LESSON 23

GOVERNMENT BUDGET AND ECONOMY

Government undertakes economic activities such as public expenditure, public borrowings, public revenue and their control and management are considered as financial administration. In the financial administration, it is remembered that revenues are collected in a just manner and public expenditure is done in an expedient manner. Budget is a practical form of government revenue policy. In India, generally budget is an arrangement of necessary anticipated expenditure determined for the forthcoming financial year.

In financial administration, budget is very important, it can also be called as axis of administration. The revenue expenditure, debt and others. related activities are determined by means of budget.

Meaning and Definition of Budget.

The word 'budget' is said to have its origin from the French word 'bougete' which refers to small leather bag. In 1733 the word 'budget' in England was used to mean "Box of magic".

Budget is statement of government's revenue and expenditure. It is a document of detailed anticipated revenue and outlay of social and economic programmes, and recommendations for increase- decrease of revenue and expenditure during the forthcoming year. Generally, budget refers to statement of income and expenditure during a given year. Secrecy is maintained of the facts in a budget until it is presented before the parliament of the country

Many scholars have defined budget as follows:-

Bastable:- "The budget has came to mean the financial arrangements of a given period, with the usual implications that they have been submitted to the legislative for approval."

Findlay Shirras:- "The budget is an annual statement of expenditure and revenue to meet the expenditure prepared by public authorities and usually covers atleast two fiscal periods- The closing period and the period to come"

There are two sides of a budget. One depicts the anticipated revenue of government while the other depicts the anticipated expenditure. In a democratic system, every year the government presents the budget before the parliament and after the approval by the parliament it functions according to the recommendation.

Objectives of the Budget

The primary objective of the budget is to give directions to the economy of a country. The budget influences the economy of the country. The chief objectives of the budget are as follows:-

1. The budget not only influences the development but the direction of development is also determined by the budget.
2. Budget also plays an important role in increasing the production. Concessions given on taxes and fees in the budget serve as incentives for increase in production.
3. The government by means of budget controls the price level by imposition of new taxes and borrowing from public causing decrease in purchasing power.
4. To accelerate the economic and social development of the country and redistribution of income and wealth.
5. To give direction to production structure and level of production of a country . The concessions in relxation to taxes in a budget are motivational for increase in production.
6. They overcome prevelant inflation or deflations in an economy. Changes are made in the budget to achive the objective of economic price stability.
7. The budget can help in achieving the goal of establishment of welfare state.
8. By means of budget provision, removal of economic inequalities, implementations of schemes of social security, plans for economic development are possible.

Type of budget:

The budget can be classified on the basis of trends and balance in income and expenditure of the government.

Revenue and capital budget

Budget depicts the income and expenditure of the government. On its basis it is divided into following two parts.

1.Revenue budget-

This is depicted in beginning part of budget. It is divided into two parts on basis of receipts.

Revenue receipts & Revenue expenditure- It includes the revenue received during the financial year also known as current account. It includes all the sources of income for which no payment is to be made. For income received from tax, profit earned from public enterprises, interest received from government industries etc.

Revenue budget consists of revenue receipts.(a) Tax revenue(b) Non tax revenue. The tax revenue includes income tax, property tax, excise tax, custom etc. The non tax revenue includes interest receipts, fines, fees etc.

Revenue expenditure in the budget can be classified as non-developmental expenditure and developmental expenditure. The non-developmental expenditure includes expenditure on government services government subsidy, government grants and interest payments. Whereas the developmental expenditure includes expenditure on social and community services, agriculture and subsidiary services, industry minerals, fertilizers subsidy, general economic services electricity, irrigation flood control, public construction, transport and telecommunications and subsidies to the states.

Revenue expenditure is also classified as- (a) non planned expenditure in revenue account (b) planned expenditure- revenue account.

After revenue reciepts the next section of budget shows the revenue expenditure. The revenue expenditure is also classified into two part-

(a) Non planned expenditure in Revenue Account

(b) Planned expenditure in Revenue Account

2.Capital Budget- The second section of budget consists capital budget which has two parts:-

Capital reciepts and capital expenditure -

It includes all the sources of income for exchange of payment to be made is compulsory. Capital expenditure account includes those expenditure, on which expenditure is incurred during current year but the social welfare increases not only in current year but in forthcomming year also.

The capital receipt includes receipts from loans and other types of receipts. The capital expenditure is depicted as planned and noplanned expenditure in capital account.

A. Capital Receipts –This includes the recovery of loans, various receipts, borrowing and other liabilities. The summation of these receipts is called Capital Receipts,

B. Capital Expenditure –The capital expenditure is also divided into two parts (1) Non planned

Table 23.1 Budget

Revenue Budget		Capital Budget	
Item of Receipt	Item of Expenditure	Item of Receipt	Item of Expenditure
Taxes on Income	Expenditure on Government Serviceses	Net Domestic Loans	Formation of Assets
Profits & Dividend	Interest Payment	Net Foreign Loans	Accumulated Funds
Income from Interest	Grants	Loan Repayment	Contingent Funds
Non Tax Revenue	Subsidy	Payment from Public Services	
	General Economics Services		
	Public Works		

expenditure in Capital Account (2) Planned expenditure in Capital Account.

Government budget is classified in following manner on the basis of difference between total revenue and total expenditure

1. **Surplus budget-** A budget is referred to as surplus budget when in comparison to expenditure of government,the income is in excess. The total revenue of government is more than its total expenditure

   Total revenue > total expenditure

   (positive difference)

2. **Balanced budget-** In a budget statement where government income is equal to government expenditure is called balanced budget.

   (Balanced budget=Total revenue=Total expenditure)

3. **Deficit budget –** The budget statement presented by government in which government income is less than government expenditure is called Deficit Budget. In recent times generally in all the democratic countries the government has to incur many types of expenditure for public welfare works. The demand for increasing economic development, increasing expenditure on social security schemes and the increase in demands in a country has caused a rapid increase in public expenditure. This is the reason why deficit budget is a popular concept.

   Deficit budget = Government total expenditure > Government total income

Types of budget in changing scenario:-

Generally, the government budget is related to period of one financial year, In India the financial year is from 1 April to 31 March. Due to the changing scenario, increasing government interference in an economy changes are visualized in the process and forms of budget, which can be classified as follows-

1. General Budget – It is also called traditional budget. The chief objective of the budget is to establish financial control of legislature over executive. The primary objective of this budget is to have control over the government expenditure rather than inducing development at a rapid rate. Thus, budget includes the expenditure on salary, wages instruments machines etc and income recieved from various items.

Supplementary Budget:- Is a request for additional funds by the government (ministers and departments) before the parliament in a situation when sanctioned financial resources get over during the course of the year.

Accounting Budget:- The budget ends on 31st march with financial year and it cannot be extended. The government requires a new budget to incur its expenses on 1st April.In such situation the parliament temporarily gives advances to government to meet out its expenses.

Performance Budget:- The budget made on basis of outcome of work or on basis of performance is called performance budget. It is assumed to be a statement of wider proceedings. The budget is basically goal oriented and objective oriented. It measures the performance of programs and projects implemented on the basis of their related statistics available.

Zero based budget:- Peter.A.Pyhrr of America is known as Father of Zero based budgeting. In 1979 the president of America Jimmy Carter adopted the Zero Based Budgeting.

Zero based budgeting is based on logical system to control the expenditures. In this system, all the expenses(every function) in the organization are analyzed and justified starting from zero base for a new period, regardless of the previous expenditure. The previous expenditure are not accepted as a logic base for acceptance of new expenditure. It is also called sunset system.

Outcome budget:- In comparison to general budget this is a difficult process which is looked with reference to the outcomes of financial provisions. The physical goals are so determined for the evaluation of the budget with the objective to examine the quality of implementation of the budget. In the outcome budget, the sanctioned fund is made available at appropriate place and in appropriate quantity for the performance of the function at any level without any obstacle.

Gender budgeting:- The provisions of definite funds are determined to be allocated for schemes and projects initiated for women welfare and empowerment and development by means of Gender budgeting. It is prepared and analyzed with gender perspective. It helps in finding solution to gender discrimination and highlights the opportunities available among two distinct group men and women.In a developing country like India, there is great importance of Gender budgeting in circumstances where there is lack of awareness towards right of women, lack of education opportunities and unable to take independent decisions.

Federal state and local bodies budget:- The federal and state government budgets are prepared by the executive. The executive gets it approved and the responsibility of its implementation also rests upon them. The budget of local bodies is independent.

Ordinary and Emergency budget:- The ordinary budget deals with the functions which are relatively permanent while the emergency budget is concerned with abnormal or exceptional circumstances like war ,depression etc. Responsibilities, participation and potentials of both the budgets vary.

Concept of Budget deficits

In modern times, democratic governments in their budget present various types of budget deficits which are helpful in understanding the nature of the economy.

Prof. Dalton- "If over a period of time, expenditure exceeds revenue, the budget is said to be unbalanced."

Different concepts:-

(a) Revenue deficit:- When in the budget total revenue expenditure is more than total revenue receipts then this difference is called revenue deficit. Thus revenue deficit budget expresses the excess of revenue expenditure over revenue receipts.

Formula:

Revenue deficit= Revenue receipts- Revenue expenditure

e.g. Total revenue receipts `1300 crores – Total revenue expenditure `1700 crores therefore total Revenue deficit= `400crores.

Explanation:

Revenue deficit = (Total tax revenue + total non tax revenue) – (Non planed expenditure in revenue account + planned expenditure in revenue account)

(b) Fiscal deficit:- The excess of government total expenditure (revenue and capital expenditure includes amount of net loans borrowed) over total revenue receipts, excluding money from borrowings.

Formula:

Fiscal deficit = Total expenditure – Total revenue (excluding borrowings)

(c) Financial deficit:- It depicts the real situation of the government funds. It adds net borrowings of government to Budgetary deficit.

(d) Primary deficit:- After the deduction of interest payments from fiscal deficit, the balance amount is referred as Primary deficit.

Formula:

Primary deficit = fiscal deficit – interest payments

From the above analysis, it is clear that government budget plays a crucial role in accelerating the growth of the economy. In modern times, the government budget not only influences the entire economy but also provides directions.

Recent trends in the Union Budget of India

The union budget for 2016-17 presented by Mr. Arun Jaitly, Union Minister of Finance to make an improvement in system of fiscal administration announced to scrap the distinction between planned expenditure and non planned expenditure. This tradition will be ended from 2017-18 and the budget will be classified in form of revenue expenditure and capital expenditure.

The 2016-17 budget approved many schemes to be launched like *Digital Saksharta Abhiyan* to control black marketing, *Make in India* and *Ek Bharat Shrest Bharat* scheme.

In September 2016, according to a decision of the cabinet of government of India the merger of Union budget and Railway budget was proposed. It will be shown as a part of General Budget.

The Fiscal Responsibility and Budget Management Act, 2003 (FRBMA) is an act of Parliament of India to maintain financial discipline in union and state government and reduce the fiscal deficit. The main purpose was to eliminate revenue deficit.

Finance Commission makes suggestions to government for division of resources between central and state government. The 13^{th} Finance Commission suggested for fiscal strengthening an attempt can be made during union and state. The 14^{th} Finance Commission under the chairmanship of Y.V. Reddy was constituted in Jan,2013. The recommendations are implemented in the period 2015-20.

In Indian constitution annually the budget has to be presented before the legislative for its approval, the provision of sanction of expenditure of government by the Parliament guarantees the supremacy of the Parliament.

Budget as an instrument of economic policies:

Budget is considered as an important instrument of economic policy of the economy of a nation. budget is not only the presentation of future estimates but if is also a comprehensive plan of projects and programmes for future based on past experiences and depicts the social and economic philosophy of the government. Budget is an important and necessary instrument of government economic policy. It is an integral part of economic development of a nation. It is an effective instrument in the hands of government to achieve the desired goals.

Important points:

- Revenue budget: In this budget is included all, government income from taxes & fees and all expenditure incurred on its collection.
- Capital budget: This budget includes the debt of government and expenses on them and also includes income and expenditure from government assets.
- Union budget is an annual account of economy of any country.
- Prior to submission in Parliament, it is kept confidential.
- Main work of Finance Commission is the division of resources between central and state governments.
- From the year 2017 Railway Budget is merged in Union Budget.
- In modern times concept of deficit budget is most popular.
- Fiscal deficit = Budget deficit + Loan + all liabilities
- Generally budget is presented for one financial year only.
- Objective of gender budgeting is creating awareness for women.

Exercise questions

Multiple choice type questions

1- Meaning of balance budget is-

(A) Total income > Total expenditure

(B) Total income < Total expenditure

(C) Total income = Total expenditure

(D) Total income = Zero

2. Which of the following is not the revenue receipt-

(A) Tax revenue

(B) Dividend

(C) Grant

(D) Non tax revenue

3. The main measure of government is to reduce the purchasing power of the people –

(A) Reduction in taxes

(B) Imposition of new taxes

(C) Increasing government expenditure

(D) Grant Subsidy

4. The budget in which the basis of past expenditure is not made-

(A) General budget

(B) Deficit budget

(C) Supplementary budget

(D) Zero base budget

5. Whose supremacy is proved by passing budget from parliament every year—

(A) President

(B) Prime minister

(C) Parliament

(D) Finance minister

Very short type question-

1. Revenue receipts are divided into two parts, write the names of two parts.
2. Write the formula for determining Revenue Deficit.
3. What is India's financial year period?
4. Who is known as the Father of 'Zero Based Budgeting'?

Short type questions –

1. What do you mean by the 'General Budget'?
2. Why budget is compared to a magic box ? Explain.
3. What is budget?
4. What do understand by Primary Deficit?
5. If the budget deficit in a country is ` 700 crore and the total revenue expenditure is ` 1800 crore, then find the revenue receipt?

Essay type question-

1. What do you understand by budget deficit? Explain its various concepts.
2. Explain the term budget and briefly explain its importance.
3. What do you mean by Revenue Receipt and Revenue Expenditure? Explain.
4. What do you mean by budget? Why gender budgeting has been useful?

Answer Key

1	2	3	4	5
C	C	B	D	C