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(iii) at the instance of the Union Ministries, specially the Finance Ministry.

Apart from these direct transfers, resources also flow to states indirectly through.

(a) establishment/expansion of central public sector enterprises, and

(b) distribution of credit by financial institutions under the control of the Central Government.

Government Budget : Meaning and Components

A budget is an annual financial statement of a government. It gives out details of total receipts and total expenditure for a year. More generally, in India, budget of the Union Government (known as the Union Budget) is presented on the last working day of the month of February.

Along with the budget for the next coming year the set of figures relating to government

receipts and, expenditure relating to the preceeding two years are also presented.

Thus, the budget for 2010-11 presented on 28.02.2011 contains data relating to the following years:

- Actual accounts for the year 2008-09.
- Revised estimates for the year 2009-10
- Budget estimates of the year 2010-11.

Components of the Union Budget

The various components of a budget can be divided in two parts, *viz.*,

(i) revenue budget, and

(ii) capital budget.

A revenue budget contains the details of revenue expenditure and revenue receipts of the government. These are in the nature of current expenditure and current income of the government.

A capital budget is a statement of capital receipts and capital expenditure of the government.

The sum total of the revenue budget and the capital budget constitutes the overall budget of the government.

Thus, the sum of revenue receipts and capital receipts constitutes the total receipts of the government. The sum of revenue expenditure and capital expenditure constitutes the total expenditure of the government.

Classification of Receipts and Expenditure

Normally, government receipts are classified in two groups, *viz.*, (i) revenue receipts and (ii) capital receipts.

Government expenditure is normally classified in different categories. Some of these are (i) revenue expenditure and capital expenditure, (ii) developmental expenditure and non-developmental expenditure, and (iii) plan expenditure and non-plan expenditure.

Sources of Receipts in Union Budget

A government can mobilise resources through various sources, to raise revenue receipts and capital receipts. The various sources, with corresponding data from the Union Budget for the year, are tabulated as follows :

Source of Receipts	*(Rs. In Crores)*
A. Revenue Receipts	
A_1 Tax Revenue	
(a) Corporation Tax	
(b) Income Tax	
(c) Customs	
(d) Union Excise Duties	
A_2 Non-tax Revenue	
(a) Interest receipts	
(b) Dividends and Profits	
(c) External grants	
B. Capital Receipts	
(a) Recoveries of loans	
(b) Market borrowings and other lons	
(c) External assistance	
(d) Disinvestment of PSU equity	
C. Overall Receipts (= A + B)	4,38,795

Revenue receipts are those sources of inflow of money which do not create any liability of repayment on government.

For example, government collects revenue by way of taxes. Revenue so raised is not to be returned ever to the tax-payers. Similarly, government owns many production enterprises.

The profits earned by these enterprises form part of the income of the government. These are not to be returned to PSUs.

Capital receipts, on the other hand, constitute those sources of money for the government which involve either of the following two:

- a liability of repayment is created for the government.
- an asset owned by the government is to be sold.

For example, when a government raises money by way of loans and borrowings, a liability of repayment of loans arises. Similarly, when government raises money by way of disinvestment, assets in the form of equity get sold out to private enterprise.

Revenue surplus obtains when the revenue expenditure of the government falls short of the revenue receipts.

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The surplus is used to finance: the expenditure on building up the capital assets in economy. To that extent, the need for fr borrowings is reduced.

Revenue deficit occurs when the rev receipts of the government fall short of revenue expenditure.

The deficit is met by mobilising c receipts. To that extent, capital expenditure economy falls short of the capital receipts.

Heads of Expenditure

In a budget, government expendi presented under different heads as follows

	(Rs. In C
A. Non-plan Expenditure	
A_1 Revenue Expenditure	
(a) Interest payments	
(b) Defence	
(c) Subsidies	
(d) Economic, social and other services	
A_2 Capital Expendture	
(a) Defence capital	
(b) Non-plan capital outlay	
(c) Loans to	
(i) public enterprises	
(ii) states	
(iii) foreign governments	
B. Plan Expenditure	
B_1 Revenue Expenditure	
(a) Central plan	
(b) Central assistance to states	
B_2 Capital Expenditure	
(a) Capital plan	
(b) Central assistance to states	
C. Overall Expenditure (= A + B)	
C_1 Revenue Expenditure (A_1 +	
C_2 Capital Expenditure (= A_2	

Revenue expenditure of govern form of consumption expenditur directly create any capital asset for

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The deficit is met by mobilising capital receipts. To that extent, capital expenditure in the economy falls short of the capital receipts.

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In a budget, government expenditure is presented under different heads as follows :

	(Rs. In Crores)
A. Non-plan Expenditure	......
A_1 Revenue Expenditure	......
(a) Interest payments	......
(b) Defence	......
(c) Subsidies	......
(d) Economic, social and other services	......
A_2 Capital Expendture	......
(a) Defence capital	......
(b) Non-plan capital outlay	......
(c) Loans to	
(i) public enterprises	......
(ii) states	......
(iii) foreign governments	......
B. Plan Expenditure	......
B_1 Revenue Expenditure	......
(a) Central plan	......
(b) Central assistance to states	......
B_2 Capital Expenditure	......
(a) Capital plan	......
(b) Central assistance to states	......
C. Overall Expenditure (= A + B)	......
C_1 Revenue Expenditure ($A_1 + B_1$)	......
C_2 Capital Expenditure (= $A_2 + B_2$)	......

Revenue expenditure of government is in the form of consumption expenditure. It does not directly create any capital asset for the economy.

For example, LPG cylinders are made available to domestic consumers at a price which is less than the per unit cost of production of a cylinder. The difference is borne by the government, and is known as a subsidy. Expenditure on subsidies is a part of the government expenditure. It does not lead to creation of any asset.

The major items on which a government incurs revenue expenditure include :

- subsidies
- interest on government loans,
- public administration,
- defence, and
- other services

- ❑ Capital expenditure is in the form of investment expenditure. It results in creation of assets in the economy. More the capital expenditure, larger the quantity of assets that are created. For example, construction of roads, dams, bridges, flyovers, hospitals, schools, canals, etc. involves government expenditure. The expenditure creates more assets. Ours is a planned economy. Developmental programmes are formulated and implemented as a part of each five-year plan. On each of these programmes and schemes government expenditure is incurred. A provision for this expenditure is made each year in the budget for the year.

Such expenditure as is incurred on the programmes and schemes included in each five-year plan is known as 'plan expenditure'. There are certain programmes and schemes which are formulated and implemented by the government. These programmes do not form part of a five-year plan. Expenditure incurred on these programmes is called non-plan expenditure.

Further, plans provide for creation of some assets, for example, canals. Some expenditure will be incurred on the construction of canals during a plan period. Such expenditure is known as plan expenditure. But after the plan period is over and the canals have been constructed, canals need be regularly maintained. It involves expenditure. Expenditure incurred on the maintenance of canals constitutes non-plan expenditure.

Plan expenditure may be on revenue account; it can also be on capital account.

Similarly, non-plan expenditure may be on revenue account; it can also be on capital account.

Developmental Expenditure and Non-developmental Expenditure

Developmental expenditure includes expenditure incurred under such heads as social and community services and economic services.

Non-developmental expenditure is incurred under such heads as defence, interest payments, subsidies, public administration, etc.

Further, it should be noted that the developmental schemes are included in both revenue and capital budget.

Non-plan expenditure is a generic term. It includes both developmental and non-developmental expenditure. Expenditure on schemes and programmes included in a plan is called plan expenditure. Whereas any expenditure outside the plan, irrespective of the head under which it has been incurred, constitutes non-plan expenditure.

Balanced Budget, Surplus Budget and Deficit Budget

A budget is an annual financial statement of government receipts and expenditure. During a year, government's receipts may be equal to, less than, or more than government's expenditure.

- If receipts are equal to expenditure, we call it a balanced budget.
- If receipts are more than expenditure, we call it a surplus budget.
- If receipts are less than expenditure, we call it a deficit budget.

We know, receipts and expenditure are of two forms, *viz*., (i) revenue, and (ii) capital.

Therefore, we have different concepts of deficits (and surplus) in government budget. Among these concepts, more important are as follows: (i) revenue deficit, (ii) budgetary deficit (iii) fiscal deficit, and (iv) primary deficit.

Revenue deficit obtains when the revenue expenditure of the government exceeds the revenue receipts.

For example, in the Union Budget, we have

	(Rs. In Crores)
● Revenue Receipts	......
● Revenue Expenditure	......
∴ Revenue Deficit	......

Budget deficit will be obtained when the overall expenditure of the government (revenue expenditure + capital expenditure) exceeds overall receipts (revenue receipts + capital receipts)

For example, in the Union Budget, we have

	(Rs. In Crores)
● Revenue Receipts	......
+ ● Capital Receipts	......
= ❑ Total Receipts	......
● Revenue Expenditure	......
+ ● Capital Expenditure	......
= ❑ Total Expenditure	......
	......

It would be seen that in the Union Budget, overall expenditure is equal to overall receipts. It is balanced budget in this sense. Fiscal deficit is calculated as follows :

	(Rs. In Crores)
Revenue Expenditure	
+ Capital Expenditure	......
– Revenue Receipts	......
– Recoveries of loans by the Government	......
– Non-debt creating Capital Recepts	......
	......

In other words,

Fiscal deficit = (Revenue Expenditure + Capital Expenditure) – (Revenue receipts + Reveries of loans by the Government + Non-debt Creating Capital Receipts).

Fiscal deficit as defined above is known as gross fiscal deficit. The net fiscal deficit is the difference between gross fiscal deficit and net lending by the government (net lending = gross loans extended by the government *minus* recoveries of loans).

The gross primary deficit is the difference between the gross fiscal deficit and interest payments made by the government.

The net primary deficit denotes net fiscal deficit *minus* net interest payments (net interest

payments = gross interest payments made by the government *minus* interest receipts of the government).

In the Union Budget,

	(Rs. In Crores)
Fiscal Payments	......
Interest Payments	......
∴ Primary Deficit	......

Disinvestment and Budget

By 'Disinvestment' we mean the sale by the government of equity of public, sector undertakings. By selling this equity the government mobilises money to meet its own expenditure requirements.

The receipts by way of disinvestment are treated as capital receipts in a budget.

Disinvestment helps a government to increase its receipts, and to that extent-it helps in reducing the fiscal deficit.

But disinvestment cannot be recommended as a measure of resource mobilisation. It amounts to the fact that the family is selling its jewels to meet its current consumption requirements.

But in case proceeds from disinvestment are used to finance capital outlays, there may not be much objection to the use of this method.

Interal Debt and External Debt

The outstanding sum of the loans contracted by the government at any point of time from within the economy constitutes its internal debt. On the other hand, the outstanding value of the loans contracted outside the country constitutes the external debt of the government.

Finance of Fiscal Deficit

Fiscal deficit obtains when the revenue receipts plus non-debt creating capital receipts of the government fall short of its overall expenditure.

The deficit is met by raising capital receipts from sources like loans, disinvestment of PSU equity, etc. If any shortfall still persists, it is met by printing of new currency.

Monetised deficit is that part of the fiscal deficit which is met by printing of new currency.

Monetised deficit enables an economy to undertake expenditure on such schemes and programmes which would otherwise be beyond its capability.

Monetised deficit adds to the money stock of the economy. An increase in supply of money results in an increase in the demand for goods and services. Unless this increased demand is matched by an increase in the supply of goods and services there emerge pressure on the general price level. Inflation adversely affects the investment and production activity.

Taxation is an important source of resource mobilisation. But there are clear limitations on this instrument. If the tax rates are raised beyond the taxable capacity of the people, these adversely affect the ability and willingness to save and invest.

Two important limitations of borrowing are as follows:

One, borrowings involve debt servicing that include payment of interest and return of principal amount. Large borrowings may impose unbearable burden.

Two, more important is the use to which the resources are put to. If these are diverted to nonproductive purposes, they fail to generate own means of repayment.

Objectives of Government Budget

Budget is an important instrument at the disposal of a government. Budget is used to achieve many objectives in every economy. Among the various objectives, more important ones can be identified as : (i) mobilisation of resources, (ii) acceleration of economic growth, (iii) minimisation of inequalities of income and wealth, (iv) creation of employment opportunities.

Economic growth implies a sustained increase in real gross domestic product of an economy, *i.e.*, an increase in the volume of goods and services. A budget can be an effective instrument of economic growth in following ways :

- By providing tax rebates and other incentives, it can stimulate savings and investment in the economy.

- A larger provision of public expenditure on infrastructure projects may stimulate production activity in different sectors of the economy.
- The government itself may set up production units; these will add to the production potential and the volume of output.
- Government expenditure generates demand for different types of goods and services. This may work as a stimulant for producers in the private sector.

By balanced regional growth we mean that different regions of the country should record economic growth simultaneously. It would require that the rate of economic growth in backward regions should be faster than in the developed regions.

A budget is an important instrument to promote this pattern of growth:

- Tax concessions, rebates and other fiscal incentives can be provided for investments in backward regions in the country.
- Subsidies can be provided on inputs and outputs of the production units set-up in backward regions.
- Public expenditure on building up of infrastructure in backward regions will promote growth in such regions. This will facilitate mobilisation of goods, services and capital.

Equalities in income distribution primarily require that the rate of growth of real income of the low-income sections of the society should be faster than the rate of growth of the high-income sections of the society.

A budget can be a useful instrument to achieve this goal.

- Tax concessions, excise rebates and similar concessions and incentives can be granted for production of goods of mass consumption; these could be available to poorer sections at lower prices.
- Progressive taxation of income and wealth will help the government to mobilise more resources. These resources can be sent on the social sector in the economy. Free education, medical facilities drinking water, sanitation, transport facilities add to the real income of the poor.
- Tax concessions can be extended for offering job opportunities to weaker sections of the society.
- Liberal grants for employment generating schemes will provide a big help to the poor.

Price stability implies an absence of violent ups and downs in the general price level.

It does not imply that the general price level should remain static. A normal rise in the price level is desirable for economic growth. But there should not be violent fluctuations.

A budget can serve as an instrument to achieve this objective.

- The government can change the tax rates in response to the needs of the economy. For example, an increase in income tax rates would reduce the disposable income, this would cut down the demand for goods and services, and thus prove anti-inflationary.
- Similarly, the tax rates on commodities and services can also be changed in response to the needs of the economy.
- Public expenditure can also serve as an instrument to bring price stability. An increase in public expenditure pumps in more money in the economy while public expenditure sucks in more money. Either way the size of economic activity, and more the general price level gets affected.

Budget is a forceful instrument of economic growth. But a budget's ability to give push and direction to economy growth is limited by a number of factors.

- The most severe constraint arises due to inability of the government to mobilise financial resources. This may be primarily due to the factors like :
- Tax rates cannot be raised beyond a point. High tax rates have adverse effects on production, consumption, saving and investment.
- High tax rates may also distort production structure; production of high value-added goods that cater to high income groups may come to replace the production of mass consumption goods.