MA Econ, Sem-III,

PARADIGMS OF UNION PUBLIC FINANCE

By

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The structure of Public finance in many underdeveloped countries including India have grown up haphazardly, influenced by historical incidents, the example of other countries, the thinking of foreign rulers and the exigencies of the movement. Though many productive sources of revenue may have been tapped, the system of taxation generally have not been built on sound principles suited to the requirements of rapid economic growth.

Thus, the Indian tax system too had, in the past, been designed primarily to raise sufficient revenue for expenditure of government on administration and allied services because when the basic frame work of Indian tax laws was formulated, economic growth was not a concern of the government and promotion of savings and investment was not, therefore, accepted as the basic goal of taxation policy.

So, in order to examine the growth of indirect taxes since the beginning of planning, it is worthwhile also to examine the tax trends that prevailed in the pre-plan period. For analysis, the year of 1938 may be taken as starting point, since significant development took place in the indirect tax structure after that year.

The view has been fully supported by the theoretical framework of any step taken by the government for accelerating the economic development so that better standards of living for the people may be ensured. This requires channeling of an increasing volume of resources into investment for productive capital formation both for Public and Private sectors. The problem of capital formation calls for the government of underdeveloped world to take such steps as to finance social overhead investment and also to provide necessary incentive to private investment as they are influenced by taxation and other fiscal measures.

The taxation policy of an underdeveloped state is to be designed in such a way so that it may not only mobilise savings but also do not adversely affect the inducement to invest.

Tenets: The public finance policy of any country is bases on certain tenets. These are narrated below:

- The tax policy affects the process of economic growth in different ways. The level of aggregate demand is usually determined by the automatic response of revenues to economic growth, accompanied by expenditure trends.
- Lack of resources for capital formation is the most important obstacles of economic growth in a developing state. The principal method of financing are taxation, deficit financing, borrowings and foreign aid. In the context, taxation alone remains as a safe means of resource mobilisation.
- Though there is need to put restriction on consumption expenditure but the savings should not come from curtailment of initial consumption rather it should be conceived in the sense of curtailment in further increase in consumption expenditure arising out of increased income resulting from economic growth. Thus it can play a very effective role in a underdeveloped nation like India where the propensity to consume is very high.

The paradigms of public finance have to be studied through macro approach encompassing three dimensions:

- public revenue,
- public expenditure and
- public debt

But the ultimate objective of study of paradigms of public finance of any country or state is the upliftment of levels of living of the rural masses.

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