Classification of Government Expenditure

Plan Expenditure incurred on various projects and programmes covered under the current five-year plan, - Exp. incurred on agriculture, rural development etc.

Non-plan expenditure covers all expenditures other than the expenditure related to the current five-year plan, Ex - Exp. incurred on items other than development programmes covered under the plan.

Revenue expenditures are all those expenditures which do not create any physical or financial assets or do not reduce liabilities. Ex: Exp. incurred to maintain general services of the govt. like defence.

Capital Expenditures are those expenditures of the govt. which lead to creation of physical or finalcial assets or reduction of liabilities. Ex - Exp. incurred on acquisition of assets.

Expenditures incurred on activities which are directly related to economic and social development of the country are called developmental expenditures. Ex - Exp. incurred on agricultural sector.

Non-developmental expenditures are those expenditures which are incurred in providing essential general services by the government.

Ex - Expenditures incurred on defence and administrative services.

GOVERNMENT BUDGET

Capital receipts are classified into the following heads :-

1. Recovery of Loans & Advances.
   - recoveries of loans and advances made by the central government to state and union territories govt., foreign govt. public sector enterprises etc.
2. Market Loans. - These Loans are floated by the government in the money and capital markets.
3. Special deposits - Relate to investment with the government by non-govt. provident funds, gratuity funds, etc.
4. Small savings - consist of post office savings accounts, time deposits and recurring deposits etc.
5. Provident Funds :- Receipts under this head relate to state provident funds and public provident funds.

External Assistance - shows loans received from foreign countries and international org. such as - world Bank, Asian Development Bank etc.

Disinvestment Proceeds - Disinvestment means selling of the shares of the public sector enterprises.

Revenue receipts.

1. Receipts from Tax Revenue.
   - (i) Taxes on Income.
   - (ii) Corporation Tax.
   - (iii) Customs Duties.
   - (iv) Central (Union) Excise Duties.
   - (v) Service Tax.
   - (vi) GST. (value added Tax).
2. Receipts from Non-Tax Revenue.
   - (i) Interest Receipts.
   - (ii) Dividends and profits.
   - (iii) Revenue from services provided by the Govt.
   - (iv) Grants-in-aid.

GOVERNMENT BUDGET

Components of Government Budget :-

(1) Revenue Budget

Revenue Budget shows revenue receipts of the Govt. and the expenditures met from these revenue receipts.

(2) Capital Budget -

Capital Budget comprises capital receipts and capital expenditures of the government. It shows capital requirements of the government and financing of these expenditures.

Revenue Budget consists of -

(a) Revenue receipts of the government are all those receipts which are non-redeemable.

(b) Revenue expenditures relate to expenditures incurred by the government on day-to-day normal functioning of the govt. and interest payment on govt. debts.

Capital Budget consists of -

Capital receipts are the receipts of the govt. which create liabilities or reduce assets of the govt.

Capital expenditures are those expenditures of the govt. which lead to creation of physical and financial assets or reduction of financial liabilities.

Plan Budget-

The plan Budget is a document which shows the budgetary provisions for important projects, programmes and schemes included in the central plan of the country.

Performance Budget-

These performance Budgets present the main projects, programmes and activities of the government in the light of the specific objectives and assessment of the previous years' budgets and achievements.

Supplementary Budget-

Budget estimates of the coming year are based on future forecasts with regard to revenue and expenditure. It is not always possible to foresee and provide for all emergencies such as war or natural calamities or political instability, which may necessitate extra expenditure.

Zero based budget.

Zero based budget is defined as the budgetary process which requires each ministry/department to justify its entire budget request in detail. It is a system of budget in which all government expenditures must be justified for each new period.

Types of Government Budget in India:

Union Budget

Union budget is the budget prepared by the Central government for the country as a whole.

Till 2016, the budget was presented in two parts, namely Railways Budget and the General Budget.

Railways budget showed the details of the estimated receipts and proposed expenditures and disbursements by the Railway Ministry with regard to Indian Railways only.

The General Budget showed the financial plan for the entire economy, describing in detail the estimated receipts and proposed expenditures for the economy as a whole. The totals of the receipts and expenditures of the Railways were incorporated in the budget statement of the Government of India.

State Budget In India, we have the federal system of government with the Union (or the central) government for the whole country and state governments for different parts of the country. So, state budget refers to the budgets prepared for ~~of~~ individual states.

(iv) Instrument of Economic policy –
It is not merely an exercise in revenue raising and planning expenditure, but it is a powerful instrument for implementing various economic and social objectives of the govt.

(v) Index of govt. functioning :-
A proper planning with regard to its revenue and expenditure reflects the efficiency of the govt.

(vi) Public Accountability – It serves the purpose of public accountability of funds. Parliament also exercises control over the govt. expenditures through various committees – Public Accounts Committee, the Estimates Committee and the Committee on public undertakings.

(vii) Allocation of Resources –
Budgetary policy can be used to allocate resources in accordance with the economic and social priorities of the economy.

Economics

Government Budget

The budget of the government is an annual financial statement describing in detail the estimated receipts and proposed expenditures and disbursements of the government under various heads for the financial or fiscal year (1st April to 31st March).

Need and Importance of Government Budget.

(i) Planned Approach to Government's Activities.
- There has to be a definite planning with regard to the estimated revenue and proposed expenditure for the proper conduct of the government activities.

(ii) Integrated Approach to Fiscal operations.
- The govt. cannot take decisions regarding taxation, borrowings, expenditures and other fiscal measures at random. All these decisions and policies are interconnected and they must form a part of the overall set of objectives which the government wants to pursue.

(iii) Affecting Economic Activities - such as the level and structure of taxes influence the allocation of resources among various sectors as well as distribution of income among different classes.

This Sanction of Parliament for the withdrawal of money by the govt. from the Consolidated Fund of India to meet its expenses till the budget is finally approved was known as vote-on-account.

Questions of Government Budget.

1) Define Budget.
2) Discuss the importance of Government Budget.
3) Explain the following Budget.
(a) Union Budget.
b) Supplementary Budget.
c) Zero based Budget.
4) Define Revenue Budget.
5) Mention various sources of revenue receipts.
6) Distinguish between:
(a) Plan & Non Plan Expenditures.
(b) Developmental and Non-Developmental Expenditures.
7) Define fiscal deficits. State its implications.
8) Define vote - on - account.

Balanced Budget → Receipts = Expenditures

Deficit Budget → Receipts < Expenditure

Surplus Budget → Receipts > Expenditure

Measures of Govt. Deficit

Revenue deficit
= Revenue Expenditure − Revenue Receipts.
(Excess of revenue expenditure over its revenue receipts).

implications

i) It indicates the govt.'s current financial status. It mean disgaving in govt account.

ii) Higher borrowings put pressures on revenue exp. in the form of interest payments.

Fiscal deficit
Total Budgetary Exp − Revenue Receipts − Capital Receipts (Excluding Borrowings)

implications

(i) High fiscal deficit leads to wasteful & unnecessary exp. by the govt.

(ii) It lead to inflationary pressure in the economy.

Primary deficit
Fiscal deficit − Interest Payments

implications

(i) It indicates the real position of the govt. finances as it excludes the interest burden in respect of loans taken in the past.

1)
2)
3)
(a)
b)
c)
4)
5)
6)
(7)
(8)