

GOVERNMENT BUDGET AND THE ECONOMY

Dr. Navendu Shekhar
Deptt. of Economics

Government budget is the annual statement of the estimates of receipts and expenditure during a fiscal year (1st April -31st March)

FEATURES

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- It is an estimate and not an actual statement
- It is prepared annually

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- It is constitutional requirement to present budget before Parliament
- Revenue and Expenditures are planned according to objectives of Government

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- Budget impacts the economy through aggregate fiscal discipline and resource allocation

OBJECTIVES

REALLOCATION OF RESOURCES

The govt. can influence by influencing market mechanism through

- * heavy taxes on harmful products,
- * subsidies on essential products and direct * participation in production normally ignored by private sectors due to lack of profits

RE-DISTRIBUTION OF INCOME AND WEALTH

Govt. aims to influence distribution of income by imposing taxes on the rich

Spending more on the welfare of the people

ECONOMIC STABILITY

Policies of surplus budget during inflation by reducing its own expenditure

Deficit budget during deflation by increasing its expenditure and give tax concessions & subsidies

MANAGEMENT OF PUBLIC ENTERPRISES

There are large number of public sector established for social welfare. budget is prepared to provide them financial help

ECONOMIC GROWTH

To accelerate of economic growth:
Govt. may grant tax concessions on productive activities

Govt. may develop infrastructure and establish public enterprises

BALANCED REGIONAL DEVELOPMENT

Govt. may promote development activities in backward areas for balace regional development

It reduce regional disparities through taxation and expenditure policy for encouraging setting production units in economically backward areas

COMPONENTS OF THE BUDGET

**TAX REVENUE-DIRECT TAXES
INDIRECT TAXES**

- 2. NON TAX REVENUE**
- 1. INTEREST RECEIPTS
 - PROFITS & DIVIDENDS
 - FEES & FINES
 - SPECIAL ASSESSMENT
 - ESCHEATS
 - GIFTS & GRANTS

- 1. INTEREST PAYMENTS
- 2. GRANTS & SUBSIDIES
- 3. WAGES & SALARIES
- 4. EXPENDITURE ON EDUCATION & HEALTH
- EXP. ON DEFENCE

REVENUE
RECEIPTS

REVENUE
EXPENDITURE

CAPITAL
RECEIPTS

CAPITAL
EXPENDITURE

- 1. RECOVERY OF LOANS
- 2. DISINVESTMENT OF SHARES & PUBLIC ENTERPRISES
- 3. LOANS & BORROWING
- 1. DOMESTIC 2. FOREIGN

- EXP. ON CONSTRUCTIONS BUILDING, ROADS
- EXP. ON MACHINERY & EQUIPMENTS
- 3. EXP. ON PURCHASING OF SHARES
- 4. LOANS TO STATE & FOREIGN GOVT.
- 5. REPAYMENTS OF LOANS

Differences between revenue receipts and capital receipts

REVENUE RECEIPTS

- 1. Neither creates any liability nor reduce any assets of the government
- 2. these receipts are regular and recurring in nature
- 3. there is no future obligation to return the amount
- Eg. Tax receipts and non-tax receipts

CAPITAL RECEIPTS

- 1. either creates any liability or reduce any assets of the government
- 2. they are irregular and non-recurring in nature
- 3. there can be future obligation to return the amount along with interest
- Eg, borrowings, disinvestments etc.

Differences between Revenue expenditure and Capital expenditure

REVENUE EXPENDITURE

- 1. Neither creates any assets nor reduce any liabilities of the government.
- 2. It is incurred for normal functioning of the govt.
- 3. It is recurring in nature
- 4. eg. Payments of salary , pension , interest , etc .

CAPITAL EXPENDITURE

- 1. Either creates an assets or reduces liability of the govt.
- 2. It is incurred mainly for acquisition of assets and granting of loans and advances.
- 3. It is non –recurring in nature.
- 4 eg. repayments of borrowings, expenditure on acquisition of capital assets

OTHER TYPE OF PUBLIC EXPENDITURE

DEVELOPMENT & NON-DEVELOPMENT EXPENDITURE

- **DEVELOPMENT EXPENDITURE**
- **It refers to expenditure on activities which are directly related economic and social development**
- Expenditure. on education ,health , agriculture & industrial ,rural development , social welfare
- It relates to growth &development of the country

- **NON-DEVELOPMENT EXPENDITURE**
- **It refers to expenditure incurred on essential general services of the government**
- Expenditure on Defence , general administration
- Interest payments , tax collection, subsidies on food etc.
- It does not contribute directly to National Income
- It helps indirectly in the process of economic development

PLAN EXPENDITURE &NON-PLAN EXPENDITURE

- **PLAN EXPENDITURE**
- **It refers to that expenditure which is provided in the budget to be incurred by the government to fulfil its planned development programmes**
- It is within the scope of government . plans
- e g .exp. On rural development road , bridges etc.

- **NON-PLAN EXPENDITURE –**
- **This refers to all govt. exp. Which are provided in the budget on routine functioning of the govt.**
- It is out of scope of govt. plans.
- E g . Expenditure . on relief to the earthquake victims , flood victims etc.