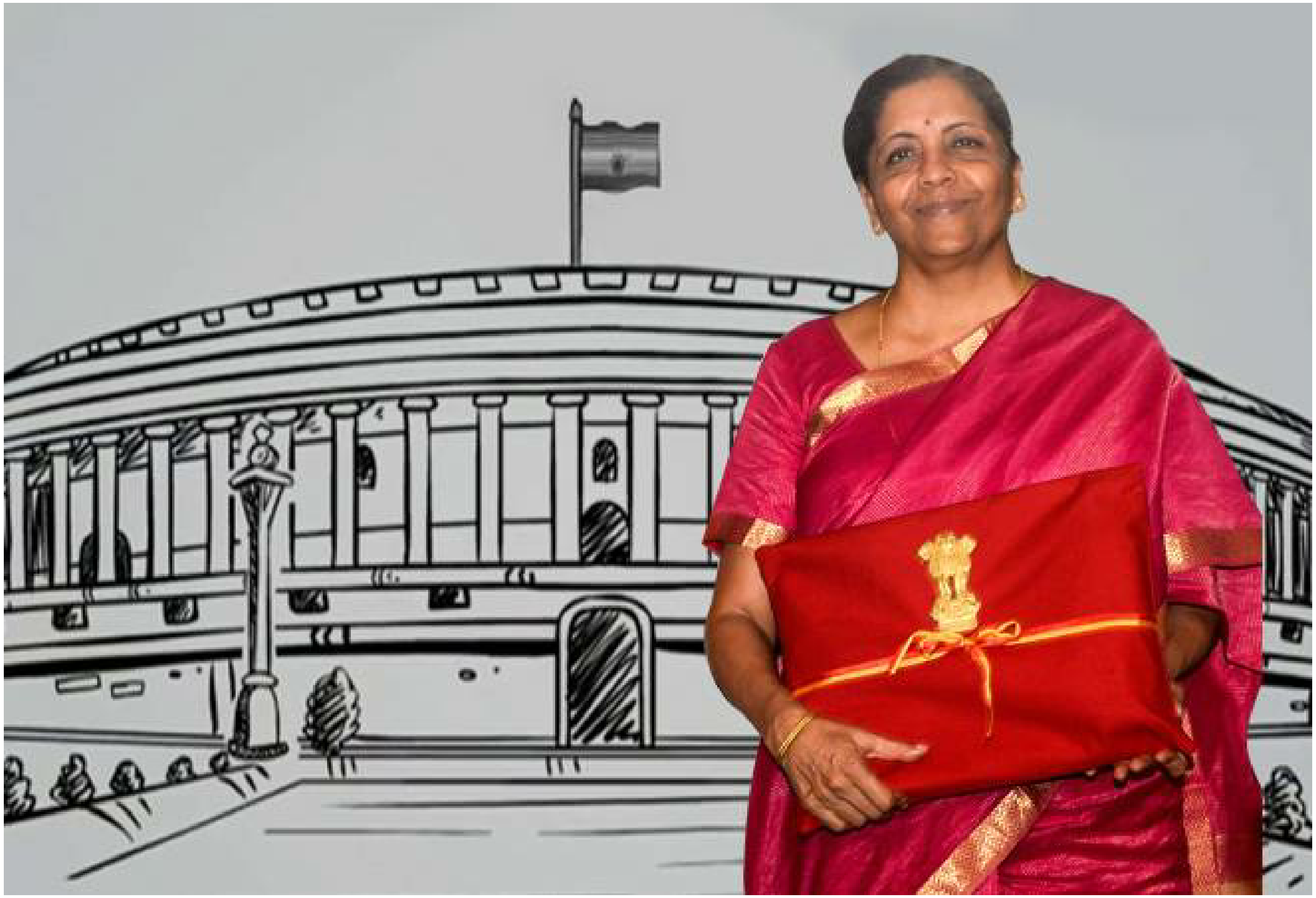
GOVERNMENT BUDGET AND THE ECONOMY



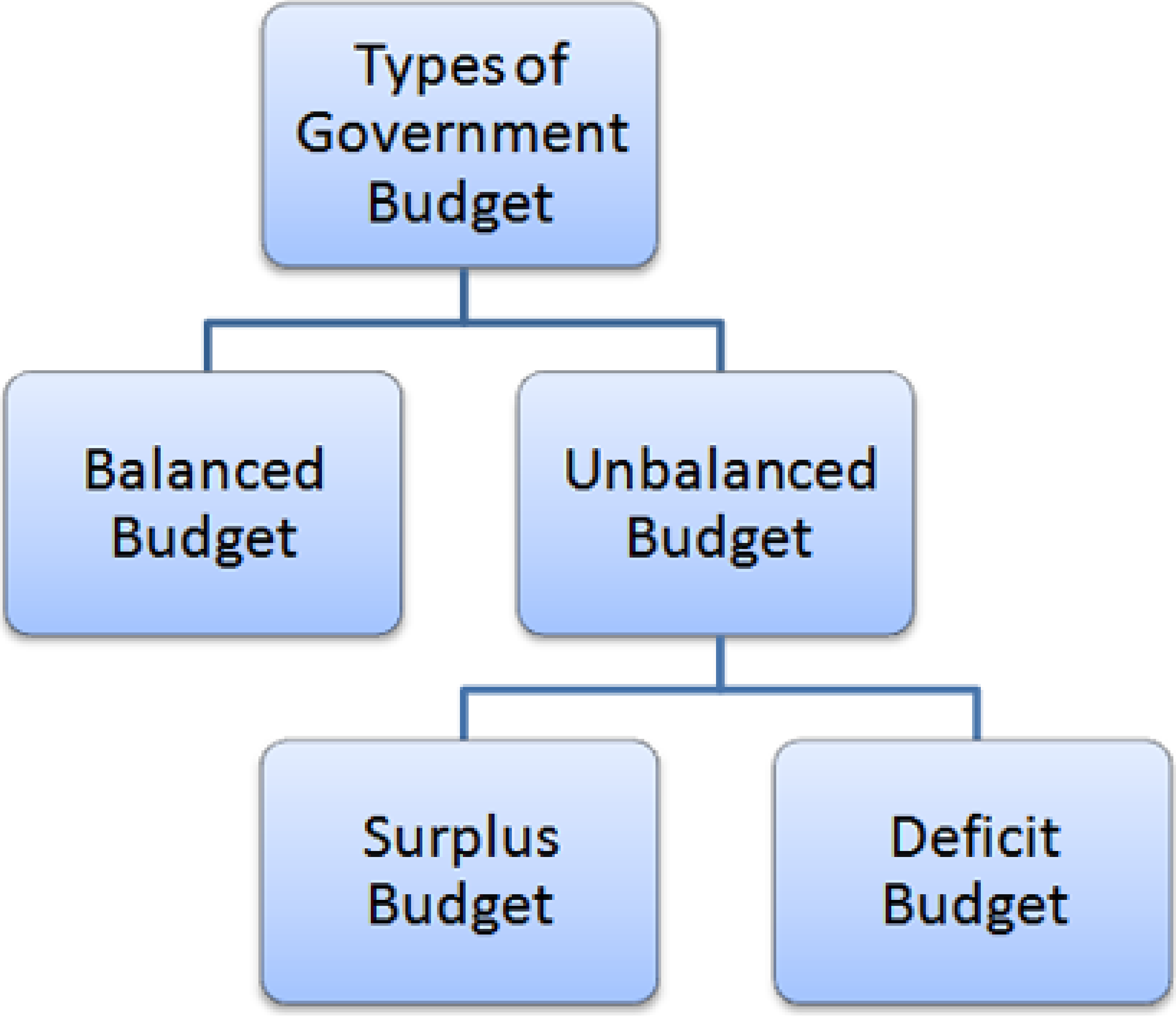
Origin of budget

- Derived from French word ‘Bougette’ meaning ‘leather bag’.

- Bag used by the British chancellor to keep his papers to be presented to the parliament.

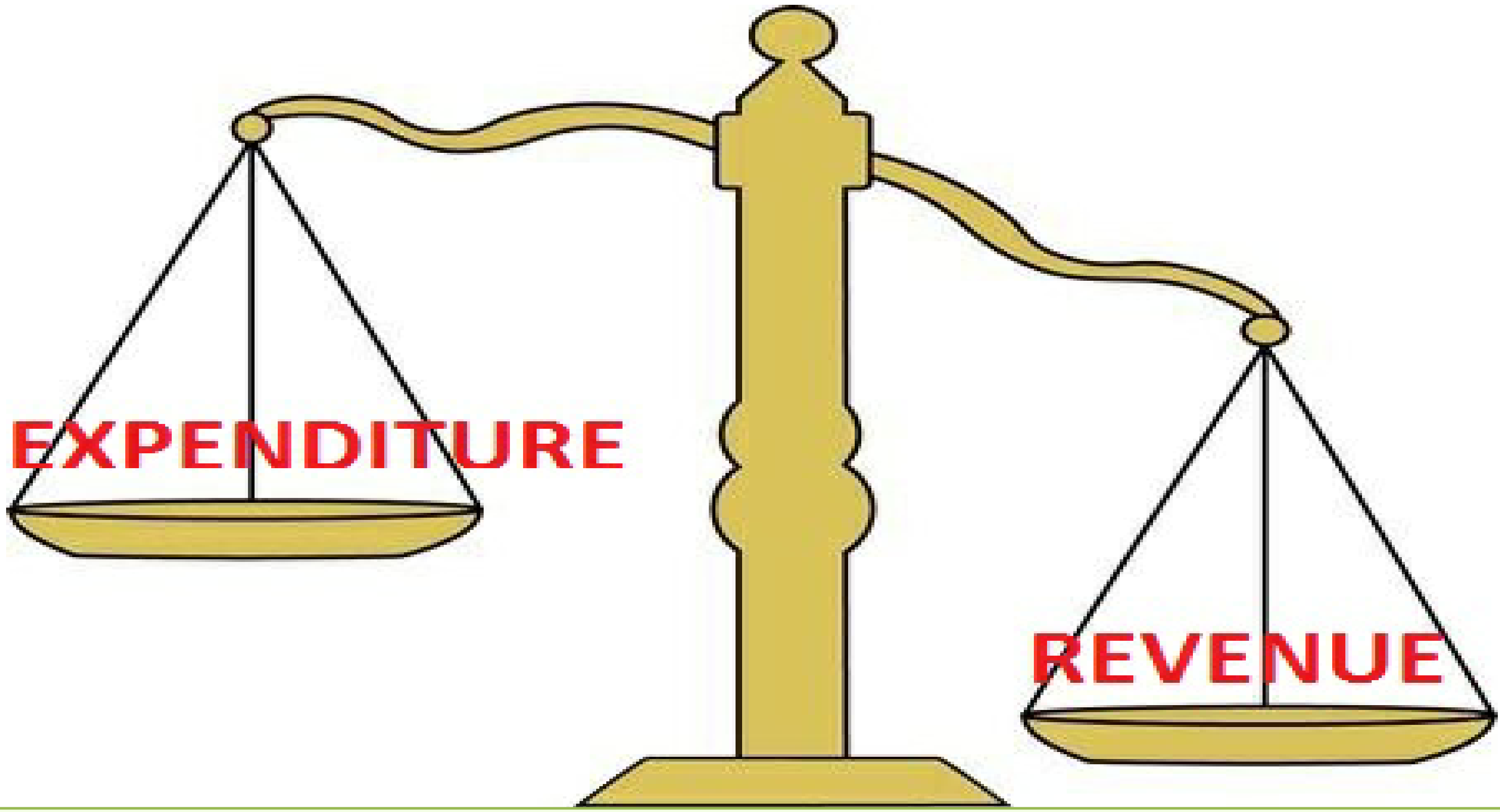
- Present sense of the term was used for the first time in 1873.

A government budget is an annual statement of estimated income and expenditure of the government during a financial year.


Types of Government Budget
Balanced Budget
Unbalanced Budget
Surplus Budget
Deficit Budget

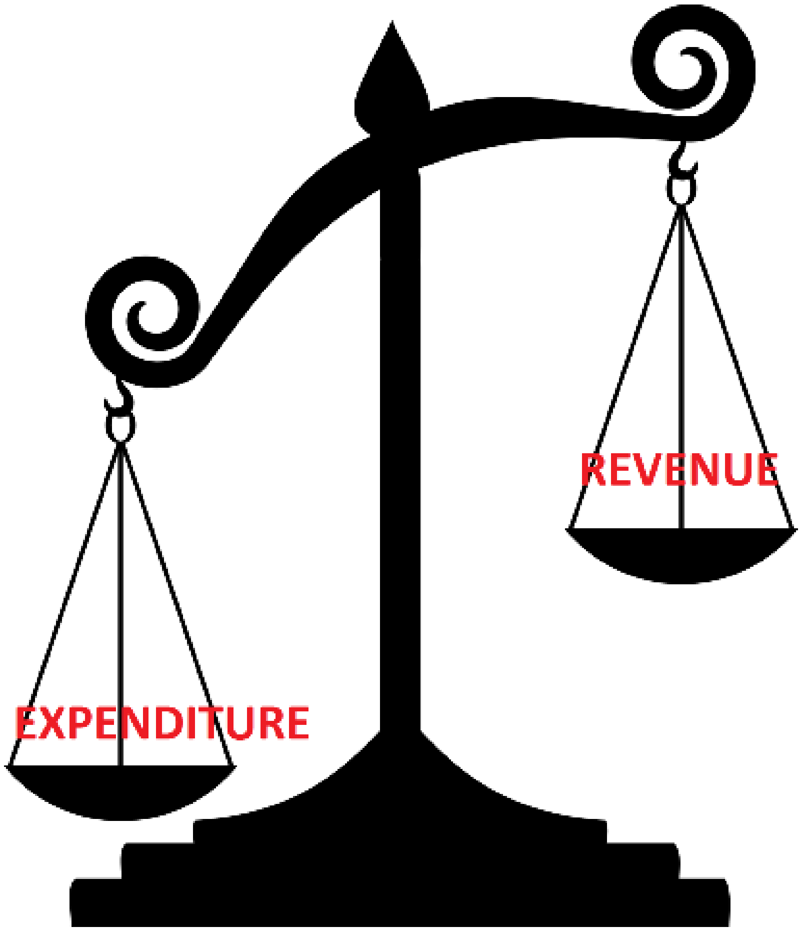
ESTIMATED RECEIPTS = ESTIMATED EXPENDITURE

SURPLUS BUDGET



ESTIMATED RECEIPTS > ESTIMATED EXPENDITURE

DEFICIT BUDGET



ESTIMATED EXPENDITURE > ESTIMATED REVENUE

Economic growth

- Government allocates resources for various development and welfare programmes in its budget.
- Funds are allocated for the defense of the country.
- Resources are allocated for educational and health sectors.
- Resources are allocated for the development of various sectors of the economy.
- Balanced allocation of resources help in balanced economic growth.
- Backward areas are given more resources.

Role of Government Budget in the allocation of resources

(I) The Government can impose heavy tax on dangerous and harmful goods. This will discourage their production.

(ii) The Government can provide subsidies to encourage the production of essential commodities.

(iii) Heavy tax can be imposed on luxury goods so that their production can be discouraged.

ECONOMIC EQUALITY

- The Government may impose heavy tax on rich man’s income and luxury goods. Progressive rate of taxation can be followed.
- Poor man’s income and necessary goods may be exempted from taxation.
- The money collected from the rich can be used for various welfare programmes for the poor people.
- Food can be supplied at low rates. Educational and health services can be developed.

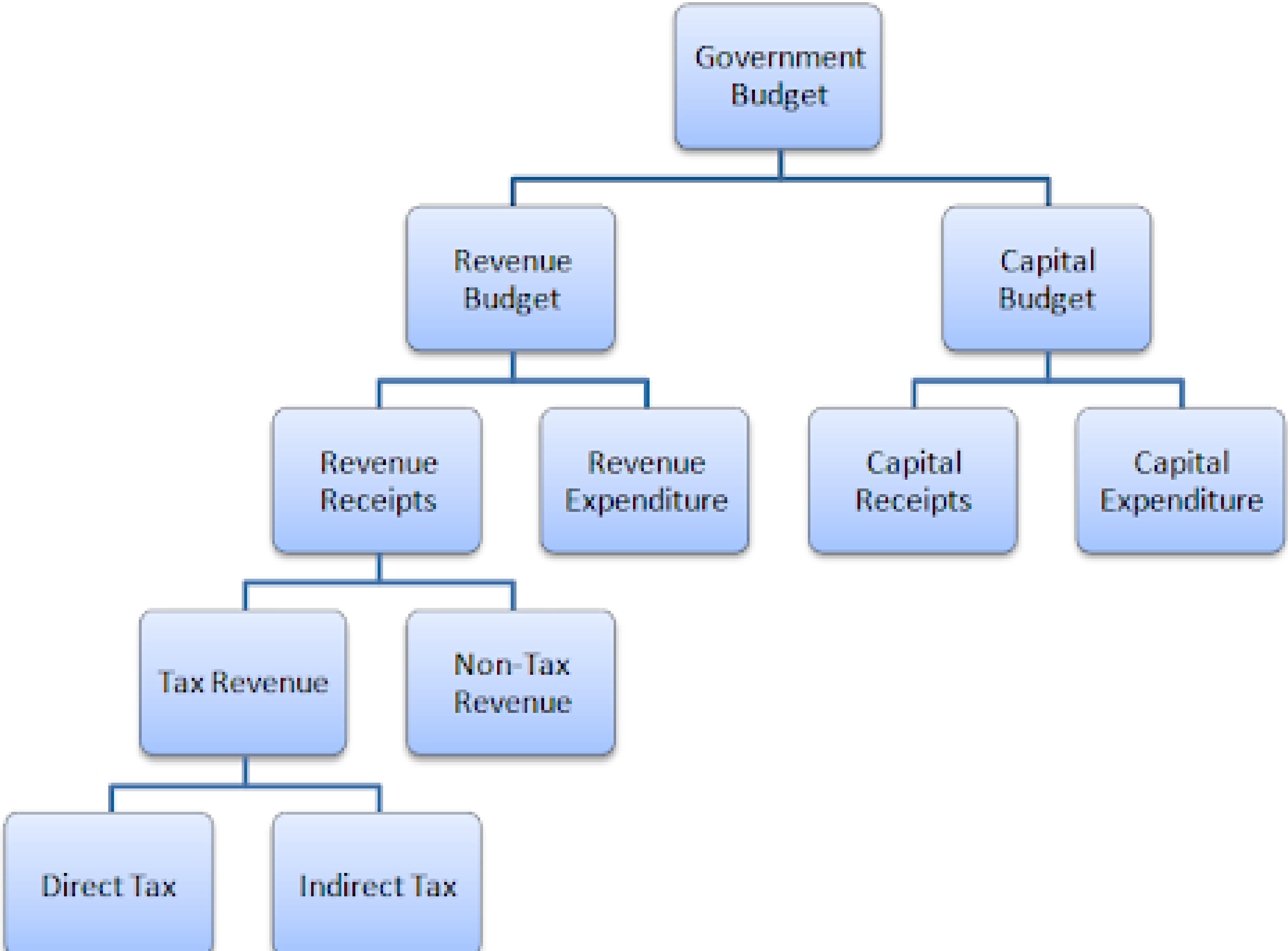
ECONOMIC STABILITY

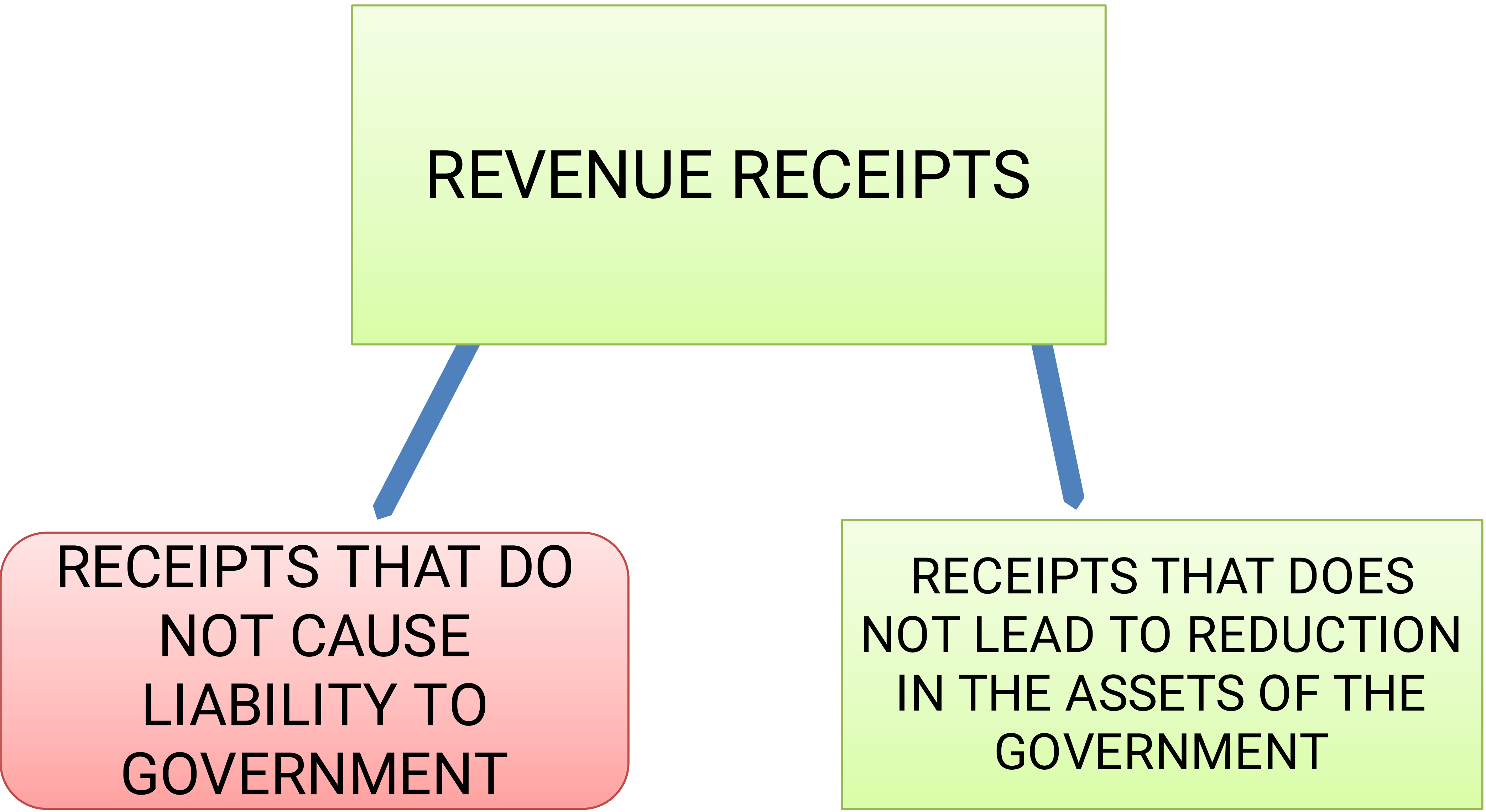
- Economic stability can be achieved by controlling inflation and deflation.
- During inflation, the Government can prepare a surplus budget. Taxes can be increased and expenditure can be reduced. This will reduce money supply and help in controlling inflation.
- During deflation, the Government can prepare deficit budget. Taxes can be reduced and expenditure can be increased. This will increase money supply in the economy.

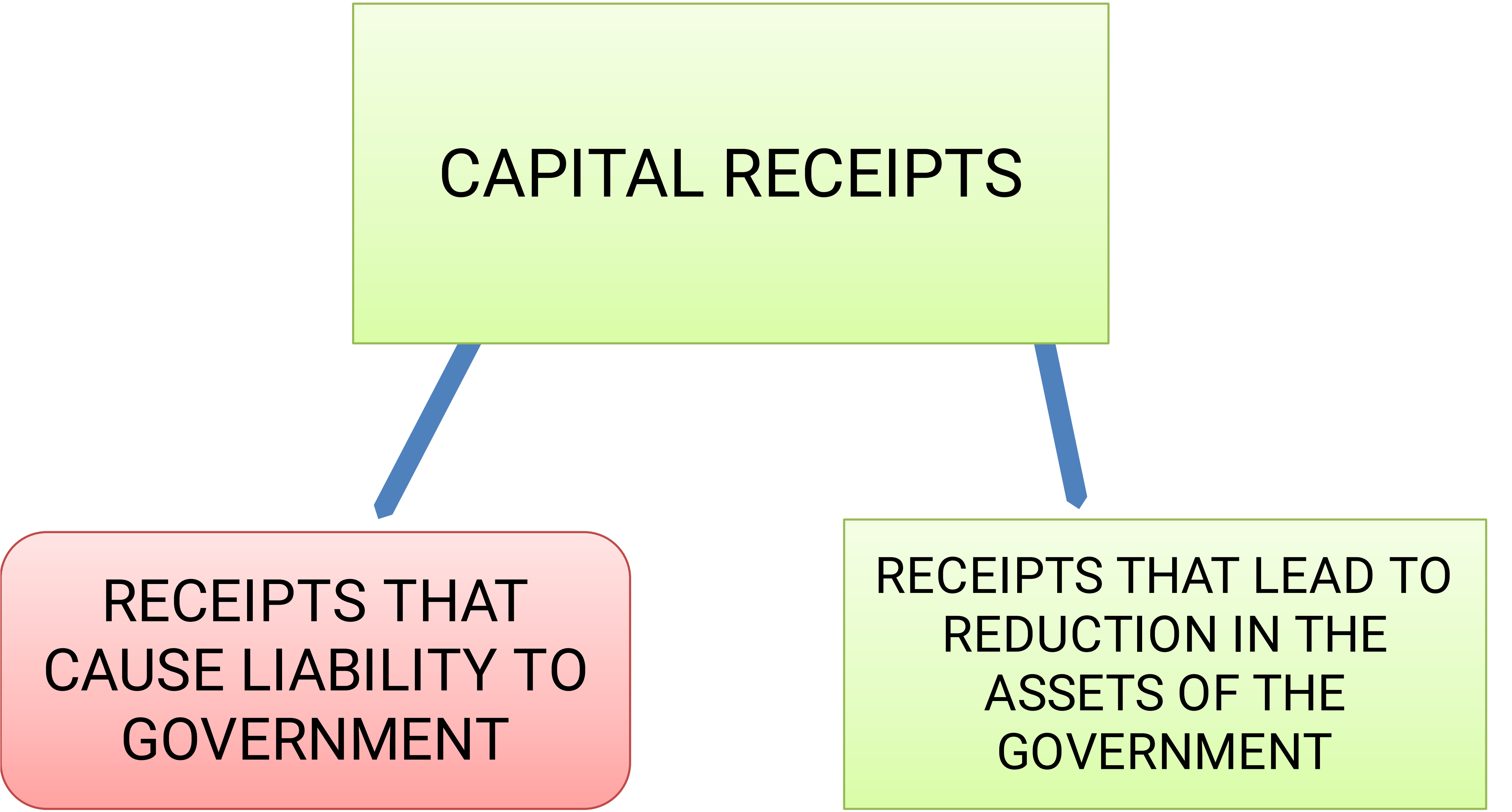
Management of Public Enterprises:

Allocation of funds for the public sector enterprises is done through the budget.

STRUCTURE OF GOVERNMENT BUDGET

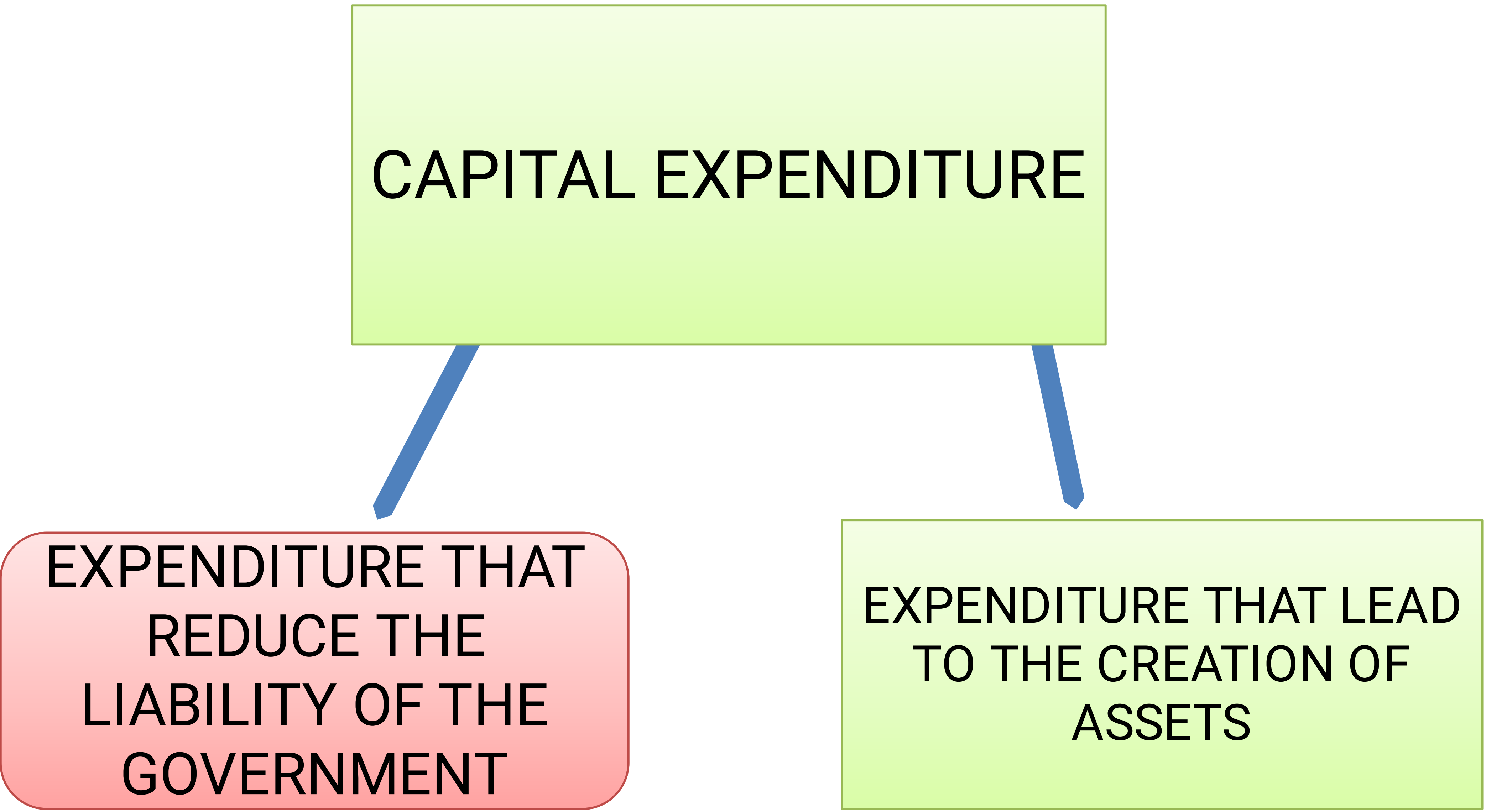



REVENUE RECEIPTS
RECEIPTS THAT DO NOT CAUSE LIABILITY TO GOVERNMENT
RECEIPTS THAT DOES NOT LEAD TO REDUCTION IN THE ASSETS OF THE GOVERNMENT


CAPITAL RECEIPTS
RECEIPTS THAT CAUSE LIABILITY TO GOVERNMENT
RECEIPTS THAT LEAD TO REDUCTION IN THE ASSETS OF THE GOVERNMENT

REVENUE EXPENDITURE

- EXPENDITURE THAT DOES NOT REDUCE THE LIABILITY OF THE GOVERNMENT
- EXPENDITURE THAT DOES NOT LEAD TO THE CREATION OF ASSETS


CAPITAL EXPENDITURE
EXPENDITURE THAT REDUCE THE LIABILITY OF THE GOVERNMENT
EXPENDITURE THAT LEAD TO THE CREATION OF ASSETS

a. Receipts from sale of shares of public sector undertaking.

- It is a capital receipt because it results in the reduction of assets.

b. Borrowing from public

- This is a capital receipt because it increases the liability of the government.

c. Profits of public sector undertakings:

- It is a revenue receipt because profit doesn't create a liability or reduce assets of the government.

e. Disinvestment .

- This is a capital receipt because it reduces the assets of the government.

f. Customs duty.

- It is a revenue to the government. It is a revenue receipt. It does not create a liability. It does not reduce the assets too.

g. Construction of buildings.

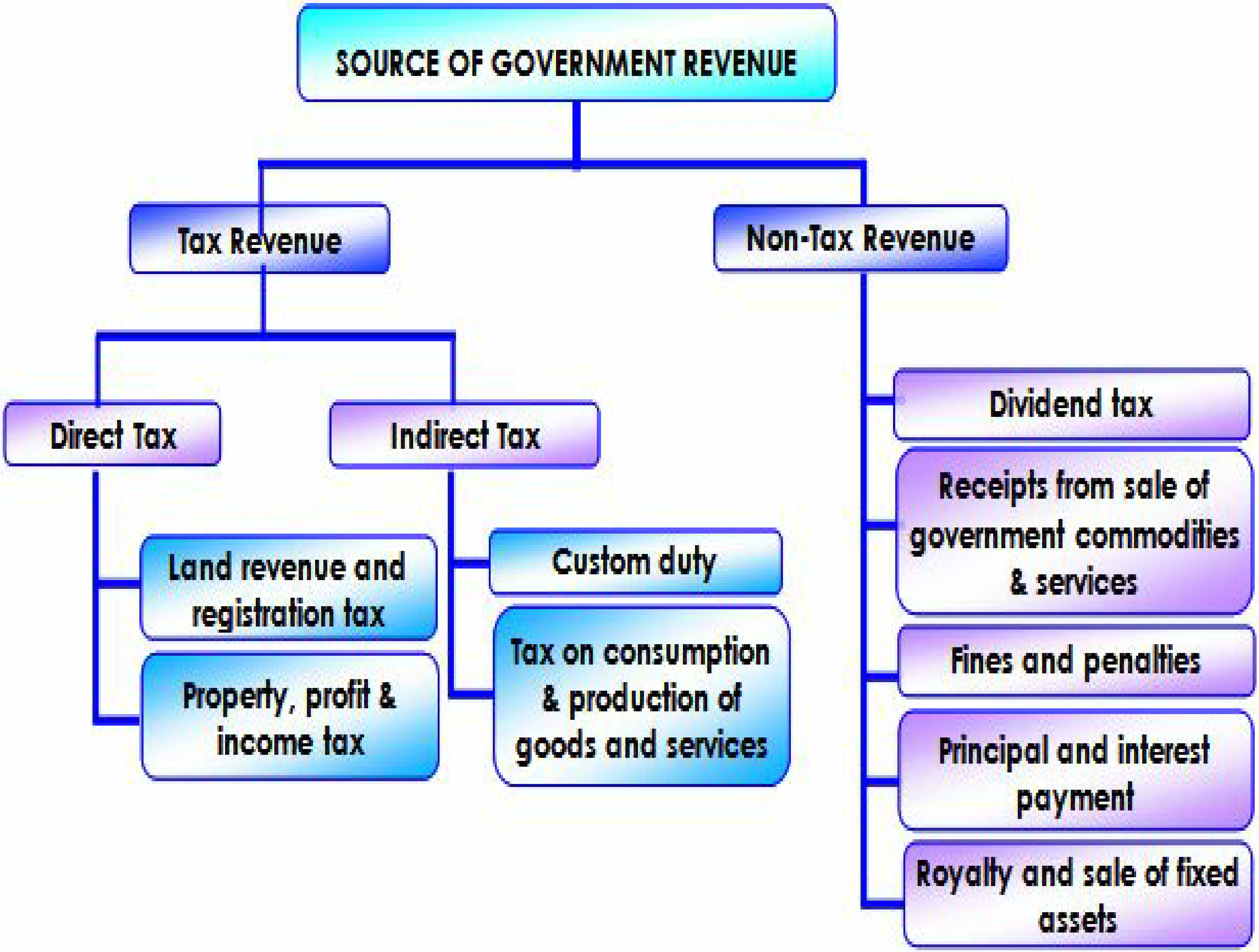
- This creates assets. So it’s a capital expenditure.

h. Interest Payment, subsidies and grants given to states.

- These things do not create assets or reduce the liability. So they come under revenue expenditure.

i. Income tax, Excise duty, Fees and fines.

- These are revenue receipts because these do not create a liability or reduce the assets of the government.


SOURCE OF GOVERNMENT REVENUE
Tax Revenue
Non-Tax Revenue
Direct Tax
Indirect Tax
Land revenue and registration tax
Property, profit & income tax
Custom duty
Tax on consumption & production of goods and services
Dividend tax
Receipts from sale of government commodities & services
Fines and penalties
Principal and interest payment
Royalty and sale of fixed assets

Sources of Public Expenditure.

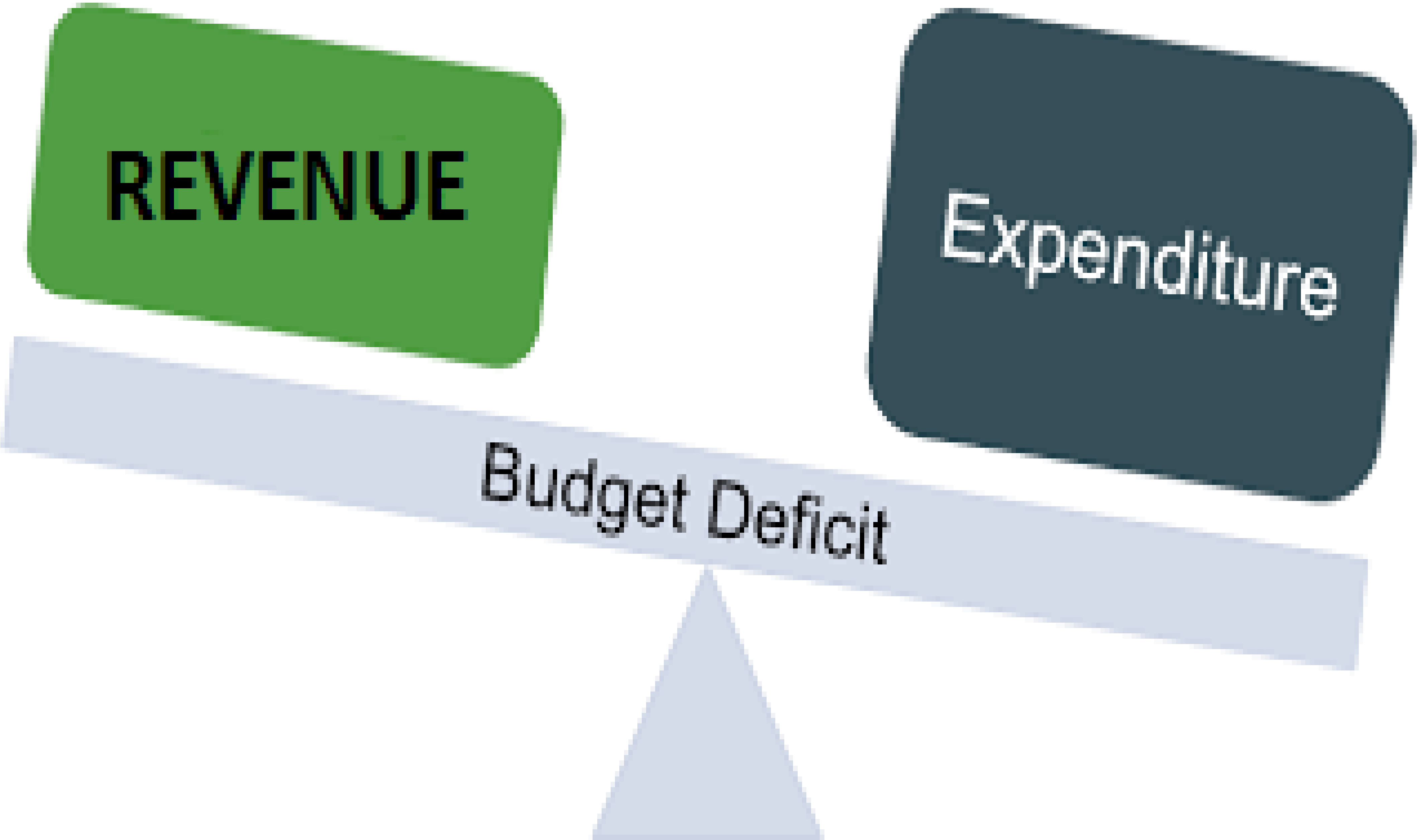
- Public Expenditure refers to the money spend by the Government for various purposes during a financial year.
- *Public Expenditure is classified into Plan and Non-Plan expenditure.*

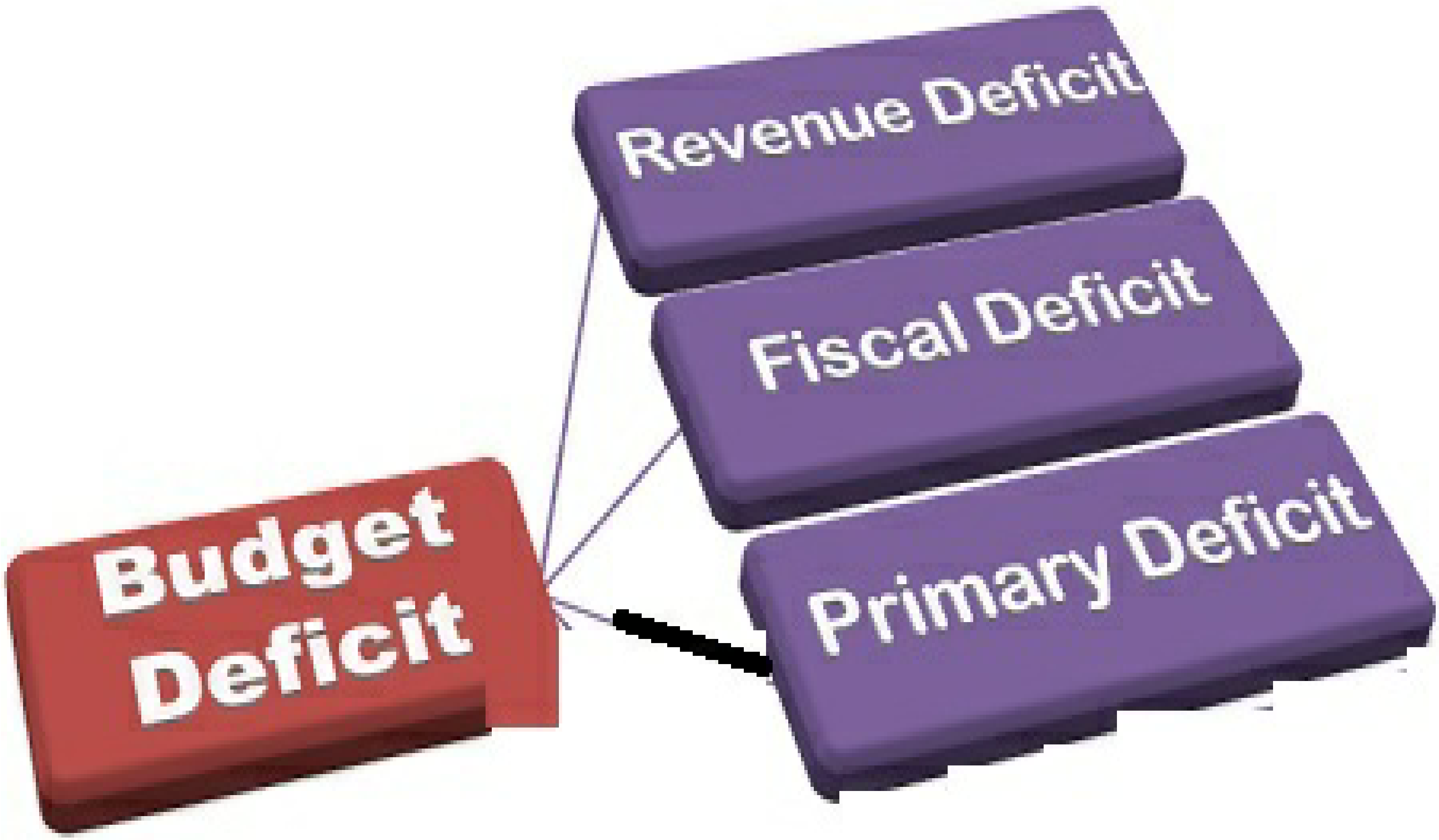
- (i) ***Plan expenditure:*** *It refers to the amount spent on activities included in Five Year* Plans. Thus it shows the central plan allotment for various projects, programmes, schemes and the central assistance for the state and union territories.
- (ii) ***Non-Plan expenditure:*** *It refers to the money spent on the items which are not* included in the five year plan but are included in the budget. Example: Interest payments, defense revenue expenditure, subsidies etc.

- Both Plan expenditure and Non Plan expenditure are divided in to revenue expenditure and capital expenditure.
- They are further divided in to Developmental Expenditure and Non Developmental Expenditure.
- **Developmental expenditure:** It refers to the money spent on those items which are directly related to economic and social development of the economy. For example, expenditure on capital assets, infrastructure, railways, posts etc.

Non-Developmental expenditure: It refers to the money spent on those items which do not contribute to development. Example: defense, interest payments, old age pensions & unemployed allowances etc.

BUDGETARY DEFICIT




Revenue Deficit
Fiscal Deficit
Primary Deficit
Budget Deficit

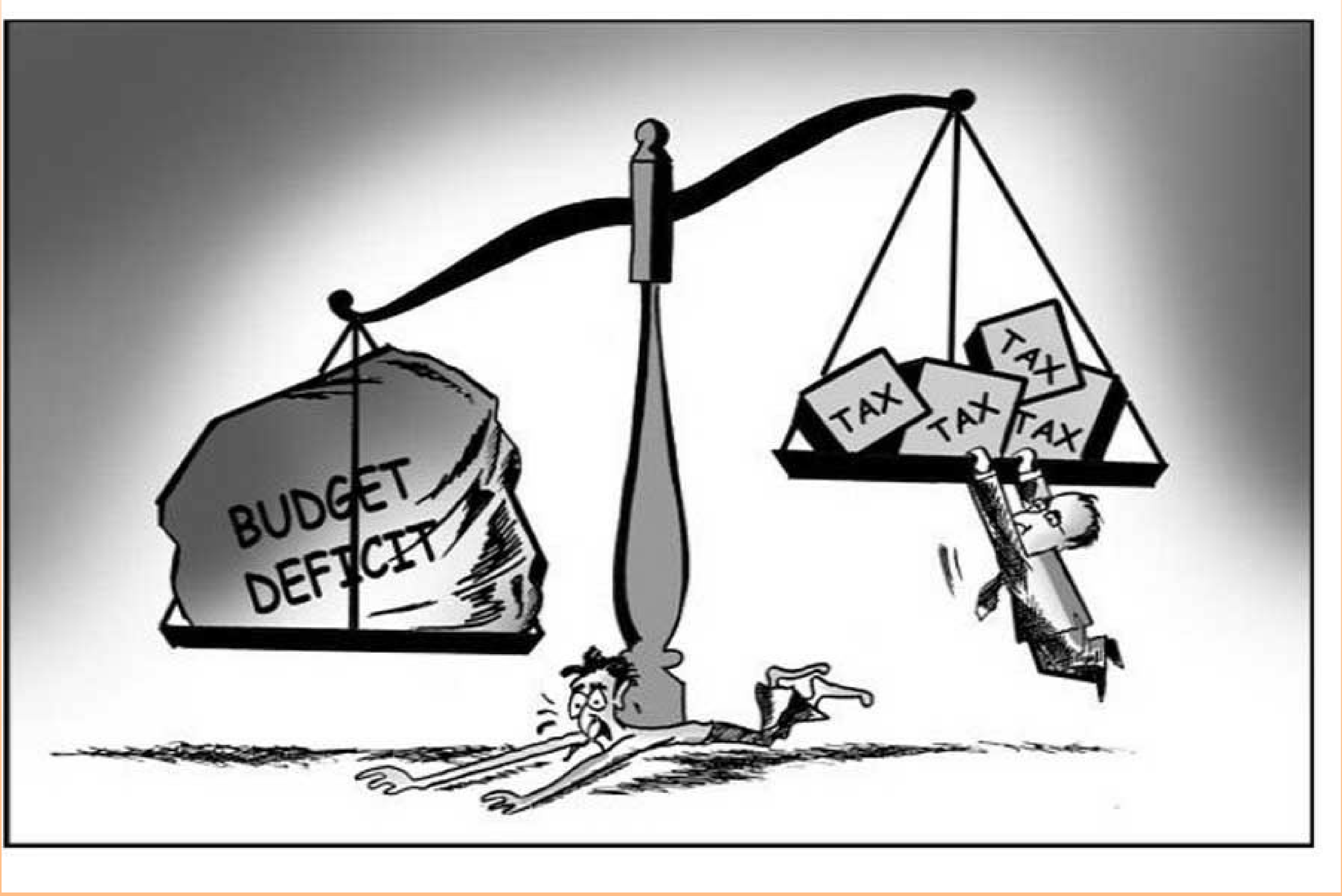
(i) *Revenue deficit: If revenue expenditure is more than revenue receipts, it is called* revenue deficit

(ii) *Fiscal deficit: It refers to the excess of total expenditure over total revenue receipts* and capital receipts excluding borrowings.

(iii) *Primary deficit: It is defined as fiscal deficit less interest payments.*

DEFICIT FINACING

Deficit Financing refers to the financing of the budgetary deficits.



THE SOURCES OF DEFICIT FINANCING ARE :

(i) Expansion in money supply: The Central Bank may print money equal to the deficit against of treasury bills of the Government.

- (ii) Public Borrowings: The Government borrows from the public through market loans. It can also borrow from international agencies.


THANK
YOU