

# **Tashkent State University of Economics**

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## **Treasure system of Uzbekistan**

**Lecture#7: State and local government finance**

Tashkent

# Session Overview

- ▶ The solemn and constitutional duty of a government is to;
- Safeguard and protect the life and liberty of its citizens,
- Provide a secure and congenial atmosphere to its citizens,
- ▶ Governments are also responsible for providing roads, ports, airports, health services etc. which an individual can not acquire on his own.
- ▶ The Governments need to incur expenditure for providing these and other goods/services to its citizens.

- ▶ Governments meet this expenditure partly by levying taxes on its citizens and partly by raising loans.
- ▶ The financial operations of the governments with regard to raising and disbursement of finances are called Public Finance.
- ▶ In this session we will discuss the scope of Public Finance and various terms used in connection with Public Finance.

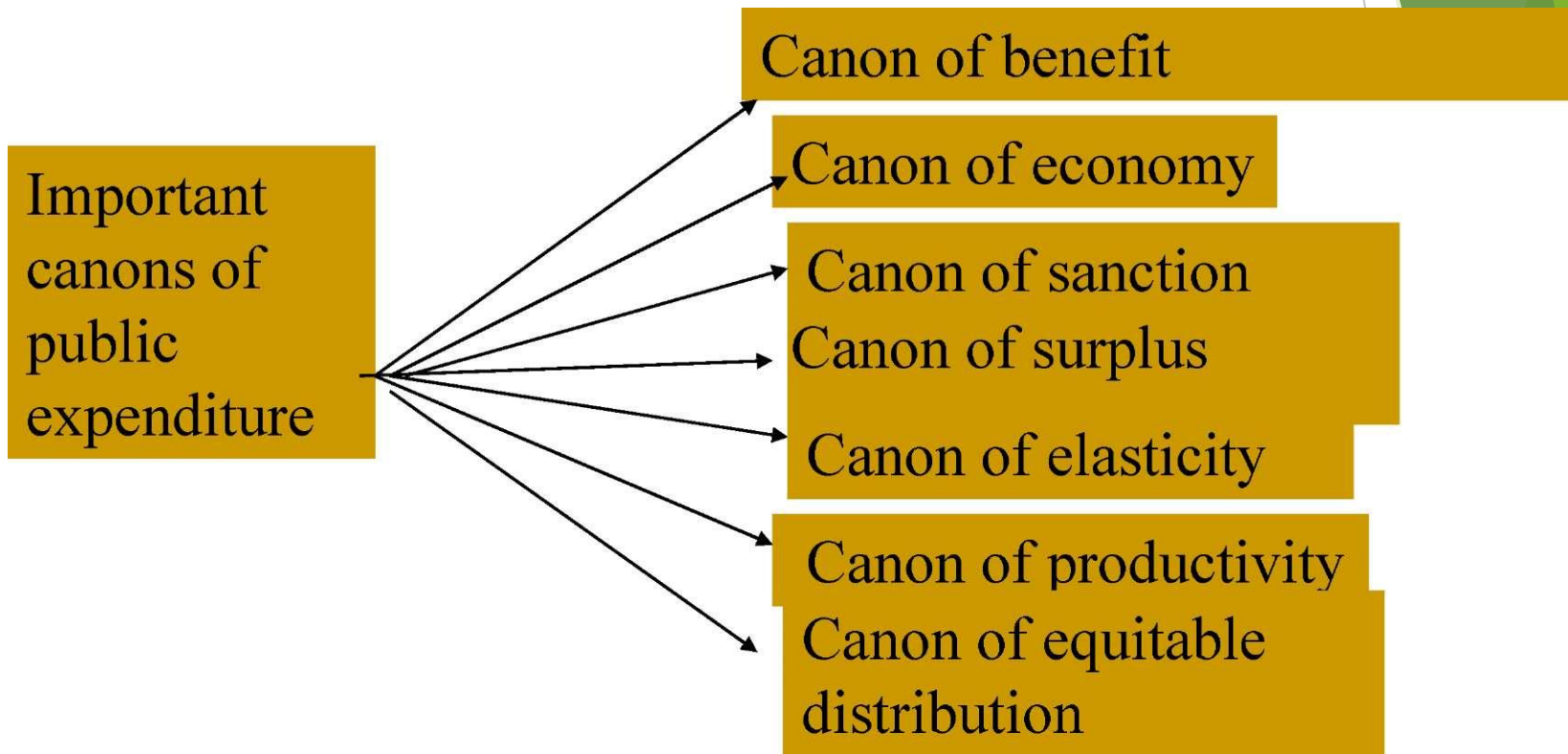
# Learning Points

- ▶ At the end of this session the learner will be able to state the nature and scope of Public Finance.

# Scope of Public Finance

- ▶ Public finance is the study of the income and expenditure of the State.
- ▶ The scope consists in study of the collection of funds and their allocation between various branches of State activities regarded as essential duties or functions of the State.

# Canons of Public Expenditure



# Canon of benefit

- ▶ Canon of benefit states, that
- Public expenditure must result in the achievement of maximum social advantage.
- Public funds must be spent in those directions which are most conducive to public interest.

# Canon of Economy

- ▶ According to this canon:
  - The public authorities should not waste the limited resources at their disposal.
  - Only the minimal necessary amount should be spent on any given head of expenditure which should aim at maximum benefit.

# Canon of Sanction

- ▶ The canon envisages that there should be proper procedure of formulating the policy for public expenditure with sufficient safeguards for avoiding arbitrariness and influence of certain vested interests in the matter of public expenditure.

# Canon of Surplus

- ▶ This canon enjoins that the public expenditure should be as far as possible met from current public revenues, without resorting to deficits or borrowings.

# Canon of Elasticity

► As per this canon of public expenditure:

It should be possible to change the size and direction of public expenditure according to the requirements of different circumstances.

# Canon of Productivity

- ▶ This canon envisages that the public expenditure should be such as would encourage production and productive efficiency in the country.

# Canon of Equitable Distribution

- ▶ As the heading suggests this canon is for equitable distribution of income and wealth and it is particularly important for those countries where inequalities exist.

# Effects of Public Expenditure

- ▶ The important healthy effects of the public expenditure on the economy of any country are....Effects on,
  - production and employment,
  - distribution,
  - economic stability, and
  - economic growth

# Public Revenues

- ▶ Public Revenues includes all the income and receipts, irrespective of their source and nature, obtained by the Government during any given period of time.
- ▶ Source of Public Revenues are:
  - Taxes,
  - Fees,
  - Price
  - Fines and penalties,
  - Gifts,
  - Borrowings, and
  - Printing of paper money.

# Public Debt

- ▶ Public debt is the loans raised by the government.
- ▶ This source of Public Finance carries with it the obligation of repayment along with interest.

## ▶ **Important of Public Debt**

- The Public debt has gained much importance all over the world, the main reasons for which are;
- Financing Economic development,
- Unpopularity of Taxation,
- Natural calamities,
- Wars for defending the nation,
- Covering temporary budget Deficit,
- Fighting Depression, and
- Controlling Inflation

# Source of Public Debt

- ▶ Some of the important sources of Public debt are;
- Borrowings from individuals,
- Borrowings from Commercial Banks,
- Borrowings from Non-Banking financial Institutions,
- Borrowings from Central Bank,
- Borrowings from External Sources.

# Budget Deficits

- ▶ In ideal circumstances the public expenditure should be equal or less than 'public receipts' (without borrowings).
- ▶ Usually the 'public expenditure' exceeds the 'public receipts.' The 'Gap' between 'public receipts' (without borrowings) and the 'public expenditure' is called **deficit**.
- ▶ Deficits arise because of imbalances in revenue and expenditure.
- ▶ In the Indian context fiscal imbalances have both been large and persistent. the size, regularity and composition of revenue deficit (in particular) has been a cause of concern.
- ▶ The annual budget of Government (in India) indicates **three types of deficits**, namely
  - ▶ Revenue deficit,
  - ▶ Fiscal deficit, and
  - ▶ Primary deficit.

# Revenue Deficit

- ▶ Revenue deficit is the excess of revenue expenditure of the government over its revenue receipts.
- ▶ Revenue deficit leads to increase in borrowings without corresponding capital/asset formation.
- ▶ Revenue deficit is considered generally less desirable.
- ▶ Fiscal Reforms and Budget Management(FRBM)Act,2003 ,which have been amended in 2013, provides that the Union Government shall take appropriate measures to reduce fiscal deficit and revenue deficit so as to eliminate revenue deficit by **31 March 2017**.

# Fiscal Deficit

- ▶ Fiscal deficit is the excess of total expenditure of the Government over its non- debt receipts (revenue receipts, miscellaneous capital receipts and recovery of loans and advances.)
- ▶ Fiscal deficit normally represents the net incremental liabilities of the Government or its additional borrowings.
- ▶ The shortfall can be met either by additional public debt (internal or external) or by the use of surplus from public account.
- ▶ Government may run fiscal deficit and borrow funds for capital/asset formation or for creation of economic and social infrastructure.
- ▶ It is necessary to analyse various components of the fiscal deficit.

# Primary Deficit

- ▶ Resources are needed to finance the interest payments, which represent the expenditure of the past obligations and which are independent of current allocative priorities.
- ▶ The payments on account of interest payments are separated and deducted from the total imbalances to arrive at the imbalances of current nature.
- ▶ Primary deficit therefor represents the current imbalances net of interest payments.