

ECONOMICS OF PUBLIC FINANCE

— *Catering the need of* —

- Post-graduate and Honours Students of various Indian Universities
- Students appearing in various Competitive Examinations for Civil Services and UGC Fellowship.

Dr. OM PARKASH

M.A., Ph.D
Professor (Retd.)
Punjab School of Economics,
Guru Nanak Dev University,
AMRITSAR (Pb.)



Future for WINNERS

VISHAL PUBLISHING CO.
JALANDHAR — DELHI

CONTENTS

- 1. Nature and Scope of Public Finance** **1–16**
- Meaning of Public Finance, Definitions of Public Finance, Importance of Public Finance, Scope of Public Finance, Functions of the state, The effects of fiscal operations on economic life, Objectives of fiscal functions : The subject matter of public finance, Role of public sector, Major Fiscal Functions : Allocation function, Distribution function, Stabilisation function, Comparison of Public Finance with Private Finance, Public Finance : Science or art, Public Finance as a Positive Science or a Normative Science : Public Finance as a positive science, Public finance as a normative science, Public Finance and the Economic System.
- 2. Principle of Public Finance–Principle of Maximum Social Advantage** **17–24**
- The Principle of Maximum Social Advantage, Musgrave's views on the Principle of Maximum Social Advantage, How to Achieve the Maximum-Welfare Principle of Budget Determination, Dalton's Tests of Social Advantage, Mrs. Hick's Criteria, Limitations of the Principle of Maximum Social Advantage.
- 3. Private Goods and Public Goods** **25–37**
- Private goods, Public goods, A More Close Analysis of Public Goods, Difference between Private goods and Public goods, The Demand for a Pure Public Good : An other way, Efficient Output / Allocation of Public good, The Lindahl Equilibrium, Generalising the result of Lindahl Equilibrium, Criticism of Lindahl Approach, Public goods and the free rider problem, Possible Solution to the Free Rider Problem : Dominant Assurance Contracts, Coasian Solution, Government Provision, Subsidies, Privileged Group, Merging of Free Riders, Legislated Exclusion, Non-Individualism, Mixed goods, Prof. Musgrave's Views on Public goods, Social goods, Merit goods, Global Public goods, Club goods, Local Public goods, Definition of a Local Public Good, Distinction between Club goods and Local Public goods, Features of Local Public goods.
- 4. Market Failure and Externalities** **38–46**
- Market Failure, Market Failure and the Rationale for Government Activity, Concept of Externalities, Characteristics of Externalities, Types of Externality : Positive and Negative, Consequences, Correction Methods of Externalities, Policy Prescription, Pecuniary Externalities, Global Warming and International Externalities, The Coase Theorem.
- 5. Public Revenue** **47–62**
- Introduction, Concept of Public Revenue, Sources of Public Revenue : Taxes, Charges and Borrowing, Characteristics of a tax, Commercial revenue, Administrative revenue, Fees and Fines, Escheats, Special Assessment, Gifts and Grants, Other revenues, Classification of Public Revenue : Adam Smith's Classification, Bastable's Classification, Adam's Classification, Seligman's Classification, Dalton's Classification, Lutz's Classification, Taylor's Classification, Prof. J.K. Mehta's Classification, Economic Classification, Sources of Revenue for the Union Government in India : Revenue Receipts, Receipts on Capital account, Relative role of Direct and Indirect taxes, Goods and Services tax.
- 6. Structure of Taxation : General Considerations** **63–80**
- Canons of Taxation : Concept, Adam Smith's Canons or Maxims of Taxation, Characteristics of a Good Tax System, Requirements of a Good Tax System, Requirements for a Good Tax Structure, Tax Structure in India, Tax Ratio, Buoyancy and Elasticity of Taxation, Buoyancy and Elasticity of Tax Revenue : Conceptual Framework, Buoyancy of taxes, Tax Elasticity – Limitations, Usefulness, Tax Avoidance, Tax Expenditure, Tax Design and Tax Reform : Introduction, Concepts of Tax Design and Tax Reform, Characteristics of a Well-Designed Tax Structure, Optimal Taxation, Optimal Income Tax, Excess Burden or Dead Weight Losses : Concept, Forms of Excess Burden, Magnitude of Excess Burden, Suggestions, Principle of Tax Neutrality and avoidance of Excess Burden, The Concept of Tax Neutrality, Tax Harmonisation.
- 7. Principles of Taxation** **81–89**
- Introduction, Cost of Service Principle/Theory, The Benefit Principle/Theory : A General Benefit Tax, Specific Benefit Taxes, Taxes in lieu of Charges, Lindahl's model, Advantages of Benefit Approach, Drawbacks of Benefit Approach, Ability-to-Pay Principle/Theory : Subjective approach, Equal Sacrifice Principle, Concepts of Equal Sacrifice Principle, Equal Marginal Sacrifice, Diagrammatic representation of Ability-to-Pay Principle, The nature of Tax Structure implied by Sacrifice Criteria, Critique of Ability-to-Pay approach, Objective approach of Ability-to-Pay Principle, Index of Ability in Faculty Theory, Limitations of Objective Approach, Principle of Maximum Social Advantage, Weakness of this Principle.

- 8. Classification or Types of Taxes** **90–100**
- Definitions of Direct and Indirect Taxes, Comparison between direct and indirect taxes, Administrative aspect (Administrative cost), Distributional aspect, Role of indirect taxes in underdeveloped countries, Role of direct taxes in underdeveloped countries, Tax Base, Tax Rate Structure, The structure of tax rates, proportional, progressive and regressive taxes : Proportional Taxes, Merits of Proportional Taxes, Demerits of Proportional Taxation, Progressive Taxes, Merits of Progressive Taxes, Demerits of Progressive Taxes, Regressive Taxes, **Degrressive taxes, Specific and *advalorem* taxes**–Merits of specific taxes, Demerits of specific taxes, *Advalorem* taxes–Merits of *advalorem* taxes, Demerits of *advalorem* taxes, Single and Multiple Taxes.
- 9. Shifting and Incidence of Taxation** **101–119**
- Introduction, Statutory incidence, Economic incidence and tax shifting, Impact and incidence of a tax, Incidence and effects of taxation, Forward and backward shifting of a tax, Tax Capitalization, Concepts of tax incidence–Dalton's Concept of Incidence, Mrs. Hicks's formal and effective incidence, Musgrave's concept, Walter Mahler's view, George Break's view, Theories of tax shifting and incidence–The Concentration theory of Shifting and Incidence, The Diffusion theory, Modern theory of tax incidence, Incidence under perfect competition, Drawbacks of Modern Theory of Tax Incidence, Incidence of Some Specific Taxes, Incidence of Tax Under Different Cost Conditions : Increasing costs, Constant costs, Decreasing costs, Factors influencing the shifting of a tax, Tax shifting under monopoly, Incidence of Tax Under Monopolistic Competition, Modern concept of incidence of tax (Alternative Concepts of Incidence) : Absolute Tax Incidence, Differential Tax Incidence, Budget Incidence, Relative usefulness of concepts of incidence, Superiority of modern concept of incidence, Measuring changes in distribution: Measure of income equality, Incidence Analysis in a Partial and General Equilibrium Setting–(Principles of Tax Incidence) : Partial Equilibrium View of Product Taxes, Response to Unit and *Advalorem* Tax, Demand and Supply Elasticities, Burden Distribution, Tax Incidence in General Equilibrium Setting : Product Taxes, Factor Taxes, Tax compliance, Determinants of tax compliance, Suggestions.
- 10. Effects of Taxation** **120–129**
- Effects of taxation on production–Effects on ability to work, save and invest, Willingness to work, save and invest, Diversion of resources between industries and places, Effects of taxation on distribution, Production *versus* distribution (Trade off between equity and efficiency), Other effects of taxation, Measurement formula, Desirable degree of progressivity, Laffer curve.
- 11. Taxable Capacity** **130–137**
- Concept of Taxable Capacity, Measuring Taxable Capacity (Tax/GDP), What does Tax-GDP Ratio Signify ?, Importance of Taxable Capacity, Factors Determining Taxable Capacity, Limits of Taxable Capacity, Taxable Capacity in India : Causes of Low Taxable Capacity in India, Has India reached its Taxable Capacity ?
- 12. Double Taxation** **138–141**
- Characteristics of Double Taxation, The major types of double or multiple taxation under single taxing authority, Double Taxation and Double taxation Relief, Avoidance of double taxation.
- 13. Analysis of Individual Taxes–Direct Taxes** **142–158**
- Income Tax, The Definition of Income, Special Categories of Income, Capital Gains, Gross total income and Total Taxable income, Advantages of Income Tax, Disadvantages of Income tax, Conditions for Income Tax to be a Major Source of Revenue, Tax Structure Reforms–Income Tax (Since 1991), Task Force on Direct taxes, Conclusion, Corporation Tax, Computation of Taxable Income and Tax Liability, Advantages and Disadvantages of Corporation Tax, Corporate Tax Reforms (Post-1991), Budget Proposals, Recommendations of Task Force on Direct Taxes (2002), Conclusion, Capital Gains Tax, Case For Capital Gains Tax, Case Against Capital Gains Tax, Capital Gains Tax in India, Conclusions, Expenditure Tax, Other Direct Taxes.
- 14. Analysis of Individual Taxes–Indirect Taxes** **159–194**
- Customs duties–Types of Customs Duties : Basic Customs Duty, Auxiliary Duty of Customs, Additional (Countervailing) Duty of Customs, Export Duties, Cesses, Incidence of Customs Duties : Incidence of Export Duties, Incidence of Import Duties, Objectives of Customs Duties, Forms of Customs Duties (*Advalorem* vs. Specific customs duties), Merits of customs duties, Limitations of Customs Duties, Export duties, Recommendations of Long-term fiscal policy regarding import duties, Customs Duties Reforms (1980-81—1989-90), Period of Liberalisation (1991 onwards), Budget proposals since 1991-92, Major recommendations of the task force (Kelkar Committee) on customs tariff, Union excise duties– classification of Excise Duties, Canons of Excise Taxation,

Purposes / objectives of excise duties, Justification of excise duties in developing countries, Objections against excise duties, Constitutional provisions, Various types of Excise Duties, Commodity coverage, Excise duty on inputs, Excise Rate-Structure, Features of excise duties in India : Multiplicity of Rates, Frequent Changes in Excise Duty Rate, Exemptions and Concessions, Regressivity of Excise Taxation, Tax Reforms Committee 1991 : Recommendations on Excise Duties, Budget proposals—excise duties (since 1990-91), Withdrawal of Exemptions, Exemptions under Excise duties, Excise Duty Reductions, Major recommendations of the task force (Kelkar Committee), The Value Added Tax—Meaning of VAT, Computation of VAT, Characteristics of VAT, Types of value added tax : Production VAT, Consumption VAT, Income VAT, Wage VAT, Merits of VAT, Difficulties in respect of VAT, Economic effects of VAT, VAT in India, Introduction of MODVAT, Tax reforms Committee, 1991 and MODVAT, Extension of VAT to the wholesale stage, Introduction of CENVAT, What is CENVAT ?, Coverage of CENVAT Scheme, Kelkar Committee on VAT, State-level VAT, Salient features of the VAT design finalised by empowered committee, Challenges ahead, VAT and Evasion, Service tax, Kelkar Committee on taxing services.

15. Taxation on Agriculture Sector **195–200**

Arguments for the imposition of Agricultural Taxation, Main Features of Agricultural Holding Tax, Defects of Agriculture Holding Tax, Integration of Agricultural Income with Non-Agricultural Income Taxation, Limitations of the Scheme in case of integration of Agricultural Income with Non-agricultural Income, Recommendations of Chokshi Committee (1978), Reform of Agricultural Taxation, Chelliah Committee's Views on Tax Reforms, Task Force on Direct and Indirect Taxes (Kelkar Committee), 2002, Revenue Consideration of Agricultural Taxation In India.

16. Theory of Public Expenditure **201–220**

Introduction, The origin of Public Expenditure, Scope of public expenditure, Distinction between public and private expenditure, Aims and objectives of public expenditure, Theories of Public Expenditure : Pure theory of public expenditure, Pigou and ability to pay theory, The benefit principle, Voluntary exchange theory of Lindahl, Samuelson's theory under a general equilibrium analysis, Johansen theory, General Theories/Theoretical analysis of public expenditure growth : Adolph Wagner's hypothesis, Peacock-Wiseman hypothesis, Colin Clark (critical limit) hypothesis, public choice approach, Ratchet effect, Reasons for growth in public expenditure, Canons of Public Expenditure, Public Expenditure in Developing Countries.

17. Classification of Public Expenditure **221–224**

Introduction, Adam Smith's Classification, Pigou's Classification, Shirra's Classification, Dalton's Classification, Nicholson's Classification, Roscher's Classification, J.K. Mehta's Classification, Classification of Union Government's Budget in India— (Public Expenditure), Economic Classification, Functional Classification, Plan and Non-Plan Expenditure.

18. Effects of Public Expenditure **225–231**

Direct and Indirect Effects, Effects of Public expenditure on Production, Effects of public expenditure on Distribution, Effects of Progressive, Proportional and Regressive Expenditure, Limitations of Progressive Expenditure, Effects of Public expenditure on Stability, Effects of Public Expenditure in Depression, Effects of Public Expenditure in Inflation, Effects of Public expenditure on Growth and Development, Undesirable effects of Public expenditure, Public Expenditure and Crowding Out.

19. Growth, Structure and Control of Public Expenditure in India **232–242**

Public expenditure before Independence, The growth of public expenditure since Independence, Trends in expenditure of Central government—Development and non-development expenditure, Interest payments, Defence expenditure, Subsidies, Administrative expenditure, Development Expenditure, Expenditure on social and economic services, Plan and non-plan expenditure, Control of Public Expenditure.

20. Public Debt **243–263**

Gross debt and Net debt, Similarities and Dis-Similarities between Private and Public Debt, Reasons for incurring public debt, Compensatory aspects of public debt, Objectives of public borrowings, Sources of public debt : Internal Sources of Public Debt : Borrowing from Individuals, Borrowing from Non-banking Financial Institutions, Borrowing from Commercial Banks, Borrowing from Central Bank, Borrowing from External Sources, Forms of public debt : Internal and External Debts, Productive and Unproductive Debt, Redeemable and Irredeemable Debts, Funded and Unfunded Debts, Short-period, Medium-term and Long-term Loans, Voluntary and Compulsory Loans, Marketable and Non-marketable debt, Gross and Net Debt, Classification of public debt : Permanent or

Funded Debt, Temporary or Floating Debt, Unfunded Debt, New Classification of Public Debt, Economic effects of public debt : Public Debt and Production, Public Debt and Consumption, Public Debt and Distribution, The burden of public debt—Concept of Burden of Public Debt, Kinds of burden of public debt : Internal burden of public debt, Direct Money Burden, Indirect Money Burden, Direct Real Burden, Indirect Real Burden, Burden of external debt : Direct Money Burden, Indirect Money Burden, Direct Real Burden, Indirect Real Burden, Redemption of public debt—various ways, Advantages of debt redemption, Repayment of External Debt, Limit to Public Debt, Choice between Taxation and Borrowing, Public debt management—Why public debt management is necessary ? Objectives of public debt management, Principles of debt management, Debt burden and future generation, Ricardo-Pigou Thesis, Buchanan Thesis, Bowen-Devis-Kopf Thesis, Musgrave Inter-generation Thesis, Modigliani's Thesis.

21. Public Debt in India

264–283

Positive Theory of fiscal deficit and debt, Public debt of Central government, Historical development of public debt in India—Public Debt before Independence, India's Public Debt at the eve of Independence, Public debt since 1951—Growth of Internal Debt, Components of Internal Public Debt, Outstanding Internal Debt liabilities of the Central Government, Burden of internal debt, External public debt, External Public debt Position of the Government of India since 1950-51, Measures to ease the burden of debt servicing, Overall Picture of Public Debt, Public Debt of State Governments; Outstanding liabilities of State Governments, Composition of outstanding liabilities, Total Outstanding liabilities as percent of Gross State Domestic Product (GSDP), Ratio of Interest Payments to Revenue Receipts, Debt Relief recommended by Finance Commissions, Restructuring of State Debt by Twelfth Finance Commission, State-Wise Debt Position, Special Category States, Thirteenth Finance Commission and Debt Relief to States, Growth of Public Debt : Centre and States combined, How does India Manage its Public Debt ?, Does India face Debt Trap?

22. Public Budget

284–311

Introduction, Concept of Government Budget, Characteristics of the budget, Essential Features of the Budget, Purposes of the budget, Canons of public budgeting, Significance of public budgeting, Public Versus Private Budgeting, Presentation of budget : Consolidated Fund, Contingency Fund, Public Account, Budget : Basic Concepts and Terminologies, Types of Budgets: Executive and legislative budgets, The Conventional budget and The Cash budget, Multiple and Unified budgets, Ordinary and emergency budgets, Federal, State and local budgets, Deficit, Surplus and Balanced budget, National Income Accounts Budget, Full employment budget, Revenue and Capital budget, Development and Non-Development budget, Optimum Budget, Modern classification or Functional and economic classification of the budget, Cross classification or Economic-cum-Functional classification of the budget : Functional Classification, Economic Classification of Budget, Cross Classification or Economic-Cum-Functional Classification of the Budget, Performance budgeting—Performance budgeting techniques, Advantages of performance budget, Limitations of performance budgeting, Distinction between performance and programme budgeting, Planning and programme budgeting system (PPBS)—Rationale of PPBS, Stages of PPBS, Limitations of PPBS, Outcome budget—Outlays or inputs : Outputs; Outcomes or impact, Zero-base budgeting—Concept of ZBB, Features of ZBB, Logic and philosophy, Distinction between conventional and zero-base budgeting, Steps involved in ZBB, Advantages of zero base budgeting, Limitations of zero-base budgeting, Reasons for adoption of zero-base budgeting in India, Techniques of budgetary control—Ministry of Finance / Finance department, The audit organisation, Committees of legislature.

23. Deficit Financing

312–322

Dissimilarities in the Concept of Deficit Financing in India as compared to Western Countries, Concept of deficit financing used by planning commission in India, Comparison of Deficit Financing with Borrowings, Distinction between Deficit Financing and Deficit Budgeting, Objectives of Deficit Financing in Developed and Developing countries, Role of Deficit Financing, Effects of Deficit Financing, Conditions for the Success of Deficit Financing, Limits of Deficit Financing, Concepts and Measures of Government Deficits, Revenue Surplus / Deficit, Capital Account-Expenditure/Receipts, Implications of using Surplus in Capital Account to meet Revenue Deficit, Fiscal Deficit (Gross and Net), Primary Deficit, Central Government Deficit Since 1990-91, State Governments and Fiscal Consolidation.

24. Fiscal Policy

323–343

Introduction, Concept of fiscal policy, Objectives of fiscal policy, Goals of fiscal policy in developed / mature economies, Instruments of fiscal policy, Instruments or Measures which influence the Economic Stability of an Economy : Nation's Budget, Taxation, Tax Policy during Inflation, Optimum Level of Taxation for Economic Stability, Public Expenditure : Public expenditure policy during Inflation, Public Expenditure during Depression, Alternative

Measures, Concepts of Public Spending, Comparative Study of Tax and Expenditure Policy, Public works, Public debt, Theory of fiscal policy, Limitations, Modern views of fiscal policy—Keynes views on fiscal policy, Scope of fiscal policy, Mechanics of fiscal policy, Techniques of fiscal policy, Measurement of Effectiveness of Built-in-Stabilisers, Limitations of Built-in Stabilisers, Is Built-in Flexibility Desirable?, Automatic fiscal stabilisers, Short-Run aspects, Long-Run aspects : Fiscal drag and dividend, formula flexibility, Discretionary fiscal stabilisers, Automatic *versus* Discretionary changes, Limitations of Discretionary Fiscal Policy, Crowding out and Crowding in Controversy, What determines the Extent of Crowding out?, Is Crowding out likely?, Crowding in, The link between monetary and fiscal policies, Government budget constraint, Public sector borrowing requirement.

25. Fiscal Policy in a Developing Economy 344–349

Introduction, Fiscal policy and mobilisation of resources, Objectives of fiscal policy in a developing economy : To Accelerate the rate of Economic Growth, To Encourage investment into socially desirable channels, To Avoid inflation for ensuring stability, Fiscal policy and Distributive Justice, Fiscal policy and economic stability, Limitations of fiscal policy.

26. Federal Finance 350–362

Introduction, Essential features of federal system, Advantages of federalism, Nature of Indian federalism, Federalism by disaggregation *versus* Federalism by aggregation, Concept of fiscal federalism : Various concepts of the nature of federal systems, The rationale of fiscal federalism, Problems of federal / Multi-level finance, Principles of federal finance, Other Principles, Social principles of federal finance, Vertical fiscal imbalance, Difference between vertical fiscal gap and vertical fiscal imbalance, Horizontal fiscal imbalance, Offsetting fiscal imbalances, Design of transfers, Inter-governmental transfers, Need for transfers, Fiscal Gap Correction, Minimum Standard of Services, Inter-Jurisdictional Spill Overs, Performance of Agency Functions, Mechanisms of inter-governmental financial transfers in a federation—Tax sharing, Loans, Rational of Government Borrowings, Limitations of Borrowings, Grants, Principles governing Grants-in-aid, Types of Grants.

27. Centre–State Financial Relations in India 363–397

Pre-independence developments : The Mayo Scheme, 1870, Government of India Act, 1919, Meston Settlement, 1920, Indian Taxation Enquiry Committee, 1924-25, Indian Statutory Commission, 1930, Government of India Act, 1935, Indian Financial Enquiry Report, 1936, Financial adjustments after the partition, Centre-State financial relations under the Constitution, Distribution of Functions and Revenues, Distribution of Revenues, Rationale for constitutional arrangements, Machinery for financial adjustment in India, Philosophy of Articles 268 and 269, Mechanism of Central transfers to the States in India, Finance commission, Functions of finance commission, What a finance commission is expected to achieve ?, Total *versus* Item-wise approach of Central Transfers, New system of sharing Central taxes with state governments, Transfer of resources through the Planning Commission, Gadgil formula, Nature of plan transfers, Centrally sponsored Schemes, Inter-Governmental Transfer : Finance Commission Transfers, Assistance for Central Sector and Centrally Sponsored Schemes, Transfer of Resources from centre to states since first five-year plan, Finance Commission Transfers, Principles of federal finance and the Finance Commissions, Recommendations of Twelfth Finance Commission : Sharing of Union Revenues, Local Bodies, Calamity Relief, Grants-in-aid to States, Debt Relief and Corrective Measures, Financial Implications, Thirteenth Finance Commission : Terms of Reference, Issues and Approach, Important Challenges, Recommendations of Thirteenth Finance Commission, Sharing of Union tax revenues, Grants-in-Aid, NPRD and Performance Incentive, Elementary Education, Environment Related Grant, Improving Outcomes, Maintenance of Roads and Bridges, State-Specific Grants, General Conditionalities, Goods and Services Tax, Local Bodies, Disaster Relief, Total transfers, Fiscal Road Map, Debt Relief to States, Other Recommendations, Terms of Reference of Fourteenth finance commission, Sources of conflict listed by States, Fiscal autonomy for States, Co-operative federalism and decentralisation.

28. Central Government Finances 398–406

Receipts and expenditure of Central Government, Central government expenditure on Major items, Centre's Gross tax revenues, Non-tax revenues, Some new initiatives : Fiscal Responsibility and budget management act, 2003 (FRBMA), Pension reforms, Debt swap scheme, Conclusions.

29. Fiscal Crisis and Fiscal Reforms In India 407–418

Central Government : Profile of Fiscal Imbalance since 1990-91, Indicators of Fiscal Imbalance, Fiscal Situations of states, Revenue deficit of states (Combined), Consolidated General Government, Factors responsible for Fiscal Deficit in India—Suggestions to Control Fiscal Deficit, Increase in Public Expenditure, Decrease in Public Revenue, Measures to contain Fiscal Deficit, Fiscal Reforms, Fiscal Responsibility and Budget Management Act, 2003, Task Force on Implementation of FRBM Act, Expenditure management, Local Government Reforms.

30. Trends In State Finances **419–433**

Trends in Aggregate state finances, Receipts of State Governments, State's own tax revenues, Total tax receipts of state governments, State's non-tax receipts, State's own non-tax revenue, Current transfers and devolution from the centre, Measures to Augment state's own tax revenue, Suggestions for augmentation of state's non-tax revenue, Revenue account (Expenditure), Development and Non-development expenditure on revenue account, Capital expenditure, State level Fiscal reforms, Value added tax (VAT), VAT Implementation-Experience so far, Central sales tax reforms, Planning to introduce goods and services tax, restructuring of PSUs, Power sector reforms.

31. Local Government Finance **434–448**

Rationale of local bodies, General background, New decentralised dispensation in India, Devolution of functions of Panchayati Raj institutions under 73rd constitutional amendment, Essential and obligatory functions, Socio-Economic scheme : Welfare/beneficiary-oriented functions, General services/state/national policy functions, Assets and infrastructure creating functions, Central/state sponsored functions, Finances of panchayats after 73rd constitutional amendment, Functions of Panchayat Samities, Finances of panchayats samities, Functions of zila parishads, Finances of zila parishads, Urban local bodies, Obligatory/essential municipal functions, Agency functions, Discretionary functions, Municipal finances, Taxation power of municipalities, New status of municipalities, Desirability and feasibility of uniformity in municipal functions, Problems of local finance, Municipal finance commission/state finance commission, Fiscal decentralisation : Where we stand? Finance commissions and local bodies, Tenth Finance commission on local bodies, Eleventh finance commission on local bodies, Twelfth finance commission on local bodies, Thirteenth finance commission on local bodies, Other recommendations, Concluding remarks.

32. Public Sector Enterprises **449–495**

Introduction, Need for Public Sector, The concept of Public Enterprises, Special features of public enterprises, Reasons for autonomy of public enterprises, Objectives/Motives of public enterprises, Factors responsible for the emergence of public sector in India, Role of public enterprises, Forms of public enterprises—Departmental forms of organisation, Merits, Demerits, Non-departmental commercial enterprises, Company forms of management, Features of Company form (Public Ltd.), Merits, Drawbacks, The Public Corporation : Rationale, Meaning, Characteristics, Merits, Demerits, Concluding comments, Public utilities, Definitions, Objectives, Characteristics of Public utilities, Public enterprises in India, Public sector undertakings and national economy, Principles of pricing of public enterprises, Price policy of public enterprises, Theories/Techniques of pricing—Theory of marginal cost pricing, Criticism, The Principle of break even or no profit, no loss, Justification of break-even principle, Departures from break-even principle, Criticism, Average cost pricing, Advantages, Disadvantages, The principle of making profits, Objectives, Problems caused by peak-load pricing, Administered prices, Guidelines on pricing policy of public enterprises in India, Pricing practices, Actual pricing policy of public enterprises in India, Financing of Public enterprises, Growth of public sector undertakings, Performance of public enterprises, Current status of public enterprises, Criteria for performance evaluation, Problems of public enterprises in India, Changing attitude towards public enterprises in India, Recent Steps : Industrial Policy of 1991, Disinvestment of Public sector enterprises, Need for public sector enterprises disinvestment, Objectives of disinvestment, Government thinking on policy of disinvestment, Actual disinvestment since 1991-92, Reasons for Dismal situations, Navratna/Miniratna Public Enterprises, Strategic disinvestment, Suggestions, Privatisation and the public sector, Objectives of Privatisation : Privatisation of the indian public enterprises, New industrial policy (1991) and privatisation, Concluding comments on privatisation of PSEs, Measures for revival of public sector enterprises in India.

33. Public Finance in Developing Economies **496–504**

The Characteristics of LDCs, The main determinants of economic growth, Goals of Developing Countries, Government activity and economic development, Measures to increase investment, Types of investment, Expenditure level and Pattern in Developing Countries, Tax Structures in developing economies, Forms of taxes, tax incentives.

Appendix

1. Union Government Budget 2014-15 **(i) to (xvi)**

Highlights, Major Policy Initiatives, Plan and Budgetary Allocations, Budget Estimates, Central Plan Outlay, Direct and Indirect Taxes.

Bibliography **(i)–(ii)**

Index **(i)–(vi)**

INDEX

A		Balanced regional development	323	Capital levy	257	
Ability to work, save and invest	121, 226	Basic customs duty	159	Capital outlay	357	
Ability-to-pay principle	84	Basic excise duty	170	Capital receipts	289, 401, 422	
Absolute tax incidence	112	Beneficial diversion of resources	124	Capital-output ratio	497	
Absolute taxable capacity	130	Benefit principle	82	Causes of low taxable capacity of India	136	
Acceleration of economic growth	324	Benefit-related excises	168	Central bank	247	
Activation of idle hoards of cash	315	Borrowings	313, 361	Central sales tax reforms	432	
Ad valorem duties	161	Bowen-devis-kopf thesis	262	Central value added tax (CENVAT)	174	
Ad valorem rates	173	Buchanan thesis	261	Centrally sponsored schemes	373, 375	
Ad valorem tax	99, 100, 115	Budget incidence	112	CENVAT	57, 140, 185, 404	
Additional (Countervailing) duty of customs	159	Budget surplus	243	Certainty	144	
Additional duties in lieu of sales tax	170	Budgetary control	241, 308	Cesses	159, 171	
Additional excise duty (textiles)	170	Budgetary deficit	245, 290, 318	Characteristics of the budget	285	
Administered prices	470, 473	Budgetary operations	14	Classification of public expenditure	221	
Administrative cost	92	Budgetary policy	9, 332, 496	Classification of public revenue	51	
Administrative economy	356	Budgetary practices	3, 5	Club goods	35	
Administrative efficiency	133	Built-in revenue growth	338	Coasian solution	32	
Administrative expenditure	238	Built-in-elasticity of tax revenue	73	Colin Clark (critical limit) hypothesis	213	
Administrative revenue	49, 53	Built-in-stabiliser	336	Combined fiscal deficit of the Union and States	408	
Adolph Wagner's hypothesis	209	Buoyancy of taxes	69	Commercial banks	247	
Aggregate effective demand	229	Burden distribution	117	Commercial revenue	48, 53	
Aggregate expenditure	221	Burden of external debt	254	Commodities transactions tax	153	
Aggregate national product	332	Burden of public debt	252	Company form (Public LTD.)	456	
Agricultural holding tax	196	C			Compensatory fiscal policy	349
Agricultural taxation	195	Canon of certainty	63	Compensatory public spending	329	
Agriculture sector	500	Canon of convenience	64	Competitive prices	473	
Allocation function	9, 38	Canon of diversity	65	Compliance costs	67	
Allocation of resources	91	Canon of economy	64	Composition of GDP	132	
Allocative efficiency	77, 354	Canon of elasticity	64	Comptroller and auditor general of India	310	
Alternate minimum tax	58, 404	Canon of equality	63	Compulsory debt	249	
Anticipatory revenue	52	Canon of expediency	65	Compulsory loans	249	
Asset creation	270	Canon of productivity	64	Compulsory revenue	52	
Automatic changes in tax rates and expenditure programmes	338	Canon of simplicity	64	Computation of VAT	179	
Automatic fiscal stabilisers	335	Canons of equity	144	Concepts of tax incidence	102	
Automatic stabilisers	339	Canons of excise taxation	168	Congestible public goods	34	
Auxiliary duty of customs	159, 163	Canons of public budgeting	286	Consolidated fund of India	54	
Average cost pricing	467	Canons of public expenditure	217	Consolidated fund of the state	54	
Avoidance of double taxation	140	Canons of taxation	63	Consolidated fund	275, 288	
Avoidance of excess burden	78	Capital account	54, 55, 319	Conspicuous consumption	345	
B		Capital accumulation	324	Constant expenditure	223	
Backward shifting	102	Capital accumulation	452	Constants costs	108	
Balance of payment equilibrium	323	Capital assets	143	Consumption expenditure	317	
Balance of payments	257	Capital expenditure	223, 232, 289, 401, 427	Consumption VAT	180	
Balanced budget	292, 326, 333	Capital formation	248, 347, 496, 497			
		Capital gains tax	154			
		Capital gains	143			

(ii)

ECONOMICS OF PUBLIC FINANCE

Contingency fund	54, 288	Design of tax policy	67	Economic growth	8, 230, 314, 316, 344, 345
Contractual revenue	52	Desire to work, save and invest	123	Economic inequalities	7
Control of public expenditure	240	Developing countries	5, 315	Economic progress	344
Conventional budget	291, 307	Developing economy	230, 294, 344	Economic stabilisation	324
Conversion of loans	255	Development budget	294	Economic stability	8, 15, 348
Co-operative federalism	397	Development expenditure	235, 238, 426	Economic welfare	17, 91, 453
Corporate enterprises	123	Development plans	246	Economies of scale	453
Corporate income taxation	502	Devolution formula	390	Economy	144
Corporation tax	58, 107, 148, 153	Differential tax incidence	112	Effect of taxation on distribution	125
Cost of service principle	81	Direct money burden	253, 254	Effective demand	16, 315
Cost-plus prices	473	Direct real burden	253, 255	Effects of public expenditure on distribution	225
Cost-push inflation	317	Direct revenue	52	Effects of public expenditure on economic growth and development	225
Counter-cyclical measure	313	Direct taxes	57, 90, 91, 93	Effects of public expenditure on production	225
Counter-cyclical	332	Disaster relief	394	Effects of public expenditure on stability	225
Countervailing duties	413	Discretionary fiscal policy	339	Effects of taxation on distribution	120
Creation of new assets	487	Discretionary fiscal stabilisers	335	Effects of taxation on production	120
Cross classification or economic-cum-functional classification of the budget	299	Discretionary policies	339	Effects of taxation	102
Crowding out	231	Discriminatory pricing	474	Efficient administration	144
Crowding out, crowding in	340	Disguised unemployment	344	Efficient outcomes	38
Customs duties	107, 159, 502	Disinvestment	412, 487	Efficient output/allocation for a pure public good	29
Cyclical fluctuations	335	Distribution function	9	Efficient resource use	207
Cyclical stabilisation	323	Distribution of income and wealth	93	Elasticity	144
Cyclically balanced budget	326	Distribution of income	8,314, 315, 316	Emergency budgets	292
D		Distribution of wealth and income	1	Employment opportunities	454
Dalton's classification	52	Distribution of wealth	347	Entertainment tax	438
Dalton's tests of social advantage	21	Distribution on income and wealth	132	Environment related grant	390
Debt and deficit	290	Distributional effects	91, 182	Environmental pollution	41
Debt consolidation and waiver facility	429	Distributional goals	499	Equal absolute sacrifice	85, 87
Debt policy	335	Distributive justice	347, 348	Equal marginal sacrifice	85, 87
Debt relief	384	Diversification of agriculture	344	Equal proportional sacrifice	85, 87
Debt relief measures	426	Diversion of resources between different uses and areas	226	Equi-marginal social benefit	231
Debt servicing charges	270	Diversion of resources between industries and places	123	Equity in taxation	66, 157
Debt swap scheme	405	Diversion of resources	124	Equity	144, 323
Debt trap	282	Doctrine of pith and substance	351	Escheats	50
Decentralisation	350	Domestic resources	248	Estimates committee	310
Decreasing costs	109	Dominant assurance contracts	32	Excess burden or dead weight losses	77
Defence Expenditure	123, 236, 245	Double taxation relief	139	Excess burden	78
Deficiency of effective demand	313	Double taxation	138	Excise duties	502
Deficit budgeting	313	Dual government	351	Executive budget	291
Deficit financing	264, 346, 312	E		Exhaustive expenditure	222
Deficit spending	340	Economic and social infrastructure	498	Expenditure management	416
Deflationary gap	335	Economic Classification of budget	297	Expenditure on social and economic services	238
Degrassive taxes	98	Economic classification	223	Expenditure tax	156
Demand and supply elasticities	117	Economic Effects of VAT	181		
Departmental undertakings	454	Economic efficiency	75		
Depressory effects	314				
Derivative revenue	52				

INDEX

(iii)

Export duties	159, 160, 162	Free market enterprise economy	16	Import duties	160
Export promotion	453	Free riders	26	Improving outcomes	391
External public debt	251, 271	Full employment budget	292	Inadequacy of financial resources	440
External sources	247	Full employment level of equilibrium	324	Inadequacy of revenue	439
Externalities	39, 40			Incidence analysis in a partial and general equilibrium setting	114
F		Full employment	4, 6	Incidence of a tax	101
Factor taxes	118	Fuller utilisation of resources	453	Incidence of income tax	144
Factors influencing the shifting of a tax	109	Functional classification of public expenditure	221	Incidence of tax under monopolistic competition	111
Features of a good tax system	65	Functional classification	223, 296, 310	Incidence of taxation	101
Features of the budget	285	Functional finance	23, 245	Incidence under perfect competition	105
Federal / multi-level finance	354	Functions of the state	6	Income tax	107, 142
Federal finance	350	Funded debt	250	Income VAT	180
Federation by aggregation	352	Funded debts	249	Incomplete markets	39
Federation by disaggregation	352	G		Increasing costs	108
Fees and fines	49	GAAR	58	Increasing employment opportunities	324
Finance commission	370	Gadgil formula	372	Index of ability in faculty theory	88
Financial administration	2, 8, 13	General benefit tax	82	Indirect Money burden	253, 254
Financial autonomy	396	Generation of employment	488	Indirect real burden	254, 255
Financial resources	344	Gift tax	157	Indirect taxes	57, 90, 91, 92
Financial transactions	12	Gifts and grants	50	Individual income tax	501
Fiscal access	357	Gini co-efficient	127	Industrial economies	336
Fiscal activities	4	Global financial integrity	412	Inelasticity of revenue	439
Fiscal administration	2	Global public goods	35	Inequity of sources of revenue	439
Fiscal consolidation	321	Global warming international externalities	45	Inequality of income	348
Fiscal crisis	56	Global warming	41	Infant industries	123, 503
Fiscal decentralisation	441	Goals of Developing countries	497	Inflation	134
Fiscal deficit	264, 290, 320, 402, 429	Goods & services tax	61, 392, 415, 432	Inflationary gap	347
Fiscal discipline	346	Government budget constraint	341	Inflationary pressure	315, 346, 349
Fiscal drag	337	Government budget	284	Inflationary tendency	345
Fiscal federalism	352	Grants and Gifts	53	Information failures	39
Fiscal functions	8	Grants	361	Institutional constraints	500
Fiscal imbalance	408	Grants-in-aid	362, 389	Interest payment	235, 245, 401, 412, 420
Fiscal neutrality	334	Gratuitous revenue	52	Inter-governmental transfers	359
Fiscal operations	7	Great depression	313	Internal burden of public debt	253
Fiscal policy	10, 123, 323, 341, 344, 409	Gross debt, net debt	243	Internal debt	265
Fiscal reforms	413	Gross fiscal deficit	410, 420	Internal disorder	231
Fiscal responsibility and budget management act, 2003 (FRBMA)	405	Gross tax revenues	402	Internal public debt	251
Fiscal road map	394	Total taxable income	143	Internal sources of public debt	247
Fiscal stabilisers	339	Growth in public expenditure	214	Internalisation	43
Fiscal stability	5	H		Interpersonal comparisons of utility	87
Floating debt	250	Harmful diversion of resources	124	Irredeemable debts	249
Following the leader	473	Horizontal equity	143	J	
Foreign trade	134	Horizontal fiscal imbalance	358	Justice in equity	75
Formula flexibility	338	I		L	
Forward shifting	102	Iaissez-faire	232	Laffer curve	128
FRBMA	57	Impact of the tax	102		

Principle of maximum aggregate welfare	17	Public finance and the economic system	15	Revenue excises	168
Principle of maximum benefit	228	Public finance as a normative science	14	Revenue expenditure	223, 232, 289, 398
Principle of maximum social advantage	17, 18, 89	Public finance as a positive science	12	Revenue mobilisation	398
Principle of minimum sacrifice	228	Public finance	1	Revenue productivity	61
Principles of taxation	81	Public goods	25, 39	Revenue receipts	55, 289, 398, 422
Private budgeting	287	Public goods and free rider problem	31	Revenue surplus	319
Private debt	244	Public revenue	8, 47	Revenue-GDP ratio	408
Private effective demand	245	Public sector borrowing requirement	342	Ricardo-pigou thesis	261
Private expenditure	202	Public sector enterprises	449	Role of public sector	9
Private goods	25	Public sector undertakings	412	S	
Private investment	335	Public sector	16, 346, 449	Sales taxes	503
Privatisation and the public sector	492	Public utilities	459	Samuelson's theory under a general equilibrium analysis	206
Privileged group	32	Public works	325, 330, 340	Scope of public finance	3, 6
Product taxes	115, 117	Pump priming	329	Secular growth	323
Production VAT	180	Pump-priming programme	313	Securities transaction tax (STT)	153
Productive assets	248	Purchase price	222	Serial bond redemption	256
Productive investment	345	Purchasing power	314, 335	Service tax	190
Productivity of expenditure	313	Pure public good	28, 41	Servicing of public debt	204
Productivity	144	Pure theory of public expenditure	204	Shifting the tax burden	101
Programme budgeting	302	Purposes of the budget	286	Significance of public budgeting	286
Progressive expenditure	229	R			
Progressive tax policy	334	Ratchet effect	214	Similarities and dissimilarities between the public and private finances	10
Progressive tax structures	74, 499	Rates of taxes	122	Simplicity of tax administration	74
Progressive taxation	9, 96, 346	Re-allocation of resources	230	Single tax	100
Progressivity of a tax	126	Redeemable loans	249	Sinking fund balance	243
Property rights	44	Redemption of public debt	255	Sinking fund	256
Property tax	88, 108, 438	Redistribution of income and wealth	453	Small saving schemes	267
Proportional taxes	95	Refunding	255	Social and economic infrastructure	7
Provident funds	275	Regressive tax rates	125	Social goods	34
Psychology of tax-payer	122, 133	Regressive tax system	125	Social infrastructure	426
Public account	275, 289, 312	Regressive taxes	97	Social justice	4
Public authority	12	Regressivity of excise taxation	172	Sound finance	332
Public borrowing	244, 346	Regulatory and Promotional roles	493	Special assessment	50, 83
Public budget	284	Relative taxable capacity	130	Specific benefit taxes	83
Public choice approach	213	Removal of regional disparities	453	Specific customs duties	161
Public corporation	457	Repudiation	255	Specific tax	99
Public debt management	258, 264	Repugnancy	351	Stabilisation function	9
Public debt	243, 325, 331, 412	Requirements for a good tax structure	66	Stabilisation objectives	339
Public enterprises	246, 345	Requirements of a good tax system	66	Stabilisation	230
Public expenditure in depression	229	Restructuring of PSUs	432	Stability of income	133
Public expenditure in developing countries	218	Retiring of public debt	488	Stabilization and growth	8
Public expenditure in inflation	229	Revenue account	54, 55	Standard of living of the people	133
Public expenditure policy	5	Revenue and capital budget	293	State finance commission	440
Public expenditure programmes	5	Revenue deficit	290, 319, 398, 409	State government budgets	292
Public expenditure	8, 133, 201, 203, 230, 325	Revenue elasticity	503	State VAT	140
Public finance : science or art	12			State-level VAT	186
				States' own tax revenues	422
				State-specific grants	392

Statutory incidence	101	Taxes in lieu of charges	83	V	
Strategic disinvestment	491	Taxes	43, 53	Value added tax (VAT)	431
Subject matter of public finance	3, 8	Taxes, charges and borrowing	47	Value added tax	414
Subsidies	32, 43, 237	Tax-GDP ratio	68, 131, 290	Variable expenditure	223
Subsidized prices	473	Technical efficiency	77	Vertical equity	81
Sumptuary excises	168	Technical know-how	248	Vertical fiscal gap	358
Surplus budgets	15, 256	Technological change	497, 499	Vertical fiscal imbalance	357
T		Technological externalities	45	Vertical imbalance of fiscal gap	424
Task force on direct and indirect (Kelkar committee), 2002	199	Terminal annuities	256	Vertical imbalance	355
Task force on direct taxes	148, 154	The banking cash transaction tax	147	Volume of money supply	317
Tax administration reform	61	The benefit principle	205	Voluntary exchange theory of Lindahl	205
Tax administration	412	The coase theorem	45	Voluntary loans	249
Tax authority	138	The committee on public undertakings	310	W	
Tax avoidance	71	The concentration theory of shifting and incidence	104	Wage VAT	180
Tax base	94, 138, 404	The diffusion theory	104	Wagner's law	412
Tax capitalization	102	The estate duty	157	War finance	246
Tax compliance	118	The estimates committee	310	Ways and means advances from RBI	275
Tax design and tax reform	72	The market mechanism	461	Willingness to work, save and invest	121, 226
Tax elasticity	70	The minimum alternate tax (MAT)	152	Working capital	315
Tax equity	78	The public accounts committee	310	Z	
Tax evasion	100, 144, 348, 349	The task force on direct taxes (2002)	156	Zero base budgeting	241, 305
Tax expenditure	71	The value added tax (VAT)	178		
Tax harmonisation	79	Thirteenth finance commission	385		
Tax incentives	503	Total expenditure	401		
Tax incidence in general equilibrium setting	117	Trade association pricing	474		
Tax information network (TIN)	60	Trade off between equity and efficiency	125		
Tax liability	150	Transferable expenditure	221		
Tax neutrality	78	Treasury bills	267, 319		
Tax optimality	76	Twelfth finance commission	241		
Tax payer	138	U			
Tax planning	58	Unbalanced budgets	264		
Tax rate structure	94	Under employment equilibrium	245		
Tax ratio	66	Underdeveloped countries	230, 314, 333		
Tax ratio, buoyancy elasticity of taxation	68	Unemployment	314		
Tax reform measures	73	Unfunded debt	249, 250		
Tax reforms committee	56	Unified budgets	291		
Tax revenue mobilisation	424	Union excise duties sales tax	108		
Tax sharing	360	Union excise duties	168		
Tax shifting under monopoly	110	Unit tax	115		
Tax structure in India	67	Unitary state	350		
Tax structure	5	Unproductive investment	347		
Tax supplements	360	User charges	412, 424		
Tax to GDP ratio	147	Utility optimum	22		
Tax	48				
Taxable capacity	130				
Taxation	325				