tax.)

According to this canon, a tax should be productive in the sense that it should bring large revenue which should be adequate for the government. But it does not mean that in its efforts to raise more revenue, the government should tax the people heavily. Such an effort would adversely affect the productive capacity of the economy.

6. The Canon of Elasticity:-

This cannon is closely related to that of productivity. The canon of elasticity requires that the government should be able to raise the rates of when it's need of more revenue. In other words, taxes should be elastic. The best example is Excise duties.

7. The Canon of flexibility:-

Flexibility means that there should be no rigidity in taxation. The tax system can be changed to meet the revenue requirements of the state. elasticity in taxation means that the revenues can be increased under the prevailing tax System. But there cannot be any elasticity in taxation without flexibility because some change is required in the rates and structure of taxes if the state wants to increase its revenue.

8. The canon of Simplicity:-

The tax System should be Simple, plain and intelligible to the common tax payer. The tax system should not be complicated. It should be simple to understand as to how it is to be calculated and payment of a tax should be simple and intelligible to the taxpayer. This canon is essential in order to avoid corruption and oppression on the part of the tax department.

9. The Canon of Diversity :-

There should be diversity of variety in taxation. A single or a few taxes would neither meet the revenue department of the state nor satisfy the canon of equity. There should be a variety of the taxes so that all citizens should contribute towards the state revenues according to their ability to pay. There should be a variety of direct and indirect taxes. But a too large multiplicity of taxes will be difficult to administer and hence uneconomical.

Characteristics of a Good Tax System :-

Public expenditure has been continuously increasing with the expansion of the functions of modern governments. Since the tax revenue is the easiest and the most convenient and productive source of income, governments are inclined to use more of this rather than the non-tax revenue. It is necessary to study the characteristics of a good-tax System.

1. Equitable :-

The tax system should meet the canon of equity. Every person should be taxed according to his or her ability, that is, the rich should pay more and the poor less so that the taxes should be progressive in nature.

2. Certain :-

~~The~~ time of payment, The manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor and to every other person. The tax which, every Individual is required to pay should be certain and not arbitrary so that he is not left to the whims of the tax officials.

3. Convenient :-

The tax System satisfy the canon of Convenience, i.e the time and mode of payment of the tax should be so fixed that it is not inconvenient for the taxpayer.

4. Economical :-

A good tax System should be economical to the government in the sense of that the cost of collection of taxes should be small in the proportion to the revenue occuring from them.

5. Productive :-

The tax System should be such as to bring in sufficient revenue to the exchequer. In the other words, it should be productive.

6. Elastic :-

A good tax System should be sufficiently elastic so that the tax revenue may be increased or decreased according to the requirements of the state.

7. Simple :-

The tax System should be simple to understand and administer.

8. Multiple Taxes :-

A good tax System should have multiple taxes rather than a single tax. It has been suggested by Dalton " It is best to rely on a few substantial taxes for the bulk of the tax Revenue.

9. Income - Elastic :-

It should be income - elastic. The national income increases, the shares of taxation in national income should rise more than proportionately.

10. Minimum adverse Economic Effects :-

Dalton opined ' The best System of taxation from the economic point of view is that which has the best, or the least bad, economic effects.

11. Reduce Inequalities:-

As per Wagner's view a good tax System should reduce the inequality of incomes.

12. Balanced:-

The tax System should be a balanced one in which progressive, proportional, direct and indirect taxes should be properly distributed.

19

Goods and Service Tax (GST)

History:-

1985 Vishwanath pratap Singh is the finance minister in Rajivgandhi government with the introduced of the (modVAT) modified value added Tax. Subsequently P.M. P.V. Narasimha Rao and finance minister Manmohan Singh initiated early discussed on value Added Tax (VAT) at the state level. A single common Tax Goods and Service tax (GST) was proposed and given order in

In 1999 P.M. Atal Bihari Vajpayee and his economic advisory panel IG Patel, Bimal Jalan, Rangarajan set a committee also the finance minister of west Bengal Asim das gupta to design GST model.

→ GSTN – GST Network designed by Ravi Das gupta committee.

→ 12th finance commission and Vijay kelkar committee (2005) Recommended GST.

→ 2016 Aug finally Bill passed 18 States also ratified Bill.

→ GST Council approved central GST Bill (CGST)
Integrated GST Bill (IGST)
(UTGST) The union Territory GST Bill.
(SGST) State GST Bill.

was passed in loksabha on 29 march 2017. and in Rajyasabha – 26th April 2017.

→ finally It was launched Bill on 1st July -2017.

The Goods and Service tax (GST) was launched — 1st July 2017. GST is an indirect tax applicable throughout India which has been replaced by the multiple cascading taxes levied by the central and state governments.

The GST is governed by a GST council, and its chairman is the finance minister of India.

Under the GST goods and services are taxed as:

→ 0 percent
→ 5 percent
→ 12 percent
→ 18 percent
→ 28 percent.

→ There is a special rate of 0.25 percent on rough precious and semi precious stones.

3% on gold.

→ 28% GST applies on a few items like aerated luxury cars and tobacco products.

Meaning of GST :-

The full form of GST is Goods and service tax. It is single indirect tax for the whole nation one which will make India a unified common market. It is single tax on the supply of goods and services, right from the manufactures to the consumers. The tax rates are differ from state to state. The GST as per government estimation will be help to boost India's GDP by 2%.

Importance of GST :-

GST will be able to break the complicated structure of separate central and state taxes which is often overlap with each other to create a uniform taxation system. Taxes will be implemented more effectively since a network of indirect taxes like excise duty, service tax, central sales tax, value added tax (VAT) and it has been replaced by the one single tax namely the GST.

GST rates :-

The GST council, headed by the Mr. Arun Jaitley the finance minister of India and of which all states finance ministers being members has approved four main tax slabs :-

1. 0%
2. 5%
3. 12%
4. 18%
5. 28%

These taxes aims to lower tax incidence on essential items and to keep the highest rate of luxury and demerit goods.

- The lower rate is 5% on items of mass consumption which are used particularly by common people.
- The second and Third category of standard rates of 12 and 18 percent will accomodates most of the goods and services and

fourth slab of 28% is levied mainly on white goods such as refrigerators, washing machines etc.

Exemptions under GST :-

Under GST, the government has fixed GST rates on 1211 goods and 500 services in the range of 5% ~~and~~ 28 percent.

Certain items such as alchol, petrol, diesel and natural gas will be exempt under the GST.

The GST council has also classified certain items under the 0 percent tax rate :- such as daily items like wheat Rice, milk, eggs, fresh vegetables, meat, fish, Sindoor, bindi, stamps, Judicial papers, printed books, Newspapers, bangles, handloom, children's pictures etc.

Conclusion :-

Tax is structure of India is quite extensive. In terms of the ratios of tax proceeds to GDP, India is one of the modesty taxed countries. If the government of India feels that its resources are inadequate and it has no choice but to levy tax and have resources to cater its public debt and deficit financing which is mainly due to its closed unproductive expenditure.

Growth of public Expenditure :-

In India Since 1950-51 both intensive and extensive expansion in the government activities has resulted in rise in the public expenditure. The total expenditure in both revenue and capital accounts in 1950-51 was Rs 900 crore. It rose Rs 7,843 crore is 1970-71, Rs 1,63,520 crore in 1990-91 and further to Rs 35,21,506 and in 2014-15.

The ratio of public Expenditure to GDP rose steadily until 1990-91. from 9.1% of GDP in 1950-51, the ratio rose to 15.3% in 1960-61. and 28.7%. in 1990-91 to 1997-98. there was decline in this ratio. It was 24.7% in 1996-97 and 25% in 1997-98. Since then the trend of declining public Expenditure GDP ratio has been reversed. In 2014-15 again It rose to 27.8 percent.

Now the ratio of Indian public expenditure to GDP is one of the highest in developing nations and is very much comparable to the ratio of developed nations like America, united kingdom, Germany, France and Canada.

Fiscal policy :-

Introduction :-

Fiscal policy is traditionally concerned with the determination of state income and expenditure policy. In recent times with the expanding role of state with particular reference to the need for a rapid economic growth, public borrowing and deficit budgeting have also become a part of fiscal policy.

Meaning of fiscal policy :-

Fiscal policy concerns itself with the aggregate effects of government expenditure and taxation on employment, income and production.

In simple words, fiscal policy refers to the instruments by which a government tries to regulate ~~or~~ modify the economic affairs of an economy keeping in view certain specific objectives.

Definition of fiscal policy :-

1. According to Otto Eckstein fiscal policy as

" Changes in taxes and expenditure which aim at short run goals of full employment price level and stability.

2. According to G.K. Shaw :-

"Fiscal policy to include any design to change the price level, composition or timing of government expenditure or to vary the burden, structure of frequency of the tax payment."

Objectives of fiscal policy in developing Economies :-

The main objective of fiscal policy in developing economies is to accelerate the rate of capital formation and Investment. Fiscal policy in these countries aim at influencing the patterns of production, consumption and general price level.

1. To accelerate and promote the growth of productive Investment in the country both

in the public and private sectors.

2. To mobilize the maximum volume of real and financial resources for the Investment plans of public sector, for the demand for real and financial resources of the private sector.

3. To redistribute the growing national output, monetary stability to maintain the maximum rate of growth of the economy.

Pin-point the following objectives of a fiscal policy in developing countries:-

a. Optimum allocation of resources.
b. Capital formation and growth
c. Equitable distribution of income and wealth.
d. Price stability
e. Accelerating the rate of economic development.
f. Ensuring full employment.
g. Encouraging Investment.

a. Optimum Allocation of Resources:-

Taxation and public expenditure programmes can greatly affect the allocation of resources in various sectors and occupations. In fact the National Income and per capital income of developing is generally very low. financing of development plans posses a severe threat to the governments of such developing economies.

b. Capital formation and growth:-

Capital plays a major role in any developmental activities in a country and fiscal policy can be adopted as a crucial tool for the promotion of the highest possible rate of capital formation and growth.

c. Equitable distribution of income and wealth:-

In developing economies wealth concentrates in a few hands. Because private ownership dominates the entire structure of the economy which lead to inequality in wealth.

Extreme inequalities create political and social discontentment which further generate economic instability, for this suitable fiscal policy of the government can be devised to bridge gap between the incomes of the different sections of the society.

d. Price Stability:-

In a developing economy, economic instability is manifested in the form of Inflation. Inflationary pressures are inherent in the process of investment but the way to stop them is not to stop investment. They can be controlled by various other ways of which the chief is the powerful method of fiscal policy to ensure price stability.

e. Accelerating the rate of economic development:-

Fiscal policy in a developing country, should aim at achieving an accelerated rate of growth of economic. But a high rate of economic growth cannot be achieved and maintained without stability in the economy. fiscal measures such as taxation, public borrowing and deficit financing etc should be properly so that production, consumption and distribution may not be adversely affected.

f). Full employment:-

The first and foremost objective of fiscal policy in a developing country is to achieve and maintain the full employment in a economy. In such economies, even if full employment is not achieved the main motto should be avoid unemployment and to achieve a state near full employment.

g.) Encouraging Investment:-

Fiscal policy aims ~~at~~ the acceleration of the rate of investment in the public as well as in private sectors of the economy. fiscal policy in the first instance should encourage investment in public sector which in turns effect to increase the volume of investment in private sector.

Objectives of fiscal policy in India :-

The planning commission of India had stated in the 7th Five year plan " Through fiscal policy the Government Creates and sustains the public economy consisting of the provision of public. Services and public Investment at the same time it is an Instrument for reallocation of resources according to the national priorities, redistribution, promotion of private Savings, and Investments and the maintenance of Stability.

Fiscal policy in India had the following two major objectives :-

1. Improving the growth performance of the economy.
2. Ensuring Social justice to the people.

1. Improving the growth performance of the economy :-

Fiscal policy affects growth performance of the economy by influencing the mobilization of the resources for the development and also efficiency of resource allocation.

India has done well in terms of tax effect. At the time of Introduction of planning in 1950-51 the tax GDP ratio was low of 6.3 percent, Since then it rose steadily at 15.8 percent in 1991-92. In 1990s the liberation period at the tax GDP ratio declined to 13.9 percent in 1998-99 due to the sharp reduction in the tax rate.

2. Ensuring Social justice to the people:-

The big question is India's fiscal policy conforms to the principle of equity. During the first 40 years of economic planing the share of direct taxes in total tax revenue had fallen from 40 percent to 16 percent.

The trend has changed from 1990's the phase of liberalization. In 2014-15 direct taxes accounted for 55 percent of the total tax revenue of the central government.

There is a large undisclosed income in the country on which no tax is paid.

Fiscal policy Reforms:-

In the economic liberalization of 1999 period Some of the major themes of fiscal policy are:-

1. Systematic efforts to Simply both the tax Structure and tax laws.
2. A deliberative shift towards the reasonable direct tax rates combined with the administration and enforcement, raise revenues.
3. Concentrated efforts to improve tax administration and reduce the scope for arbitrary harassment.
4. Growing appreciation of the links between fiscal policy and monetary policy.

→ Fostering of a stable and predictable tax policy environment.

→ More reliance on non-discretionary fiscal and financial Instruments in managing the economy as compared to adhoc discretionary physical controls.

Federal Finance:-

India being a federal Republic state, the union State financial relations are based on the principle of federal finance. In a federation we have one hand, the federal Government and other the constituent States. The essence of federal finance means constitutional division of powers, functions and resources between the Central (federal) and the state (unit) governments.

1. Each government should have independent sources of revenue, total command over its resources to meet its needs.

Important characteristics of a federal finance:-

The Important characteristics of a federal finance in India.

1. The source of income and heads of expenditure, are distributed between the central and state governments according to the constitution.

2. The sources of income and heads of expenditure of central and state governments are different.

3. The states are also financially aided by the centre.

4. The state governments have administered autonomy.

5. Any financial dispute arising b/w the central and state governments, the solution there is of Sought according to the constitutional provision.

History of federal finance of India:-

The evolution of the federal finance system in India can be traced to the government of India Act, 1935.

This Act was based on the general principles of finance Independence for the provinces. The history of federal finance can be broadly categorized into the following 5 periods.

1. First period (1789-1870 (centralized)
2. Second period (1871-1918 (Imperial/provisional/divided)
3. Third period (1919-1935)
4. Fourth period (1936-1949)
5. Fifth period after commencement of constitution

1. First period (1989-1870):-

The charter Act of British government the financial System in India was completely centralized. The revenue was collected in the name of the government of India and the governa

General was vested with full power to spend it.

No state had financial or law-making powers.

It was the responsibility of the Governor General to Sanction even the small expenses and other Important appointments. Only fixed grants-in-aids were given to different states.

This System was uneconomical and Inconvenient.

2. Second period (1871-1918):-

In this period some steps towards the decentralization and some powers and responsibilities of the departments like Education, Roads, and public buildings, Registration, press, police Jail etc. were transferred to the State and power to levy taxes on certain Spheres were also given to them.

Revenue Resources :- 3 types :-

1. Imperial Heads
2. provincial Heads
3. Divided Heads.

1. Imperial Heads :-

Imperial Heads includes profits from commercial departments and revenue from opium, salt and custom.

2. provincial Heads :-

Provincial Heads comprised Civil departments and provincial works and divided heads include the excise, assessed taxes, stamps, forest and registration.

3. Divided Heads :-

In 1882 Lord Rippon introduced a new System in which some revenge given to the State were kept as "divided Heads" the revenue from them being distributed b/w the centre and the states.

3. Third period (1919-1935):-

In India the first landmark and the most important movements towards the system of financial decentralization was based on Montague.

- Chelmsford Reforms. It took practical Shape in the form of government of India Act 1919 which finally came into the force in 1921.

It recommended Separation of the resources of the State from those of the centre.

The sources of revenue assigned to the provinces included land revenue, irrigation charges, excise duties. etc.

The central would experience a huge deficit and the states would give financial help to the centre.

4. Fourth period :- (1936 - 1949) :-

Act of 1935 provided for provincial autonomy. There was a complete Separation of federal and provincial sources of revenue under this Act.

The sources of revenue of the provinces under this provision Constituted the land revenue, irrigation charges, excise duties, alcholic liquors, opium, narcotic drugs, medical and toilet propositions, agricultural income tax, Stamps and registration, telegraphs, broadcastings, Currency and coinage, railways and military receipts.

5. Fifth period :-

In this period the constitution of India made the same financial provisions was provided in the government of Indi Act 1935, under the provisions of the constitution a finance Commission had to be appointed on the expiry of every five years or earlier.

Financial Relations b/w the Centre and the States :-

The financial relationship between the centre and State is provided in the constitution. The Constitution of India gives a detailed scheme of distribution of financial resources b/w the

Centre and states. The Indian constitution makes a broad distinction between the power to levy tax and the power to appropriate the proceeds of a tax.

The constitution grants the union parliament exclusive power to levy taxes on several other specified items.

The union parliament levies taxes on items mentioned in the union list while the state legislatures levy taxes on items mentioned in the State list.

The residuary powers belongs to the union.

Union Taxes :-

The union (centre) taxes as laid down in List I, 7th schedule of the constitution of India.

1. Taxes on income other than agricultural income.
2. Customs and Excise duties expect on alcholoic liquors and narcotics not contained in medicial or toilet preparations.
3. Corporation tax.
4. Estate and succession other than on agricultural land.
5. Taxes on the capital values of assests, except agricultural land, of Individuals and companies.
6. Rates of stamp duties on financial documents.
7. Taxes other than stamp duties on transactions in stock exchanges and future markets.
8. Taxes on sale or purchases of news paper on a advertisements.
9. Taxes on the sale or purchase of goods in the course of inter-state trade.
10. Terminal taxes on goods or passengers carried by railways, Airways, Seaways.
11. Taxes on Railway fieight and fares.

State Unions :-

The subject on which the state government have the exclusive powers to levy taxes as given in list II of the 7th schedule of the constitution.

1. Land Revenue.
2. Agricultural Income.
3. On the sale and purchase of goods except of news papers.
4. On land and Buildings.
5. Estate duties.
6. Excise duty.
7. On alcoholic liquors and narcotics.
8. On the entry of goods into a local area.
9. mineral rights, subjects to any limitations imposed by parliament.
10. Vehicles and luxuries.
11. Animals and Boats.
12. Advertisements other than contained newspapers.
13. Stamp duties except those on financial documents.
14. Goods and passengers carried by board on inland water ways.
15. Capitation Taxes and Tolls.
16. Taxes on professions, trades, callings and employment.

The exclusive power of Taxation of the union and state governments :-

Firstly :-

Taxes levied by the central government but collected and appropriated by the states. Stamp duties on bills of exchange, excise duties on medical and toilet preparation fall in this category.

Secondly :-

Certain duties are levied and collected by the centre but the net proceeds of such taxes are distributed among the states. Each state gets that amount of the tax is collected with in the territory. Succession duty, estate duty, on property other than agricultural land, railways tax etc.

Thirdly:- Taxes are levied and collected by the centre but the proceeds are distributed between the centre and the states.

Taxes on non-agricultural income and excise duties on items in the centres list except medicinal and toilets preparations

Finance Commission:-

The finance commission is a silent features of the Indian Constitution. president appoints the finance Commission according to the constitution for every 5 years.

Finance commission will comprise of a chairman and 4 other members to be appointed by the president.

Finance commission	Year of Establishment	Chairman	Operational duration.
First	1951	K C Neogy	1952-57.
Second	1956	K. Santhanam	1957-62
Third	1960	A K. Chanda	1962-66
fourth	1964	P.V Rajamannar	1966-69.
Fifth	1968	Mahaveer Thyagi	1969-74
Sixth	1972	K Brahmananda Reddy	1974-79.
Seventh	1977	J.M. Shelat	1979-84.
Eighth	1983	Y.B. chavan	1984-89.
Ninth	1987	N.K. P Salve	1989-95
Tenth	1992	K. C. pant	1995-2000
Eleventh	1998	A.M.Khusro	2000-2005.
Twelfth	2002	Dr. C. Ranga Rajan	2005-2010
Thirteenth	2007	Dr. Vijay L.Kelkar	2010-2015
Fourteenth	2013	Dr. Y.V. Reddy	2015-2020

Fourteenth Finance Commission (FFC):-

The 14th finance commission was appointed on 2nd January, 2013 under the chairmanship of former RBI Governor Dr. Y.V. Reddy. To review the state of finances of the central and state governments and suggests measures for maintaing a stable and sustainable fiscal government.

The commission was also entrusted the responsibility to make recommendations regarding the devolution of taxes b/w the centre and states from the divisible pool.

The committee has submitted its reports on 15th December 2014.

Major Recommendations of 14th finance Commission:-

The major recommendations of 14th finance commission:-

1. States share in the net products of union tax Revenue increased to 42 percent from 32 percent. This is the largest ever jump in percentage of devolution.

2. Eight Centrally Sponsored Schemes (CSS) delinked from Support from the centre.

3. Finance commission has identified over 30 CSS to be delinked from the Centre's Support but all have not yet been linked considering the national priorities and local obligations.

4. Under various CSS to undergo a change with states sharing higher fiscal responsibility for scheme Implementation.

Distribution of grants to seats states for local bodies on 2011 population data (90% weight) and 10% weight.

Other Key Recommendations of EFC:-

- Revenue Compensation to states under GST should be for five years.

  100% in first 3 years

  75% in 4th year

  50% in 5th year.

- Create an autonomous and Independent "GST Compensation fund".
- 14th finance Commission puts a ceiling on fiscal deficit 3% of GDP (from 2016-17).
- Key features / changes of 14th finance Commission :-

Key features of 14th finance Commission :-

- Calculating grants to states entire revenue expenditure taken into account without making distinction b/w plan and non-plan.
- Calculations for distribution of divisible proceeds are based on the population formula incorporating parameters of population (1971).
- post devolution revenue deficit grant to begin to 11 states - The total revenue deficit grants over the 5 years to these State is Rs. 1,94,821 crores.

State finance Commission :-

State finance Commission has been established in the various states of India can helping in Improving the financial condition of the various local bodies such as panchayatraj Institution and municipal bodies are in the states.

The financial commission in states are responsible for many other functions.

The Article 243/1 of the Constitution of India the government of the state shall set up the finance Commission with in the period of one years that begins with 73rd Amendment Act of the indian Commission, 1992 after the end of every five years.

The finance Commissions in the states usually Comprises of the chairman, member secretary, other members. state finance commissions receive Grants from the finance commission that is set up by the government.

Functions of state finance Commission:-

The functions of state finance Commission in india :-

1. To Transfer the funds for various activities in the state that is granted by the central government to the state government.

2. To review the economic conditions of the various panchayatraj Institutions and municipalities are in the state.

3. The steps help in boosting the financial Conditions of the various panchayatiraj and municipal bodies in the state.

4. To act as arbiter between the central and the state governments with regard to issues of financial nature.

5. To determine the taxes, tolls, duties; fees may levied by the various panchayatiraj and municipal bodies thate are within State etc.

Grants from State finance Commission:-

- Fiscal Administration.
- Administration of districts.
- Infrastructure Development.
- Health care Services.
- Elementary Education.
- Training in computer for school children.
- public libraries.
- Heritage protection.
- Administration of police, law and order.
- fire Services.
- Administration of prisons.

BUDGET AND FRBM :-

Introduction :-

Budget consists of a financial plan of the government. The budget of central government of India of any year gives a complete picture of its programmes and policies that estimated receipts and proposed expenditure under different heads for a specific period usually spaning a year.

1. Actual figures for preceding year.
2. Budget and revised figures for the current year.
3. Budget estimates for the following year.

Classification of Budget :-

The annual financial statement of the government showing estimated expenditure and estimated revenue for the coming year which runs from April 1st to march 31st of a financial year is presented at the end of february of the current year.

The budget is also a financial plans which gives the estimation of how the government is going to distribute the resources of that year and how that expenditure is to be financed. we can explain the same under the following types of budget in vogue in India :-

1. Union and state Budget.
2. plan and Non-plan Budget.
3. Main and Supplementary Budget.
4. Balanced and un Balanced Budget.
5. Legislative and executive Budget.
6. Cash and Administration Budget.
7. Ministerial and Departmental Budget.
8. Performance and programme Budget.
9. Revenue Capital Budget.
10. Zero based Budget.

1. Union and state Budget :-

The central and State governments require money for the fulfillment of their respective needs. The Sources of revenue are different. The constitution contains the functions of the centre and the State governments. Types of taxes, power to levy the taxes and distribution of taxes b/w the states and the centre are clearly laid down in the constitution of our country.

Every state government presents its State budget to its legislature and the central government to the parliament at the end of february of each financial year.

2. Plan- and Non-plan Budget:-

Plan Budget refers to the budgetary provisions related to the annual plan for the year. It includes the financial provisions of the government relating to the different sectors such as agriculture, and allied sector, Industry, transport, communication, banking, power, community and social services. etc.

The plan Budget also Includes central assistance for the State plans.

Non plan budget relates to the other than the plan buget.

3. Main and Supplementary Budget:-

Main Budget is an annual financial statement of estimated receipts and expenditure of the government and It is presented for the entire fiscal year.

Supplementary budget is presented to meet the extra expenditure in case of emergencies like war, floods, Earthquake etc.

4. Balanced and UnBalanced Budget:

A Budget can be either balanced or unbalanced. Dalton defines the concept of balanced and unbalanced budget as "a balanced budget when that over a period of time revenue does not fall short of expenditure, if the expenditure exceeds revenue the budget is said to be unbalanced.

5. Legislative and Executive Budget :-

Legislative budget is prepared by the legislature directly or with the help of committees. legislative consists of elected representatives of the government.

Executive budget is prepared by the executive heads of the governments.

The executive is responsible to the implementation of the budget proposals prepared by the legislative. The executive budget is likely to be better than the Legislative budget, Because the executive wing being the actual Player in the field is in a better position to make correct estimates of expected receipts and the required expenditure.

6. Functional and Cash Budget :-

The difference between them are mentioning of revenue and expenditures figures on actual basis and excluding those receipts and expenditure which do not belong to the government. Administrative budget refers to the revenue and expenditure on actual basis. It includes those funds which are owned by the government.

7 Ministerial and Departmental Budget :-

In India every ministry and department prepares its own Budget. The departmental budgets are consolidated into the Budget of the concerned ministry and such budgets of ministeries are then Consolidated into the main Budget. This is presented to the parliament of the country year by the union finance minister.

For example :- The Railway Budget in India, but its over all revenue and expenditure Statement is included in the main budget.

8. Performance and programme Budget :-

performance goal is a component of a broader programme. The ~~Perf~~ performance budget concentrate on the efficient of input - output relationship in order to attain a particular budgetary goal.

→ The programme and performance budgets may also be distinguished on the basic of time demensions.

Programming budget is forward looking and relates the exante plans and projections while performance budgetting is backward looking and relates to expost analysis of efficiency of action already taken.

→ The objects behind these budgets is to increase efficiency in decision making. when budgetting covers both these activities it is called as performance and programming budgetting (PPB)

↓

It is a System of presenting government expenditure in a relations to functions, programmes, activities, projects etc. reflecting government output and cost. The two Budgets are Interlinked and Supplementary to each other.

9. Revenue and Capital Budget :-

The general practice adopted by many countries is to divide the budget into Revenue and capital Accounts, the former covering those items which are of recurring nature while the latter includes items which are of non-recurring nature. which are concerned with the acquisition of sale of Capital assests.

The Non-tax revenue is collected from currency, coinage and mint, interest payments, dividends, profits, revenue from general services, Social and community services and from economic Services.

10. Zero Based Budgeting (ZBB) :-

The concept of zero Based Budgeting is that of all financial requirements of a Budget unit are analyzed evaluated and justified annually and not just the increased or additional requirements.

Peter A phyrr the most prolific writer on the subject describes the concept as an operation planning and budgeting process that requires each manager to justify a budget request in detail from scratch. It means that the budget as a whole is considered rather than being limited to examine incremental changes only. Each Department is requested to justify its budget requirements from the bottom up, evaluating all its alternate programmes package and ranking programming. No consideration is given to the past or to those existing at present, any programme may be included or excluded. The budget is considered as whole and a fresh from zero Base.

Qualities of a Good Budget:-

The following characteristics are:-

1. Responsibility
2. Comprehensiveness
3. Flexibility
4. Reliability.
5. Integrity

1. Responsibility:-

Budget should be prepared by some well defined authority. In USA the budget is prepared by the Bureau of Budget under the direction of the president, who is ultimately responsible for it. India the budget is being prepared in the ministry of finance with the direction of union finance Minister at the centre and at the state level by the state finance Minister.

2. Comprehensiveness:-

The budget should be very

Comprehensive. i.e. It should show the entire finance position of the government in abroad detail and sorts of explanatory elements would form part of it. So that the total picture may be seen by any one who desire to do so.

3 Flexibility :-

A good budget should have certain degree of flexibility with regard to its allocation and must avoid too much rigidity So that the implementating authorities will have some freedom for the use of its provisions as per their discretion.

4. Reliability :-

The information on which the budget estimates are based on should be as much reliable as possible.

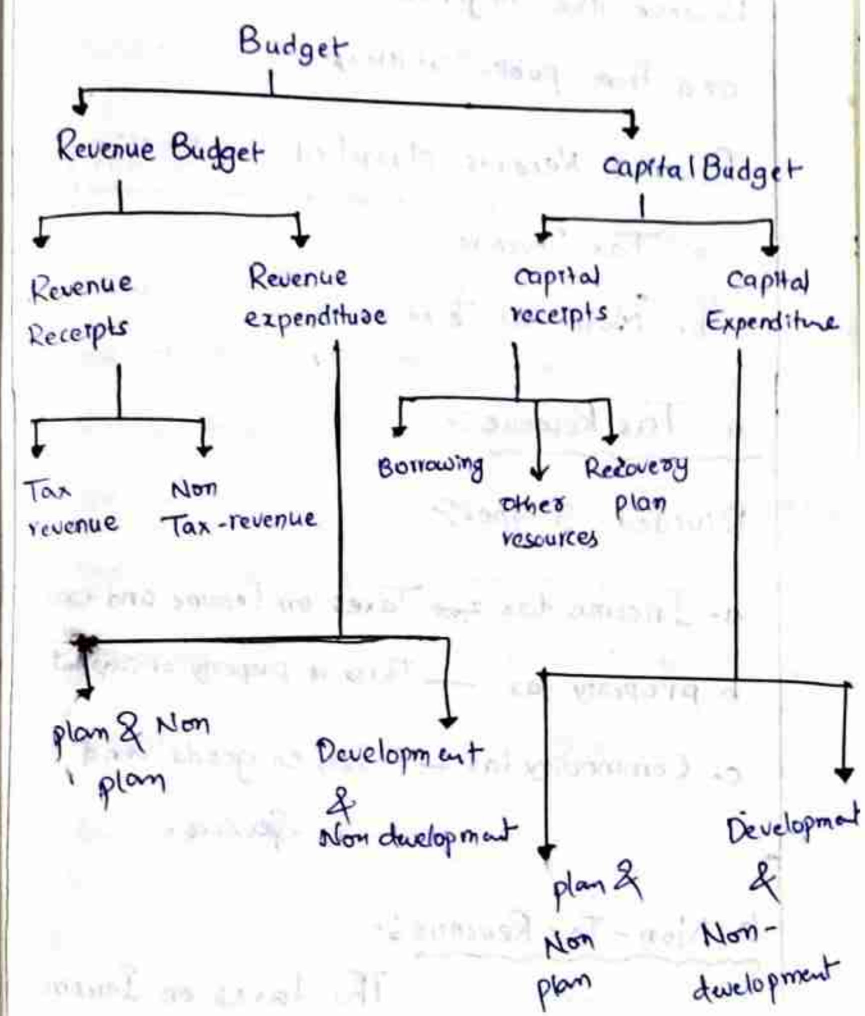
5. Integrity :-

A good budget should evolve and reflect the assurance that the fiscal programme enacted will be carried out substantially, as is being intended.

Concepts of Budget Revenue :-

The budget of India is broadly divided into two parts :- They are :-

1. Revenue Account or Revenue Budget.
2. Capital Account or Capital Budget.



Revenue Receipts:-

Receipts which increase usuable funds of the government without creating any debt liability.

The total current Revenue of the central government consists of tax Revenue and non-tax Revenue like registration fees, court fees, fines and from public utilities.

Revenue Receipts classified two types:-

a. Tax Revenue

b. Non-tax Revenue.

a. Tax Revenue :-

Divided 3 types:-

a. Income tax — Taxes on Income and expenditure

b. property tax — Taxes on property or capital assets

c. Commodity tax — Taxes on goods and Services.

b. Non-Tax Revenue:-

The taxes on Income, property and [illegible] the central government of India gets revenue from other sources, which is called as Non-Tax Revenue. It includes receipts from registration fees, court fees, fines, penalties, Surplus from public Enterprises and public utilities, interest receipts, dividends and profits of government enterprises, general Sources etc.

Revenue Expenditure :-

refers to those items of Current expenditure which reduces the funds of the government without reducing any debt liabilities. Such expenditure does not result in the creation of assests. This expenditure is incurred towards running of the government department, provisions of various Services, interest payments, on government borrowings, providing Subsidies etc.

Capital receipts:-

- Borrowings from RBI and other parties through the sales of treasury bills.
- Borrowing by the government from the public.
- Recoveries of loans from the states and union territories.
- External borrowing from foreign governments and International financial organizations like IMF, Asian Development Bank etc.
- Small Savings and public provident funds.
- Disinvestment is also being included in Capital receipts. Because it leads to a reduction in the assests of the government.

Capital Expenditure:-

The expenditure incurred by the central government which consists of plan expenditure and non-plan expenditure, it is financed out of capital

Capital expenditure includes expenditure on education, loans to States and union territories for financing plans projects, and loans to foreign government and expenditure towards economic, Social and community development, defence and general administration.

Development Expenditure:-

expenditure incurred by the government on programmes related to the growth and development activities of the government. Development expenditure includes expenditure on education, healthy, industry, rural development water works, roads, bridges, power generation Communication etc.

Non- Development Expenditure:-

The expenditure incurred on the Non- Development activities of the governments is known Non- Development expenditure. It includes activities like manufacture maintenance of law and order, defence, tax collections. payments of old age pensions, payments of Interest on borrowings etc.

plan and non-plan Expenditure:-

plan expenditure refers to the expenditure incurred by the government towards its planned development programmes. Both consumption and Investment expenditure made by the government will be included under this expenditure. Expenditure on agriculture, Industry, Communication, health etc. some of the different types of plan Expenditure.

Deficit Budget - Different Concepts of Deficit.

The Developing countries and under developed countries. is always deficit Budget and it has become a permanent feature. For acquiring funds to finance economic development deficit financing has been used by the government of india When the government cannot raise enough financial resources through taxation, It finances its development expenditure through - by running down its cash balances with (RBI) borrowing from the market, and borrowing from RBI.

Deficit budget has been classifieds into different types as explained below;-

1. Revenue Deficit
2. Budgetary Deficit
3. Fiscal Deficit
4. primary Deficit.
5. Monetized deficit

1. Revenue Deficit :-

Revenue Deficit occurs when the revenue expenditure exceeds revenue receipts. The Deficit is indicated by the minus symbol. It reflects the failure of the government to meet its current expenditure from its current revenue.

2. Budgetary deficit :-

This type of deficit shows the difference b/w all the receipts and expenditure of the government (both revenue and capital). It implies that government incurs more expenditure than its normal receipts from revenue and capital goods. Budget deficit is financed either by drawing down cash balances with the central Bank against treasury bills.

3. Fiscal Deficit :-

Fiscal Deficit denotes budgetary deficit plus market borrowing and other liabilities of the government from all sources. Fiscal deficit is an internationally recognized concept.

4. primary deficit :-

Primary deficit is equal to fiscal deficit minus interests payments. primary deficit is considered to be an indicator of the actual position of the government finance, it keeps away the interests payments.

5. Monetized deficit :-

It shows the net increase in holdings of treasury bills of the Reserve Bank of India and its contribution to the market borrowings of the government. In simple terms it refers to the increase in central banks credit to the government.

Fiscal Responsibility and Budget Management Act (FRBM ACT) :-

Financial reforms :-

The "Fiscal Responsibility and Budget Management Bill - 2000" was introduced in Loksabha in December 2000. The preamble of the bill was to ensure inter governmental equity in fiscal management and long term macro economic stability by achieving sufficient revenue surplus, eliminating fiscal deficit, fiscal substainability through limits on Central governments borrowings, debts and deficits greater transparency in fiscal operators etc.

The Bill become an Act in August 2003 as Fiscal Responsibility and Budget management (FRBM) Act" and became effective from from July 5, 2004. The FRBM acts

The FRBM act mandates the central governments to eliminate revenue deficit by march, 2009 and Subsequently build up revenue Surplus.

Rules under FRBM act :-

The FRBM act 2003 mandated the following rules :-

1. Reduction in revenue and Fiscal deficit :-
Every year the government will bring down revenue defect by 0.5%. and eliminate it by 2009 and reduce fiscal deficit by an amount equivalent to 0.3%. of GDP and bring it down to 3%. by 2009.

2. Total liabilities of the central government Should not rise by more than 9%. per year.

3. The Central government would place three more documents along with the budget documents. Macro Economic frame work statement and the fiscal policy Strategy statement and medium

term fiscal policy statement.

4. prohibition of direct borrowings by the central governments from the RBI.

5. Greater transparency in fiscal operations and to maximization of as far as practicable Secrecy in the preparation of the annual budget.

6. Quarterly review of the trends in receipts and expenditure in relation to the budget by the finance minister and placing the outcome of such review before both Houses of the parliament.

7. The central government to cut expenditure in a proportionate manner, while protecting the changed expenditure, whenever there is a short fall of revenue or excess of expenditure over specified targets.

Task Force on Implementation of FRBM Act :-

The central government constituted a task force headed By Dr Vijay Kelkar for drawing up the medium term frame work for fiscal policies to achieve the FRBM targets. The Task Force was also asked to formulate annuals targets indicating the path of adjustment and required policy measures. The Task force Submitted its reports in July 2004.

Amendments to FRBM Act :-

Amendments were made to the FRBM act 2003 through finance Act 2012, through which it was decided that in addition to the existing three documents, central government shall lay another document - The medium Term Expenditure Framework Statement (MTEF). Other three documents are MTFP (medium Term fiscal policy statements, Fiscal policy strategy (FPS)

Macro Economic Frame work statement (MEFW).

Amendments to the FRBM Act were introduced Subsequent to the Recommendations of 13th Finance Commission.

Fiscal Responsibility and Budget Management (FRBM) Review Committee of 2016:-

The Government of India had set up a review committee on may 2016 to evaluate the FRBM Act. 2003. In order to assess its functionality in the last 12 years.

The committee has recommended a debt-to GDP ratio of 38.7% for the central government, 20% for the state governments together and a fiscal debit of 2.5% of GDP both by financial year 2022-23.

Deficit and Debt Targets

(% of GDP)

Sl No	Year	Fiscal deficit	Revenue deficit	Debt.
1.	2017-18	3.0	2.1	47.3
2.	2018-19	3.0	1.8	45.5
3.	2019-20	3.0	1.6	43.7
4.	2020-21	2.8	1.3	42.0
5.	2021-22	2.6	1.1	40.3
6.	2022-23	2.5	0.8	38.7

public goods	private goods
1. public good is always for the social welfare and public welfare.	1. It is useful for the Individual welfare.
2. public good will satisfy social wants.	2. private good will Satisfic Individual wants.
3. public good maintain by government.	3. private good maintain by private individuals.
4. public good have non-excludable goods	4. private good follow excludable goods.
5. public good have non-rival principles.	5. private good have rival principles.
6. public good always for the people merit wants.	6. There is no any Importance of people merit wants.
7. public good in non-free market mechanism.	7. private good in the free market mechanism.
8. There is no marginal in public good production.	8. Their marginal cost in private good in production.