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शक्तिउत्थानआश्रमलखीसरायबिहार

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Revision Notes

Government Budget And Its Related Concepts

1. A government budget is an annual financial statement showing item wise estimates of expected revenue and anticipated expenditure during a fiscal year.
2. Budget has two parts:
(a) Receipts; and (b) Expenditure.
3. Objectives of budget:
(a) Activities to secure a reallocation of resources:
(i) Private enterprises always desire to allocate resources to those areas of production where profits are high.
(ii) However, it is possible that such areas of production (like production of alcohol) may not promote social welfare.
(iii) Through its budgetary policy the government of a country directs the allocation of resources in a manner such that there is a balance between the goals of profit maximisation and social welfare.
(iv) Production of goods which are injurious to health (like cigarettes and whisky) is discouraged through heavy taxation.
(v) On the other hand, production of “socially useful goods” (like electricity, ‘Khadi’) is encouraged through subsidies.
(vi) So, finally government has to reallocate resources in accordance to social and economic considerations in case the free market fails to do or does so inefficiently.
(b) Redistributive activities:
(i) Budget of a government shows its comprehensive exercise on the taxation and subsidies.
(ii) A government uses fiscal instruments of taxation and subsidies with a view of improving the distribution of income and wealth in the economy.
(iii) A government reduces the inequality in the distribution of income and wealth by imposing taxes on the rich and giving subsidies to the poor, or spending more on welfare of the poor.
(iv) It reduces income of the rich and raises the living standard of the poor, thus, leads to equitable distribution of income.
(v) Expenditure on special anti poverty and employment schemes will be increased to bring more people above poverty line.
(vi) Public distribution system should be inferred so that only the poor could get foodgrains and other essential items at subsidised prices.
(vii) So finally, Equitable distribution of income and wealth is a sign of social justice which is the principal objective of any welfare state in India.
(c) Stabilising activities:
(i) Free play of market forces (or the forces of supply and demand) are bound to generate trade cycles, also called business cycles.
(ii) These refer to the phases of recession, depression, recovery and boom in the economy. (Hi) The government of a country is always committed to save the economy from
business cycles. Budget is used as an important policy instrument to combat(solve) the situations of

deflation and inflation.
(iv) By doing it the government tries to achieve the state of economic stability.
(v) Economic stability leads to more investment and increases the rate of growth and development.
(d) Management of public enterprises:
(i) A government undertakes commercial activities that are of the nature of natural monopolies; and which are established and managed for social welfare of the public.
(ii) A natural monopoly is a situation where there are economies of scale over a large range of output.
(iii) Industries which are potential natural monopolies are railways etc.
4. Importance of a budget:
(a) Today every country aims at its economic growth to improve living standard of its people. Besides, there are many other problems such as poverty, unemployment, inequalities in incomes and wealth etc. Government strives hard to solve these problems through budgetary measures.
(b) The budget shows the fiscal policy. Itemwise estimates of expenditure discloses how much and on what items, the government is going to spend. Similarly, itemwise details of government receipts indicate the sources from where the government intends to get money to finance the expenditure.
In this way budget is the most important instrument in hands of governments to achieve their objectives and there lies the importance of the government budget. Note: Fiscal year is the year in which country's budgets are prepared. Its duration is from 1st April to 31st March.
5. Types of budget: It may be of two types:
(a) Balanced Budget (b) Unbalanced Budget
Let us discuss them in detail:
(a) Balanced Budget: If the government revenue is just equal to the government expenditure made by the general government, then it is known as balanced budget.

Balanced Budget = Estimated Govt. Receipts = Estimated Govt. Expenditu

(b) Unbalanced Budget: If the government expenditure is either more or less than a government receipts, the budget is known as Unbalanced budget.
It may be of two types:
(i) Surplus budget (ii) Deficit budget
Let us discuss them in detail:
(i) Surplus Budget: If the revenue received by the general government is more in comparison to expenditure, it is known as surplus budget.
In other words, surplus budget implies a situation where government income is in excess of government expenditure.

Surplus Budget = Estimated Govt. Receipts > Estimated Govt. Expenditur

(ii) Deficit Budget: If the expenditure made by the general government is more than the revenue received, then it is known as deficit budget.
In other words, in deficit budget, government expenditure is in excess of government income.

Deficit Budget = Estimated Govt. Receipts < Estimated Govt. Expenditu