International Research Journal of Human Resource and Social Sciences
ISSN(O): (2349-4085) ISSN(P): (2349 - 4085)
Impact Factor 5.414 Volume 7, Issue 08, August 2020
Website- www.aarf.asia, **Email** : editoraarf@gmail.com

PUBLIC FINANACE AND PUBLIC ECONOMICS

Dr. C. VASUDEVAN
Assistant Professor
Economics Department
Guru Nanak College, Chennai-42

ABSTRACT

This article of Public Finance and Public Economics has explained and discussed the very nature and characteristics of differences of these two subjects, as a matter of studies, analytical techniques, methods of formulation and viewing further, in its different evolutionary nature. It also involved to pointed out Public Economics to be as a subject of studies depart from its precursor of public finance. Finally, this article explained how public economics is in analysis to be a needable separate agenda of Govt. Policy Programmes.

Key words: *Public Finance, Public Economics, Public Choice, Public Goods, Welfare Economics and Public Policy.*

1. INTRODUCTION:

Public Finance and public economics are the two more inter related and mutually differed subjects in dealing of and to find a practical solution to the fundamental problem of scarcity of resources. Both subjects arecateogarily leads the role of the state and find public funding to provide, satisfy public needs and maximize the welfare of the community. Accordingly both subjects are differed in defining the role of state, public enterprises, value, economic development, public provision of public goods, and other issues related for management of the over all nature of the economy. Thus fund raising capacity of the state, pattern of expenditure, borrowing all together for formulation of the public policy becomes the function and nature of the both subjects. In this context this chapter examines the very nature of the theory of public finance and its limitation comparatively to the public economics. These subjects concepts, objects, goals, scope and limitation will presented under the conception of understanding the pure nature of public economics in a wider framework.

2. THE THEORY OF PUBLIC FINANCE:

At the time of Greeks, Greeks' philosophy saw two primary roles of the government for the public finance. The first was to provide for public consumption. The second was to raise finance for war. Next to Greeks,there was a Roman, Physiogratеs and Classical economists were emphasized the role of the government further. In 1845 McCullock, a disciple of Ricardo produced first separate treatment of public finance. Adolf Wagner's "the law of increasing fiscal requirements " Marshall and Pigou's the "idea of a public goods'', and "externalities'' have been critically formulated in the theory of public finance. KuntWicksell (1851-1926) criticized classical views of competitive prices ensure a social optimum. He introduced marginal utility theory into public finance theory and he went beyond the conventional treatment of the shifting and incidence of taxation by considering the question of income distribution and justice in taxation. The modern theory of public finance really blossomed after the Second World War. It owes much to the work of J.M. Keynes who questioned the adequacy of demand in the classical system and saw a role for government in maintaining aggregate demand at its full employment level.

The subject study of public finance is now so greatly expanded as to hold its own place in economic theory. Within the framework of general economic analysis the theory of public finance took the competitive economy is being to examined, a questioning of nature of government is taking place, and analyses of mechanism of public choice is being carried out in these broad areas. There are many smaller theoretical and empirical studies subsequently being emerged in this subject. For example general equilibrium theory of incidence of taxes, economic studies of tax incidence, social and security benefit, optimum design of fiscal policy, capital accumulation, provision of public goods, stabilization, growth, and curtailment of government, and real effects of inflation. Thus the theory of public finance focused much to provide theoretical as well as empiricalbase on the central problem of scarcity of resources to manage and associated issues of growth and distribution.

2.1. Concepts, issues, problems and Limitation in Public Finance Theory:

Public finance deals with the way in which the state acquires and expands its means of subsistence. (Plehn 1902) Public finance may be defined as the science which deals with activity of the statesman in obtaining and applying the material means for fulfilling the proper functions of the state. Public finance is called a science because it admits a definite and limited field of human knowledge, arrangements of facts, and principles, laws of progress and class of phenomena.(ibid) Public finance as a science is older than the political economy. There was a close relationship existing public finance and political economy. The method and methodological point was not much in to discriminating between these two subjects. In public finance the subjects falls naturally into four parts. 1. Public expenditure, 2.Public Revenue, 3.Public debts, and 4.Financial administration.

Public expenditure is much a part of the public finance as consumption is in the political economy. Consumption or the satisfaction of wants is the end and aim of all production and distribution, so is the expenditure of revenues and of other financial activities of the states. The amount of expenditure is generally determined first and after that it has been settled the required revenues is obtained. In this public finance differs materially from political economy.(ibid) The distribution of the various financial activities among the different divisions of the government, federal, national, or local it will be noted that the connection with the discussion of each part of the subject.

In the public finance tradition, the role of the state was defined in the context of welfare economics,but the assumption being that was to hold , in the allocation of resources, the distribution of resources and insuring the stable economy was failed. These issues have been raised and most often addressed by the classical economists, it was not until Richard Musgrave seminal work “The theory of Public Finance’’ that given a comprehensive view of the state’s functions been articulated.(Attiat.F.Ott, 2014) Now students of economics in general and public finance in particular are apprized Musgrave’s three basic function of the role of the state. Musgrave divided the three function are as allocative, distributive, and stabilization functions. Further he also explained to emphasize the coordination of the budgetary function.

Musgrave’s ‘The Theory of Public Finance’’ appeared in 1959 viewed the state in “capacity to operate on provision of public goods’’ when he stressed that the “ allocation function, concerned with provision of social goods, inevitably departs from the market processes but nevertheless poses the type of problem with which economic analysis has traditionally being concerned’’.(Musgrave and Musgrave 2004). Musgrave and Musgrave noted (2004) that the determinants of distribution endowed with the factor’s pricing which in a competitive market sets factors return equal to the value of the marginal product. Under which the distribution of income and wealth may or may not be in line with what considers fair or just.(ibid) The fair distributions are involved considerations of social philosophy and value judgment. Distribution then depends with active role and state action in efficiency terms with on expenditure, concern with taxation on principles.

Allocation and distribution function in matters of performance of economy that carry on fiscal targets of employment, particular stability, soundness of foreign accounts, and an acceptable rate of economic growth cannot be achieved unless otherwise a sound stabilization policy is need to be focused the targets. It comes budget policy to be involvedon a number of distinct objectives, an efficient policy designs ie., a designs which does justice to its diverse goals.(ibid) Musgrave offered an analysis of budget determination through voting. Hence efficient provision of public goods requires “political institution and a collective processes of political determination’’.(AttaiatF.Ott, 2014)Musgrave theory of public finance given a comprehensive and a solid foundation to emphasize the condition of the theory of public finance.

A pure theory of public finance needs further a more than a theory of public production, a theory of public wants, a theory of public enterprises and marginal productivity theory. In this way demand for public goods and services and the pattern of supply and condition of equilibrium between demand and supply needs to be concern under the theory of public finance. Under which variables like labor, capital, productivity, productive combination all can vary because of differences in organization. It must be conclude that industrial organization or enterprises is a factor of production. This conclusion is important because of its application of the spare of public finance.(Monte martini 1967). The characteristics of public enterprises thus derived from the method best opt to achieve maximum utility by the production processes. On the other hand the role and participation of public sector enterprises need to be compete with private productive forces in the market in deciding the factors endowment and need to decide the ratio between their marginal productivity and their cost in the enterprises.(ibid) This cause different distribution of income for supplies of certain productive factors and an increase in certain type of production. The concept of cost in the theory of public finance then raised agreat confusion due to no substantial discrimination were not allowed to follow with the objects and subject of financial enterprises.

The theory of public finance had suffered from the same defect like the theory of distributionand has not been kept distinct from the theory of welfare.(Haldey) The theory of distribution shows the sharing of public wealth among its various members of the community while theory of welfare is concerned with wealth in relation to community as whole and that not of individual but of overall results in maximization of utility. In the theory of public finance, the state, the agent, of financial action regarded as representative of the community and received common costs and rewards. (eg Taxation and Expenditure)

Public goods need now varied in unequal manner and it differed from general need (bread) to collective needs (Defense, Law and Order). Economic reasons of utility and cost enter into the definition. The prices of those needs to satisfy the demand and divisible supply. But the fact is it partially depends with political decision making. Then the costs (taxes) identified much in relevance with market forces with private runner decisions. Thus the most important of the public needs falling within the purview of theory of public finance are those for which there is no specific individual demand and divisible supply. In the problem of quantity of public services then in fact undetermined. The size of supply of public goods is determined by a majority (de facto or legal function) which makes decision by direct vote or through delegation. This leads establishments of burden of taxation.

2.2. The Theory of Public Finance and Public Choice:

James Buchannan and Gordon Tullock in the “calculus of consent’’ brought new insight into the study of the public economy. Their contribution in the study of public economy from purely public economic focus to a study of the political processes within which individual and state interact. This frame work forms the basis of the theory of public choice.(Attait F Ott 2014) Their understanding on costs and benefits arises from collective decisions. They arrived that at the benefit through minimization of the costs associated with group decisions. Public choice theory commonly identified with Buchannan and Tullocks. However, it has been much an earlier foundation was contributed by Duncan Black(1948),Antony Down(1957) and KuntWicksell(1896) Lindahl (1928) and Wagner (1883).

In the public finance tradition, the first function assigned to the state is the provision of public goods are “ concerned by all’’ and where the exclusion principle does not apply. In the public choice theory and its work comes to this state and assumed that what goods to be provided by the state had to meet with “specific decision rule’’ of those goods that would be subject to specific decisions rules. Thus the state activities were classified into separate categories ie., those collective activities or public decisions that alter or restrict individual, property rights where these rights defined and accepted by the community. Still the student of public finance rest with the question of what should be the proper role of the government and this question remained in the foundation of the analysis of the public sector in the province of public finance.

2.3. The Theory of Public Finance and Welfare Economics:

In the beginning years of 1880 a lively debate on one of the central problem in welfare economics took place between continental writers on public finance. This problem concerned with the optimum distribution of resources between the government and the private sectors, and the ideal means of taxing to individual. The debate absorbed the energies of the Austrian, French, German and Swedish writers and made the reputation on the continent of the Italian writers on public finance. The main controversy with welfare economics and theory of public finance have turned the problem of the pricing rule of public goods.

In the frame work of welfare economics, public finance theoretical vision hold the development of marginal utility analysis in the last quarter of the nineteenth century and was brought considerable attention in taxation.(Musgrave & Peacock 1967) The doctrines of equal sacrifice, equal absolute sacrifice, equal proportional sacrifice, and equal marginal sacrifice concepts were distinguished and later looked upon as a means of least total sacrifice was chosen by Edgeworth as the best solution.(ibid) Proceeding further on the assumption of declining marginal income utility, and of identical utility schedule for all called for maximum progression. Bernoulli and Cohen-Stuart suggested that the role of schedule of unit of elasticity under the progression called for maximum explanation.

Adolph Wagner, a welfare theorist,proposed functions of taxation into purely fiscal and social welfare function. Fiscal he means to pay for public services and the required distribution of the tax bill is more or less proportional to income. The welfare functions is he means to correct deficiencies in the prevailing state of distribution and calls for progressive system.(Musgrave and Peacock 1967) At last Piguo's least sacrifice doctrine later it was referred to as excess burden nevertheless the essential basis of the sacrificed doctrine. Subjective foundation of this theory of public finance approach was shattered even in the introduction of new welfare economics which refer inter-personal utility comparisons and felt that it cannot be performed in a meaningful fashion.(ibid) The scientific foundation of the ability to pay doctrine being entirely removed by the institution of progressive taxation and it seeks its support from philosophical judgments about ideal taxation.

The fundamental question which remains unanswered is that the benefits from public services are to be valued and how this valuation depends upon the way in which the tax bill is distributed. Answering this question, the extension of the sacrifice doctrine to the expenditure side of the budget is a formality and the ability approach remains an at best incomplete. Wicksellian's "approximate unanimity'' matter of budget policy should be voted in conjunction with specific cost distributions proceeds to consider what degree of majority should be applied at various types of fiscal decisions. Thus Wagner's "social welfare principle'' of taxation is recognized as a matter of principles but Wicksell in more conservative in its and fearful that it may be abused.(ibid)

Thus that we understood the theory of public finance remain unable to fulfill issues at various problems were associated and incurred to the national economy. It was recognized well by public economic theorists that the social needs must be fulfilled under the Pareto rules, and pricing in public sectors products also must be provided to concern with economic stability and growth. The theory of public economics had emerged under this to fulfill all these requirements with welfare theoretical principles of maximization of social satisfaction compete with private sectors role and stability. Hence the existence of this nature and characteristics was being in the theory of subject matter of public economics.

3. THE THEORY OF PUBLIC ECONOMICS:

3.1. The Elements and Characteristics of Public Economics:

Public economics has many awards winning Nobel Prizes, characterized and focused to correct market failures, distortions effectsand attainment of equilibrium in the economy. The role of the state and public sector pricing took a central stage in its research work. Many of its contributors had set out a conceptual approach to the study of externalities, transaction costs, that has had become an implicit part of methodological baggage carried around policy analysis in the public economics.

The theory of public economics was emerged as a new version and depart from the theory of public finance in 1950s and it reach its autonomy at the beginning of seventies with creation of Journal of Public Economics in 1972 to deal and account the problems all associated and diversified in the three functioning of allocation, distribution and stabilization of resources. It also further earmarked to emphasize the role of the state under the provision of public goods and given wider importance to the functioning and management of public sectors of the government. Public economics is then the study of government economic policy by which it lens economic efficiency and equity. At the very basic level public economics provide a frame work to thinking about whether or not the government should participate in economics on market and what extent its role should be. Inherently, this study encompasses taxation, expenditure, market failure, externalities and government policy. Public economics builds based on the theory of welfare economics and ultimately used resources as a useful tool to improve social welfare.

However, the theory of value in the public economy has not been investigated much. Friedrich List made the most significant attempt with his “theories of productive forces’’ which he opposed to the “theory of values’’ represented by English school. Lists immediate attention was only to construct the theoretical foundations of his “infant industry tariff policy’’, but he stated his theory in general terms of private exchange value as an entrepreneurs does but should be concerned only with the promotion of the nation’s productive capacity.

It is clear that whether the state goes by exchange value in its business activities or at administrative undertakings, it keeps strictly to the economic principle are, like all entrepreneurs. It aims is at the highest net profit as calculated by comparison between costs and receipts. It is furthermore clear that the economic principles are not violated if the state occasionally, in the undertakings considers simple social utility instead of exchange value. It is still chooses that gain which it deals the highest it can reach in the circumstances. The economic principles are now requires that the state’s economic plan to provide within the means available for the most important public interests and at the expense of less important one. Thus priorities are the general goal of the state. The two guiding principles of taxation, universality and equality are the direct consequences of the nature of state functioning as an organization of society. Utility maximization and ability to pay principles are all under the deal. (Friedrich Von Wiser 1967)

The economy of the state is then a form of economy with its own peculiar properties. We shall try to identify and analyze these properties by means of a comparison between the basic principles, forms and structure of state economy and free capitalistic market economy.(Hans Ritche 1967) Both the state economy and the free market economy presupposes a group of persons whom the economy become encompasses and by whom it is carried out. There are great differences in the form of social cohesion within which the supporting groups and the free market economy rests on an exchange value of society and the relationship of individuals economic units with each other is merely "social'' in Tonnies sense.(ibid) Pictorially the connection are all assumed as in mechanical rather than organic. The link is provided by division of labor and trade, separation and complementarity. The exchange society represents and carries on an economic compound in which division of labor and the interplay of trade can create an autarkic and economically viable whole. The elements of this exchange society includes economic units of the most diverse social structure. The economy of the state then too enters into this exchange society in many ways. Collectivity and national community are the basis and subjects of the economy of the state just as exchange society are the subject under the free market economy. The state serves the satisfaction of communal needs. (ibid)

3.2. Welfare Economics and Government Intervention:

Pareto conditions and efficiency norms took to shape the welfare theory and to emphasize as the basic theorem of welfare economics policy formulations. As it noted that'' no one can be made better off without someone else being worse off "assumed that social decisions should be based on individual welfare. The standard theoretical justification of state intervention becomes need and takes as its starting point in studying behavior of the economy, in the absence of the government. The propositions of efficiency norms and competitive equilibriums are used as a reference point to explain the role of government activity. One of the primary activities of the government is indeed redistribution. Ideally this would be achieved by measures that did not destroy the efficiency properties, and much of welfare economics is based on the assumption that non-distortionary (lump sum) taxes and transfers can be carried out.

The economy may not be perfectly competitive. It is expressed object of antitrust policy to ensure that firms do not collude or that individuals firms do not obtain a sufficiently large share of any market that they can, by restricting their output, increases the price to consumers. In practical there is no perfect competition of the basic theorems of welfare economics and the resources allocation generated by the market is not in general Pareto -efficient. Even if the economy were competitive, it may not be ensure a Pareto -efficient allocation of resources.

The basic theorem requires then that the full equilibrium should be attained. Yet, because of incomplete markets or imperfect information or other reasons capitalist economies have frequently been characterized by under utilization of resources. Most dramatic of these failures of the market economy are the fluctuations that periodically lead to substantial unemployment. It is now accepted that the responsibility of the government ensure a low level of unemployment. The problem of the unemployment is only the worst symptom of the failure of the market. It proves that the limited applicability of the competitive equilibrium model; persistent ant shortage of particular skills, balance of payments disequilibria, regional problems, unanticipated inflation etc. The outcome may not be efficient because of externalities. There are many important reasons for government intervention that there may be market distortions by asymmetric information, failure of perfect competition, absence of futures and insurance markets, failures to attain full equilibrium, externalities, provisions of public goods, and merit wants under which public economics has emerged a strong threshold of norms fixing, principle state of management of market economy with government intervention..

3.3. Public Economics and Arrow -Debreu Model:

In the Arrow -Debreu world of complete information a benevolent State, redistribution problems are dealt with through the second welfare theorem. Under convexity assumption on the production sets, any Pareto optimal allocation of resources can be decentralized as a competitive equilibrium eventually after a redistribution of initial resources through lump sum taxes. The financing of public goods then with lump sum taxes not alter the efficiency of competitive resource allocation processes. The second welfare theorem under this assumes that the convexity of production sets which is problematic in public economics. Arrow observed that the internalization of externalities faces anon convexity of the production sets, extended to include pollution rights. Only non linear taxes are susceptible of implementing Pareto optimal allocations. For numeral public services the non convexity of production sets (the natural monopoly hypotheses) seems to be the rule. Pricing of marginal cost with public funding of deficits by lump sum taxes, suggested by many general equilibrium theorists. (Hotelling1938) Competitive equilibrium with marginal cost pricing of activities produced with non convex technologies are Pareto optimal simply does not hold.(quoted in Jean-Jacques Laffont 2002). Some resources are incompatible with Pareto efficiency. The question of so pricing at marginal cost does not allow in general equilibrium frame work with the decentralization of the Pareto Optima.

3.4. Public Economics with asymmetric information:

Public economics covers many issues which included optimal taxation of income, general taxation theory, the free rider problems, regulation of public services, and the reform of the state policies. Under which the core of the Mirrlees modeling is the asymmetric information concerning the agents' intrinsic productivities. Accordingly taxation is considered in redistributive resources to be an exogenous in a lump sum program. It otherwise depend observable incomes with productivities and number of worked hours. According to which the marginal rate of substitution between income and leisure is a monotonic function of the intrinsic productivity of the agent. By calling upon the Pontryagain principle, Mirrlees obtain a number of properties of the tax schedule which maximizes a Benthamite social welfare function.

The legacy of Mirrlees and Vickery in the importance of imperfect information that has changed much the very nature of public economic research and its implication on economic policy and the role of the government. The economic decisions of the government constantly affect common man in all his wake of life. This is noticeable in the taxes what we pay Income tax, sales tax and social security taxes substantially consumed proportion of individual incomes. Owner of capital also affected by taxes on corporate profits, inheritance taxes and capital gain taxes. This policy on taxing deals degree of progression on income and other related taxes. The choice between direct and indirect taxes will be directly concerned in its impact on provision of public goods and pricing rules of public enterprises.

3.4. General taxation Theory:

The general equilibrium frame work chosen by Diamond and Mirrlees (1971) provides general theory of linear taxation has had more practical influences. The informational constraints amount here to the linearity of income taxation and of excise taxes. The problem of optimal taxation appeared then clearly as the problem of the optimal set of tax bases and tax rates given the difficulties of observing economic transactions and given the other asymmetries of information suffered by the tax authorities. The second best optimal taxation remained meager and had to be relayed by an approach using simulations of calibrated general equilibrium models. Economic studies with micro data also have enabled a better understanding of the equity -efficiency trade offs of public policies.

3.5. Public Economics and Free rider problems:

Public economics has known a particular excitement in the seventies, when starting the articles of Groves (1973) and Clarke (1971) new solutions were proposed to solve the free rider problem namely the problem of how to decide the level and funding of public goods when the state does not know the agents willingness to pay for those public goods. In the 1980s and 1990s the incentive theory (Green and Laffont 1979, Aspremount and Gerad-Varet 1979) has played an important role for other field of economics. The principles are the key to induce him to act in an optimal social way despite the absence of information.

The importance of asymmetric information for public intervention has been well understood at this occasion. In a first step it has had led to the revealing principle which establishes the validity of a centralized approach to the public decision making even in presence of adverse selection and moral hazard. It provides normative framework alternative to the Arrow -Debreu model when the state suffers from asymmetric information. The notion of incentive compatible Pareto Optimum emerged as the new criterion of economic feasibility which allows us to compare institutions in more realistic fashion. To day Public economics continues its progression by relaxing the implicit and explicit assumptions underlying the revelation principle.

Most of the public economics has now developed by assuming that the State is a benevolent dictator which maximizes social welfare defined by a social welfare function. But the benevolent state stressed by the Virginia Polytechnique Institute School and the Chicago School are today attempted to reintroduce economic analysis of political constraints at the centre of debate in public economics. (Dixit 1996, Laffont 2000).

4. PUBLIC ECONOMICS AND THE THEORY OF PUBLIC POLICY:

The role of the public sectors revolved around the notion of market failure, especially arising from the free rider problem of public goods. The efficiency branch of the government charged with correcting market failures of the first theorem of welfare economics means under standard conditions, competitive economies are Pareto efficient. (Robbin Baodway 1997) Government was prevented being perfect because it could not avoid imposing distortions.Public choice theory focused on the fact that government faced an important constraint that correcting market failures. It also insisting that on a positive view of policy making, free of interpersonal value judgment, in early literature involved the investigation of efficiency properties of voting and other processes. The other features of public choice literature (Buchanan and Tullock 1962)has been in its primary focus is on the role of collective choice as a means of exploiting the gains from trade arising from public goods and externalities that is averting the free rider problem. These emphasized that redistribution is a necessary evil which accompanies voting processes that is unanimity voting will maximize the benefits from collective choice unencumbered by redistribution. It can be realized that political decision has divided between public choice and normative public economics. This perspective observed by Vickery (1961) and made a market type mechanism could be devised to elicit preference relation from households. Clarke and Groves's mechanism said that the political process was obviously an enticing one.

The second development has took in public economics and policy with the potential for determining preferences by decentralizing public goods provision to lower jurisdiction and allowing people to express themselves by "voting with their feet''. Tiebout model express excessive preoccupation of with the consequences of costless migration for local decision making away from the agenda originally set by Musgrave (1959) and subsequently restated and elaborated by Breton (1965), Oates (1972) and Breton and Scott (1978). This agenda included the optimal design of constitutions and the assignment functions. The new Public economics has now contributed greatly to these issues in recent years.

The rift of normative public economics and public choice was the optimal tax revolution ushered in by Diamond and Mirrlees (1971), it emphasizes that how to extract revenues from households at the least cost. (Robbin Baodway 1997). More generally the intent was to provide a methodology for calculating precise policy rules in second best (distorted) economies, rules that reflected the efficiency-equity trade offs that were forced the existence of immutable but not fully explained, distortions. The methodology of optimal taxation raised with the questions of primary issue in the theory of second best by Hotteling (1938), Little (1951),Meade(1955), Lipsey and Lancaster(1956-57). The principles-agent approach generated to the public sector with the rules for allocating resources.

The famous production efficiency theorem of Diamond and Mirrlees (1971) stipulating that public sector shadow prices should be private sector producer prices. Canadian economists emphasized on marginal cost of public funds. (Campbell 1975, Usher 1986, Dahlby 1993) and optimal tax theory by Atkinson and stern (1974), the Linear progressive taxation by Shesinski (1972), Atkinson (1973) and non-linear progressive taxation by Fair (1971). This extension signaled a subtle shift in emphasis from concern over failure of the first theorem of welfare economics which reflected market failure approach to public economics. The second theorem says that any of many Pareto optimal allocations can be achieved by a suitable reassignment of endowments among households. Optimal linear tax theory represented the culmination of the market failure approach to public economics. It came to dominate the teaching and research agenda of normative public economics.

The normative market failure approach and public choice approach both have tended to restrict their range of enquiry to the role of collective decision-making as a means of exploring the gains from trade from internalizing free-riding. (Robbin Baodway 1997).The new public economics thus emanating from Vickery and Mirrlees and has fundamentally reoriented to the redistribution dimension of government and has profoundly enhanced our understanding of both the role and the limitations of the government policy.

5. CONCLUSION:

Thus the public economics and public finance bothdeals entirely different approaches of the public policy issues but they are related. In the presence of public finance theories incompletion on dealing market failure, distortions effects pricing rule etc.,public economics much on concentrated the theoretical framework of market related program of and on management in the policy analysis of fiscal requirements of the state. Public economics thus is totally different from public finance in dealing of issues and correspondent toin their fiscal operation,employability of natural resources, appropriateness of proper utilization of resources strengthen market equilibrium, under utilization of resources at the efficiency ground, avoid balance of payments of disequilibria, regional problems, unanticipated inflation etc.The other problems are externalities. (eg air and water pollution),controversies regarding in these regulation, taxes, or subsidies involved state judgment of "merit wants'', location content, specific, local public goods.The ethical judgment in this is a question of dispute regarding individualistic decision making on social natures etc. Thus we understood that to have public economics it emphasized in the study of public economics, theories are to be the need of government functioning and intervention on distribution, compensate failure of perfect competition, supportive in absence of futures and insurance markets, regularize in attaining full equilibrium, correct externalities, provisions of public goods, and merit goods.

REFERENCES

1. Baodway Robbin,(1997),''Public Economics and the theory of Public Policy'', The Canadian Journal of Economics,vol.30,No.4
2. Diamond,P.A. and J.A. Mirrlees,(1971),''Optimal Taxation and Public Production I, Production Efficiency II tax rules'' American Economic Review. 61.
3. Laffont, Jean Jacques (2002),Public Economics, Yesterday, Today, and Tomorrow, Journal of Public Economics,No.86.
4. Montemartini Giovanni, (1967), "The Fundamental principles of a pure theory of public finance in' Classics in The Theory of Public Finance"(edited) by Musgrave .R.A. and Allan T. Peacock, Macmillan, New York.
5. Musgrave .R.A. and Allan T. Peacock(Editors)(1958),"Introduction" in Classics in The Theory of Public Finance, Palgrave Macmillan, New York.

6. Musgrave.R.A. and Peggy.B. Musgrave,(2004), Public Finance in Theory and Practice, Tata McGrow-Hill, New Delhi.

7. Ott.or.Attaiat.F,(2014),''Public Finance and Public Choice: A Tribute to Gordon Tullock (1922-2014)'' Journal of Contemporary Management, Vol.4.No.1.

8. PlenCark.L.(1902), Introduction to Public Finance, Macmillan Company, New York.

9. Ritschl Hans,(1967) "Communal Economy and Market Economy,' in Classics in The Theory of Public Finance,(edited), by Musgrave .R.A. and Allan T. Peacock,Macmillan, New York.

10. Wiser, Friedrich von(1967),''The Theory of Public Economy'',' in' Classics in The Theory of Public Finance,(edited) by Musgrave .R.A. and Allan T. Peacock, Macmillan, New York.