

## Scope and Importance of Public Finance

### **The scope of Public Finance:**

The scope of public finance is not just to study the composition of public revenue and public expenditure. It covers a full discussion of the influence of government fiscal operations on the level of overall activity, employment, prices and growth process of the economic system as a whole.

*According to Musgrave, the scope of public finance embraces the following three functions of the government's budgetary policy confined to the fiscal department:*

- The Allocation Branch.
- The Distribution Branch, and.
- The Stabilization Branch.

*These refer to three objectives of budget policy, i. e., the use of fiscal instruments:*

- To secure adjustments in the allocation of resources.
- To secure adjustments in the distribution of income and wealth, and.
- To secure economic stabilization.

Thus, the function of the allocation branch of the finance department is to determine what adjustments in allocation are needed, who shall bear the cost, what revenue and expenditure policies to be formulated to fulfill the desired objectives. The function of the distribution branch is to determine what steps are needed to bring about the desired or equitable state of distribution in the economy and the stabilization branch shall confine itself to the decisions as to what should be done to secure price stability and to maintain full employment level.

**Further, modern public finance has two aspects:**

- The positive aspect, and.
- Normative aspect.

**In its positive aspect:** The study of Government finance is concerned with what are sources of public revenue, items of public expenditure, constituents of the budget, and formal as well as effective incidence of the fiscal operations.

**In its normative aspect:** Norms or standards of the government's financial operations are laid down, investigated, and appraised. The basic norm of modern finance is general economic welfare. On normative consideration, public finance becomes a skillful art, whereas, in its positive aspect, it remains a fiscal science.

**The main scope of public finance may be summarized as under:**

- Revenue.
- Expenditure.
- Debt.
- Financial Administration, and.
- Economic Stabilization.

*Now, explain;*

**Public Revenue:**

Public revenue concentrates on the methods of raising public revenue, the principles of taxation and its problems. In other words, all kinds of income from taxes and receipts from the public deposit are included in public revenue. It also includes the methods of raising funds. It further studies the classification of various resources of public revenue into taxes, fees, and assessment etc.

**Public Expenditure:**

In this part of Government finance, we study the principles and problems relating to the expenditure of public funds. This part studies the fundamental principles that govern the flow of Government funds into various streams.

## **Public Debt:**

In this section of public-finance, we study the problem of raising loans. The public authority or any Government can raise income through loans to meet the shortfall in its traditional income. The loan raised by the government in a particular year is the part of receipts of the public authority.

## **Financial Administration:**

Now comes the problem of organization and administration of the financial mechanism of the Government. In other words, under financial or fiscal administration, we are concerned with the Government machinery which is responsible for performing various functions of the state.

## **Economic Stabilization:**

Now, a day's economic stabilization and growth are the two aspects of the Government economic policy which got a significant place in the discussion on public finance theory. This part describes the various economic policies and other measures of the government to bring about economic stability in the country

## **Divisions of Public Finance:**

Public-finance is broadly divided into four branches. These are Public Expenditure, Public Revenue, Public Debt, and Financial Administration. Under Public Expenditure, we study the various principles, effects, and problems of expenditure made by the public authorities.

## **Meaning, Definition, Principles, and Functions of Insurance**

Under the branch of Public Revenue, we study the various ways of raising revenues by the public bodies. We also study the principles and effects of taxation and how the burden of taxation is distributed among the various classes in society. Public Debt is

the study of the various principles and methods of raising debts and their economic effects.

It also deals with the methods of repayment and management of public debt. The branch of Financial Administration deals with the methods of budget preparation, various types of budgets, war finance, development finance, etc.

### **Need for Public Finance:**

We all know that the existence of a large and growing public sector is a reason enough to study public-finance. Adam Smith in his monumental work. The Wealth of Nations laid out the basic jobs of the government.

The government is to play an important role in providing for the defense of the nation, the administration of justice, and in the provision of those goods and services not wholly to be the result of the ordinary private activity. Adam Smith also had an acute awareness of the problems that would be associated with raising the funds needed to finance these obligations.

His four maxims of taxation remain today a guide in designing a nation's revenue structure. The four maxims focus attention on matters of economic efficiency as well as equity.