

- Government Budget and the Economy

## Government Budget and the Economy

The government budget is a financial statement presenting the government's estimated receipts and expenditures for a fiscal year. It is a constitutional requirement in India under Article 112. The budget serves as a plan for resource allocation, income distribution, economic growth, employment generation, and management of public enterprises.

### Objectives of Government Budget

- **Encouragement to Economic Development:** Promoting growth in real per capita income and improvements in living standards.
- **Balanced Regional Development:** Ensuring equitable growth across different regions.
- **Redistribution of Income and Property:** Reducing inequalities through fiscal measures.
- **Economic Stability:** Maintaining price stability and controlling inflation.
- **Generation of Employment:** Creating job opportunities through government spending.
- **Management of Public Enterprises:** Efficient operation and control of government-owned businesses.

### Components of Government Budget

#### Revenue Budget

Shows revenue receipts and revenue expenditures related to the current financial year.

## Revenue Receipts

These do not reduce government assets nor create liabilities.

- **Tax Receipts:** Compulsory contributions without direct returns, used for social and development work.
- *Direct Taxes:* Paid by the person on whom imposed (e.g., income tax, property tax).
- *Indirect Taxes:* Levied on goods and services; burden can be shifted to consumers (e.g., GST, VAT).
- **Non-tax Receipts:** Fees, fines, grants, and other non-tax sources.

## Revenue Expenditure

Expenditure related to the current year that neither increases assets nor reduces liabilities, such as salaries and interest payments.

## Capital Budget

Shows capital receipts and capital expenditures.

### Capital Receipts

These either create liabilities (e.g., government loans) or reduce assets (e.g., disinvestment).

### Capital Expenditure

Expenditure that increases assets or reduces liabilities, such as infrastructure development or loan repayments.

## Types of Budgets

- **Balanced Budget:** Total expenditure equals total revenue.
- **Deficit Budget:** Total expenditure exceeds total revenue.
- **Surplus Budget:** Total revenue exceeds total expenditure.

## Types of Deficits and Their Calculations

Deficits measure the gap between government expenditure and receipts.

- **Revenue Deficit:** Revenue Expenditure - Revenue Receipts.
- **Fiscal Deficit:** (Revenue Expenditure + Capital Expenditure) - (Revenue Receipts + Capital Receipts excluding borrowings).
- **Primary Deficit:** Fiscal Deficit - Interest Payments.

## Example of Deficit Calculations

| Particulars                             | Amount (₹ crore) |
|---|------------------|
| Revenue Receipts (Tax + Non-tax)        | 1,100            |
| Capital Receipts (excluding borrowings) | 1,000            |
| Revenue Expenditure                     | 1,200            |
| Capital Expenditure                     | 1,000            |
| Interest Payment                        | 100              |

Calculations:

- Revenue Deficit =  $1,200 - 1,100 = ₹100$  crore
- Fiscal Deficit =  $(1,200 + 1,000) - (1,100 + 1,000) = ₹100$  crore (Note: Borrowings excluded)
- Primary Deficit = Fiscal Deficit - Interest Payment =  $100 - 100 = ₹0$  crore

## Measures to Correct Different Deficits

- **Raising Government Revenue:** Increasing tax collection and non-tax revenues.
- **Monetary Expansion or Deficit Financing:** Borrowing from the central bank to finance deficits.
- **Borrowing from General Public:** Issuing government securities.
- **Disinvestment:** Selling government shares in public sector units to private entities.
- **Lowering Government Expenditure:** Reducing non-essential spending.

## Glossary

- **Budget:** A financial plan of government receipts and expenditures.
- **Fiscal Deficit:** The excess of total expenditure over total receipts excluding borrowings.
- **Revenue Deficit:** The shortfall of revenue receipts from revenue expenditure.
- **Primary Deficit:** Fiscal deficit minus interest payments.
- **Disinvestment:** Selling government assets to private sector.
- **Direct Tax:** Tax paid directly by the individual or firm.
- **Indirect Tax:** Tax on goods and services, passed on to consumers.

## Practice Set

### Level 1 – Easy

- Define government budget and list its main objectives.
- Differentiate between revenue receipts and capital receipts with examples.

### Level 2 – Moderate

- Calculate revenue deficit, fiscal deficit, and primary deficit given the following data: Revenue Receipts: ₹800 crore, Capital Receipts (excluding borrowings): ₹500 crore, Revenue Expenditure: ₹900 crore, Capital Expenditure: ₹600 crore, Interest Payment: ₹100 crore.
- Explain the difference between direct and indirect taxes with examples.

### Level 3 – Challenging

- Discuss the impact of a deficit budget on economic growth and price stability.
- Evaluate the measures a government can take to reduce fiscal deficit and their possible economic consequences.

## Answer Key

### Level 1

- **Government Budget:** A financial statement showing estimated receipts and expenditures for a fiscal year.
- **Objectives:** Economic development, balanced regional growth, income redistribution, economic stability, employment generation, and management of public enterprises.
- **Revenue Receipts:** Tax receipts (e.g., income tax), non-tax receipts (e.g., fees).
- **Capital Receipts:** Loans, borrowings, disinvestment proceeds.

### Level 2

- **Revenue Deficit:**  $900 - 800 = ₹100$  crore.
- **Fiscal Deficit:**  $(900 + 600) - (800 + 500) = 1,500 - 1,300 = ₹200$  crore.
- **Primary Deficit:**  $200 - 100 = ₹100$  crore.
- **Direct Tax:** Paid by the person taxed (e.g., income tax).
- **Indirect Tax:** Tax on goods/services passed to consumers (e.g., GST).

### Level 3

- **Deficit Budget Impact:** Can stimulate economic growth by increasing government spending but may cause inflation if excessive.
- **Measures to Reduce Fiscal Deficit:** Increasing revenue, reducing expenditure, borrowing, disinvestment; each has trade-offs like inflation risk or reduced public services.

## Quick Reference

- Budget = Revenue Budget + Capital Budget
- Revenue Deficit = Revenue Expenditure - Revenue Receipts
- Fiscal Deficit = (Revenue + Capital Expenditure) - (Revenue + Capital Receipts excluding borrowings)
- Primary Deficit = Fiscal Deficit - Interest Payments

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