“Classification of Public Budget”

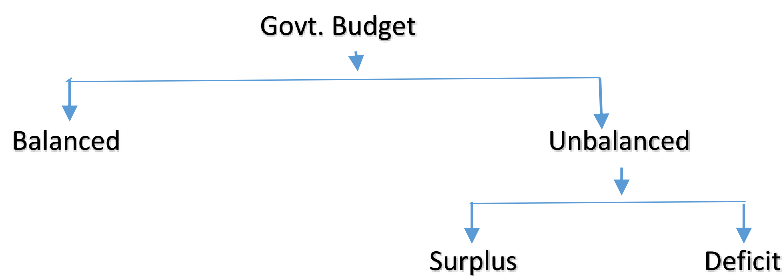
For B.A. 6th Semester
Economics (Major)
Paper – 6.1

Aparna Sengupta
Associate Professor
HOD, Department of Economics.

Balanced and Unbalanced Budget

A govt. budget is an annual financial statement which outlines the estimated Govt. expenditure and expected Govt. receipts or revenues for the forthcoming fiscal year.

Depending on the feasibility of these estimates, Budgets are of two types – Balanced Budget and Unbalanced Budget.



Balanced Budget: -Govt. Budget is said to be a balanced budget if estimated Govt. receipts are equal to the estimated Govt. expenditure.
Balanced Budget → Budget Receipts = Budget Expenditure.

Merits: -

1) Balanced Budget, an ideal approach to achieve a balanced economy and maintain fiscal discipline.
2) It does not indulge in wasteful expenditure.

Demerits: -

1) Not applicable for a developing country like India or less developed countries. In such countries, the Government should have more expenditures (than revenue) which will raise aggregate demand.
2) Restricts the Govt. from spending on Public welfare.
3) Cannot secure full employment.
4) Not effective during war and emergency, e.g. during depression it cannot solve unemployment problem.
5) Cannot tackle inflation or deflation.

Balanced Budget multiplier defined as the ratio of increase in income to increase in Government expenditure financed by taxes.

Its value is always equal to unity

$$\frac{\Delta Y}{\Delta G} + \frac{\Delta Y}{\Delta T} = 1$$

Unbalanced Budget:-

Govt. budget is said to be an unbalanced budget if Government receipts are not equal to expenditures of the Govt. It is of two kinds:

a) **Surplus Budget**:- If estimated Government receipts are more than the estimated Govt. expenditure, then the budget is termed as 'Surplus Budget'. It lowers aggregate demand. **Government expected revenue > Government proposed expenditure**.

b) **Deficit Budget**: - If estimated Government receipts are less than the estimated Government expenditure, then the budget is termed as 'Deficit Budget'.
Government's estimated Revenue < Government proposed Expenditure.

Merits: -

1) In underdeveloped countries deficit budget is used for financing planned development and in advanced countries it is used as stability tool to control business and economic functions.
2) In developing countries like India, for promoting economic growth deficit budget is the only option.
3) When there is too much inflation, the Govt. can adopt the policy of surplus budget as it will reduce aggregate demand.
4) Deficit budget is a good policy to control recession when an economy is in an under employment equilibrium level.

Demerits: -

1) When receipts not equal to expenditure is a liability of the Govt.
2) In modern times it is virtually impossible to have a Surplus Budget and Deficit Budget can encourage imprudent expenditures by the Government.
3) Deficit Budget increases burden on the Government by accumulating debts.

From the above discussion it follows that the Govt. should live within its means and annually balance its budget is the fiscal policy objective, but to promote economic growth and development, Govt. often adopts Unbalanced Budget (specially Deficit Budget) as a virtue.