savings, provident fund etc. This fund does not belong to the government and comes under the public account. To make the payment out of this fund, no sanction of the Parliament or state legislature is required.

☐ TYPES OR CLASSIFICATION OF BUDGET

The types or classification of budget has been discussed as under :

1. Revenue and Capital Budget

The budget is divided into two accounts current (revenue) and capital accounts in many countries. The revenue (current) budget is related with current financial transaction of the government which are of recurring nature. Capital budget is related to such transactions as are related to the acquisition and disposition of capital assets. The basis for the separation of revenue and capital budget can be discussed as under :

The separation of the budget into two parts *i.e.* revenue and capital budget is justified on the following grounds :

1. For the efficient administration and effective control on public expenditure, of the Parliament or state legislature, it helps to make a clear cut demarcation between the routine administrative work of the government and its functions in respect of creation and management assets.

2. It helps in analysing the effects of government revenue and outlays on economic activity.

3. Its transactions in the revenue and capital accounts can help to trace the effect of the government transactions on sources of the receipts in the current consumption, capital formation and price movement.

Indian constitution demands that the budget must distinguish revenue and capital budgets.

Revenue Budget consists of the revenue receipts - both tax revenue and non-tax revenue and the expenditure met out of revenue receipts. The non-tax revenue includes revenue from currency, coinage, mint, interest receipts, profits from general services (police, jail, supplies and disposal, public work etc), revenue from social and community services (education, housing, broadcasting etc.) and revenue from economic services (agriculture, allied services, transport and communication).

Capital budget consists of receipts from market loans, borrowing from Reserve Bank of India, through the sale of treasury bills and long-term securities, loans from foreign governments and institutions etc. The capital budget also incorporates the transactions in the Public Account.

The expenditure in the revenue budget includes the developmental expenditure, financed out of revenue budget, non-developmental expenditure *e.g.* defence expenditure and interest on public debt etc. On the other hand, expenditure in the capital budget includes the acquisition of physical assets like machinery, land, building and investment in shares etc. The revenue budget of the state governments also includes their taxes and non-tax revenue and they do not get any share from the currency, mint and coinage. They can borrow from the central government apart from grants-in-aid. The main items of current expenditure of the state government are : education, medical facilities, civil administration, developmental activities and interest on public debt etc.

There is a demarcation between Revenue and Capital budget account of central government and the state government. The state government cannot borrow from foreign countries and institutions. They do not have revenue from currency. The tax structure of the state government is different from central government resulting in the collection of different taxes. The state government can get loan, as well as aid from central government. The revenue and capital budget has been illustrated with the help of table 21.1.

TABLE 21.1 Revenue and Capital Budget.

Revenue Budget		*Capital Budget*	
Items of receipts	*Items of Expenditure*	*Items of receipts*	*Items of Expenditure*
(a) Taxes on income.	(a) Administrative and general services.	(a) Loans and recoveries.	(a) Public Works.
(b) Taxes on Property	(b) Social services.	(b) Market loans.	(b) Construction of power generation plant.
(c) Custom duties.	(c) Economic services.	(c) Small savings.	(c) Construction of roads and railways.
(d) Union Excise duties.	(d) Community services.	(d) External loans.	(d) Flood Control works.
(e) Non-tax revenue.	(e) Maintenance of road and railways etc.	(e) Other receipts	(e) Irrigation canals etc.
(f) Other revenues. Total Revenue Receipts.	(f) Total Revenue Expenditure.	Total Capital receipts	Total Capital Expenditure.

2. Conventional and Administrative Budget. The conventional budgets are also known as administrative budget. It represents a set of accounts established within the framework manner *i.e.,* through the levy of taxes. The flows which do not belong to the government remain excluded from the administrative budget. This budget has some drawbacks as under :

(*i*) It represents an incomplete picture of the financial activity of the government as there is always some divergence between the receipts payments due to their actual values.

(*ii*) It ignores the effects of the funds not belonging to the government on the level of economic activity.

(*iii*) Certain items in such a budget can make comparison difficult from year to year.

On the other hand, the cash budget consists all the cash receipts from and payments to the government. The funds owned or not owned by the government are included in this budget. The cash budget is more detailed than the administrative budget. It gives more comprehensive picture of the role of federal government in the flow of funds. The U.S. Cash Budget receipts contains conventional budget receipts plus trust fund receipts minus infra-government transactions. Similarly, payment includes conventional budget expenditure plus trust fund expenditure plus governmental sponsored expenditure minus infra-governmental transactions.

3. Executive and Legislative Budget. The executive budget is prepared by the executive of the government. It does not mean that legislature has nothing to do with the executive budget. This budget has to be passed and adopted by the legislature, but the main initiative lie with the government. On the contrary, the legislative budget is one that is prepared and adopted by lagislature either directly or through the committees appointed by it. Executive budget is generally considered better than the legislative budget due to certain favourable arguments as :

(*i*) Executive is more capable and efficient in making estimate of revenue receipts and disbursements.

(*ii*) Executive is directly responsible for any financial irregularities because budget is prepared by itself.

(*iii*) The ultimate task of executive the budget lies with the executive. Therefore, it is more fair to assign this job of preparing the budget itself.

(*iv*) It is more realistic in approach.

4. Multiple and Unified Budget : Since a number of specialised functions are, sought to be performed in the budget period, there have been suggestions from time to time, particularly in the USA, that more than one budget be prepared so that the fiscal control and efficiency of performance relating to each of the specialised functions can be more fully evaluated. Thus, it has been recommended that during emergencies like war, depression, etc. when budgetary receipts and expenditures are altered, the government should prepare two budgets, viz., the ordinary budget dealing with general functions and the emergency budget dealing with short-term functions of emergency nature.

However, it is now increasingly felt that if more than one budget dealing with different functions in each is executed, the effect of the budget will be spread throughout the economy and it will be difficult to make a consolidated evaluation of the budget operations. This is why modern thinking favours the unified budget from which the total effect on the economy can be assessed. According to Taylor, "The function of the budget is to make fiscal control and planning possible. This being the case, the more comprehensive the budget, the more it brings into one unified picture the past fiscal performance and future fiscal plans, the better it will perform its functions of control."

5. Federal, State and Local Bodies Budget. The federal and state government budgets are prepared by the executive. These are got passed by the executive and the responsibility of its implementation also rests upon them. In case of relatively large municipal bodies, the independent budget is followed. In some cases, there is departure of local budgets from executive budget. The budget process in general tends to be less complex at the state and the local levels of the governments than at the federal level. One can easily assess the benefit of public expenditure under the state and local budget while it is difficult to measure the benefits under federal budget system.

6. Ordinary and Emergency Budget. The ordinary budget deals with the functions which are relatively permanent while the emergency budget is concerned with the abnormal or exceptional circumstances like war, depression etc. This kind of budget was introduced in America in 1933. The emergency budget could not gain much popularity and it was criticised on account of an instrument to hide the extent of wasteful spendings.

7. Deficit, Surplus and Balanced Budget. Where the public revenue, falls short of the public outlays then it is said to be a deficit budget and if the public revenue exceeds public outlays then it is said to be a surplus budget. On the other hand, when there is equilibrium between the government revenue and expenditure, the budget is said to be a balanced budget.

8. National Income Accounts Budget : This type of budget was developed in sixties in the United States. The data for such a budget is taken from the system of national income and product accounts. These accounts present the aggregate resource-absorbing production and income creation by the private as well as public sectors of the economy. The private sector activities are given by consumption and investment and that of public sector these are given by federal and state local components. This type of budget consists of the federal component of the public sector receipts and expenditure. Moreover, like administrative and cash budgets, this budget does not distinguish current from capital expenditures. It includes the trust fund activities and is, therefore, comprehensive in avoiding one of the serious errors of incompleteness.

9. Full Employment Budget : Full employment budget was initially suggested in 1947 by the committee for economic development of U.S.A. In practice, this budget was first activised in March 1964 in U.S.A. when the federal personal and corporation income taxes were reduced to promote full employment. This budget is essentially the national income accounts budget as projected to conditions of full employment. In recent times, it has been realised that this type of budget may generally show a considerable rather than slight surplus at full employment, and the persistent short-run unemployment and the falling experienced by United States. This realisation led to substantial income tax reductions in that country during 1964. Moreover, full employment surplus budget has been defined as the federal budget surplus on national income accounts basis budget programme if the economy were operating at full employment with stable prices throughout the entire fiscal year. Full employment in a country like U.S.A. is defined as a situation when 4 per cent or less of the labour force is involuntarily unemployed due to seasonal adjustments. The full-employment may prove to be a successful policy instrument in economically advanced countries.

10. Plan and Non-plan Budget : Most of the UDC and developing countries pursue planned economic development through periodic plans. The aim of economic planning is to achieve rapid development in different sectors like agriculture, industry, power, transport etc. and to raise per capita income, remove poverty, unemployment so that social justice can be achieved. India practises five-year plans. A part of the budgetary receipts and expenditures is devoted to the administration and implementation of the plans. The part of budgetary receipts which goes to finance the plan expenditure and the outlays on planned developmental heads constitute the plan budget, while the remaining part of the budgetary resources and expenditures is referred to as the 'Normal' or 'Non-plan budget.'

In India, the annual financial statement shows in the budget both the plan and non-plan expenditures and the total budget figures of expenditure are expressed as their aggregates. Plan budgets are prepared both for the whole plan period and for each year of the five-year plan. The distinction between plan and non-plan budgets is important in that it helps to scrutinise and review the annual plans in isolation from the non-plan activities of the government.

11. Development and Non-Development Budget. Budget contains heads viz; development and non-development. There are some expenditures which directly help economic development. They may either in the revenue account or in the capital account. Expenditures on education, medical and public health, agriculture, industry, etc. are examples of development heads. If they form the items of revenue budget, they will be called Revenue Development Expenditure. Thus, they would constitute the revenue development budget. Moreover, if such expenditures are planned for capital projects, they will be capital development budget. For instance outlay on construction of school building is a capital development expenditure, while scholarships to students by government or salaries of teachers are the items of revenue development budget. Now, if we add all such expenditures on items of development occurring in either revenue or capital account, we get a complete picture of the expenditure side of Development Budget.

Similarly, non-development budget is composed of items of non-development expenditure. These consist of collection of taxes, payment of interest on public debts, administration and security services, etc. which are necessary to run government functionary and which indirectly help development. If we add these components of expenditure of both revenue and capital budgets, get the non-development budget.

This type of budget helps in understanding not only the allocational pattern of public expenditure, but also the relationship between such allocation and the development that economy achieves. From the growth movement of development and non-development expenditures, one can examine whether the public fund is properly utilised or not and can suggest measure to secure further economy and prudence in expenditure. The following example will give an idea of the development and non-development budgets. The development expenditure and non-development budget has been summerised in table 21.2.