

Government Budget and The Economy

Government budget is a statement of the estimates of the gov. Receipts and gov. Expenditure during the period of the financial year.

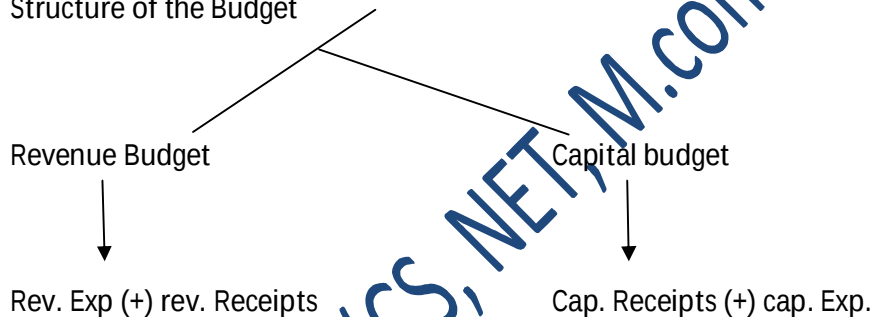
Objectives of Budget :-

- Redistribution of income and wealth with a view to increase equality.
- Reallocation of resources with a view to maximize social welfare.
- To achieve economic stability in the country.
- To accelerate growth and development by managing public sector enterprises.

Fiscal discipline – It refers to a state of an ideal balance between revenues and expenditure of the gov.

If fiscal discipline is not maintained then the economy is driven into an inflationary situation where gov. Expenditure exceeds gov. Revenue.

Structure of the Budget



Components of the Budget:

- Budget receipts :- It refers to estimated money receipts of the gov. From all sources during the fiscal year. It is of two types:-
 - Capital receipts :- these are those monetary receipts
 - a) Which creates a liability for the gov. ; or
 - b) Which causes reduction in the assets of the gov.
- 1) It can be classified as under:-
- a) Recovery of loans:- loans offered to other are assets of the gov. Recovery of loans causes a reduction in assets of the gov.
 - b) Borrowings and other liabilities – Gov. Borrows money from
 - General public
 - RBI
 - Rest of the world.
 - Such borrowings creates liability.

- c) Other receipts – money received from disinvestment leads to reduction in assets of the gov. It involves transfer of ownership of public sector enterprises to the private sector.

Disinvestment :- It means selling of the ownership/ shares of public sector enterprises by the gov. To the private sector. It is the opposite of investment.

- Revenue receipts :- These are those monetary receipts
 - Which do not create any corresponding liability for gov.
 - Which do not cause reduction in assets of the gov.
- 1. It can be classified as under:
 - a) Tax receipts – A tax is a compulsory payment to the gov. Made by an individual, household, firm or other institutional units without expecting any benefit or service in return.
 - Progressive and regressive Taxes:

Progressive tax:- It implies that the rate of tax increases with an increase in income. It's real burden is more on the rich and less on the poor.

Regressive Tax :- It implies that the rate of tax decreases with increase in income. It's real burden is more on the poor than the rich.

2. Ad valorem and specific taxes:-

VAT :- value added tax is an indirect tax which is imposed on the value addition made at each stage of production.

Specific taxation system:- When a tax is levied on a commodity on the basis of it's units, size or weight. It is called specific tax.

3. Direct tax :-
- (a) It is paid by the person on whom it is legally imposed,
 - (b) It is imposed on goods only.
 - (c) It's impact can't be shifted.

Indirect Tax: (a) It is imposed on one person but paid partly or wholly by another person.

- (b) It is imposed on goods and services.
- (c) It's impact can be shifted.

Non- Tax Receipts :- These are those receipts which are received from sources other than taxes like interest, dividend etc.

1. Fees :- It is a compulsory payment to the gov. For the services that it renders to the people. For eg: land registration fees, passport fees etc.

2. Licence and permit :- These are paid when a person is permitted to do some specific job by the gov. No service is provided to the licence holder.
 3. Fscat :- it refers to that income of the state which arises out of the property that comes to it for want of a legal heir. Such a property has no claimant. State alone has the legal right over it.
 4. Fines and Penalties :- these are those payments which are made by the law breakers to the gov. By way of economic punishment.
 5. Income from public enterprises: - Several public enterprises are owned by the gov. Gov. Gets revenue in the form of profit from such enterprises. For Eg: Indian Railway, Indian oil, Indian airlines etc.
 6. Gifts and grants :- These are received by the gov. As a source of revenue from general public, funds, institutions, or from the rest of the world.
- Budget Expenditure :- It refers to estimated expenditure of the gov. On it's development and non- development programmes or on it's plan and non-plan programmes during the fiscal year.
 - (1) Capital expenditure: - These are those monetary expenditure which
 - Creates assets for the gov.
 - Causes reduction in liabilities of the gov.
 - (2) Revenue expenditure: - these are those monetary payments which :-
 - Do not create assets for the gov.
 - Do not cause any reduction in liability of the gov.

Budget Deficit :- it refers to a situation when budget expenditures of the gov. Are greater than the budget receipts.

Balance budget	-	Revenue	-	Expenditure.
Deficit budget	-	Revenue	-	Expenditure
Surplus budget	-	Revenue	-	Expenditure

It is of three types.

- Revenue deficit :- It is the excess of revenue expenditure over revenue receipts. It do not include items of capital nature.
 $RD = RE - RR$ OR $RD = RE > RR$.

Implications:-

- High revenue deficit gives a warning to the gov. Either to cut it's expenditure or increases it's tax/ non-tax receipts.
- The gov. Has to cope up with high revenue deficit through borrowings or disinvestment .

- Borrowing increases liability and disinvestment reduces assets . A balance approach must be adopted by the gov.

- Fiscal Deficit :- it is the excess of total expenditure over total receipts .

$FD = BE [\text{Rev exp.} + \text{cap Exp}] - BR [\text{Rev receipts} + \text{capital receipts other than borrowing}]$.

OR

$$FD = BE > BR.$$

OR

$FD = \text{Total borrowings and other liabilities of the gov.}$

Implications :-

- It increases inflation
- It increases foreign dependence.
- It leads to accumulation of financial burden for the future generation.
- It leads to the multiple borrowings of the gov.

- Primary Deficit :- It is the difference between fiscal deficit and interest payment.

$$PD = FD - \text{Interest payment.}$$

Implications :-

- Fiscal deficit shows borrowings requirements of the gov. To meet with her expenditure inclusive of interest payment.
- Primary deficit shows borrowings requirements of the gov. To meet with her expenditure exclusive of the interest payment.
- Payment of interest highlights the extent to which the gov. Is already in a debt trap.

Particular	Amount
Revenue receipts	6,00,000
Revenue expenditure	6,60,000
Capital receipts	1,50,000
Capital expenditure	90,000
Total receipts (1+3)	7,50,000
Total expenditure (2+4)	7,50,000
Recoveries of loans and other receipts	15,000
Borrowings and other liabilities	1,35,000
Interest payment	1,90,000

1. Revenue deficit	=	2-1
	=	Rev. Exp. –Rev. Receipts
	=	6,60,000-6,00,000
	=	60,000
2. Fiscal deficit ; - =	[6-(1+7)]	
	=	Total exp. – (Rev. Receipts + recovery of loans & other receipts).
	=	7,50,000 – (6,00,000+15,000)
	=	1,35,000
3. Primary deficit	=	fiscal deficit – interest payment
	=	1,35,000-1,90,000
	=	55,000.

Some other points to be remember :

- Balance budget :- it is that budget in which gov. Receipts are equal to gov. Expenditure.
- Unbalance budget :- It is that budget in which gov. Receipts are not equal to gov. Expenditure.
- Surplus budget :- Its is that budget in which gov. Receipts are greater than gov. Expenditure.
- Deficit budget :- It is that budget in which gov. Expenditure are greater than gov. Receipts.
- Development expenditure :- It is related to growth and development activities of the gov. It directly adds to the flow of goods and services in the economy. For eg :- exp. On education, health, industry, power etc.
- Non- development expenditure :- It is related to non-development activities of the gov. It does not add to the flow of goods and services. For eg: - exp. On defense, interest on loans, pensions etc.
- Plan expenditure : - These are those expenditure which is incurred by gov. To fulfill it's planned development programmes.
- Non-plan expenditure :- These are those expenditure which are beyond the scope of it's planned development programmes.