CHAPTER - I
(Introduction)
Introduction

Present day, government takes active part in the economic activity of the country. The role of government is manifold in socialist economy. The government acts as an entrepreneur, regulator, controller, protector and all planner for the development of the quality of life. The main object of a state is to maximise the welfare of the people. Government is to make provision for social security, medical facilities, education, sanitation etc. to increase the welfare of the community. The infrastructural support from government is also very essential for the economic development of the country. Our government is to help the people to raise their productive power, by constructing railway, road, power, post & telegraph etc.

Social justice is not promoted only through poverty eradication. Social justice is to be judged in terms of net social return to the economy as a whole. Net social return is excess of social benefit over social cost. To discharge aforesaid function properly the state has to increase its expenditure, it has to mobilise and exploit funds with the method laid down in the constitution of the country.

Raising revenue from different sources is one of the important aspect to be decided by the government. The central government or state government is to consider various ways and means to raise fund for performing its activities. It is also important for the government, where and how to spend its funds for the development of the country. This part is known as financial discipline of the government.

Financial discipline is concerned with the resource mobilisation and their effective utilisation with a view to maximise the wealth of the nation. It includes the determination of amount of funds needed for implementing various schemes of the government.

Financial administration refers to the management of the finance of the government. This financial management includes the study of budget, its preparation, method of administration of public finance, manner of spending public money, and maintenance of financial records.

"The financial administration refers to the financial management of government including the preparation of the budget, method of administrating the various
revenue resources, the custody of Public funds, procedures in spending money, keeping of financial records and the like.” *

The main sources of government revenue are tax and non-tax resource collected by the government. The promotional and welfare activities of the government are increasing over the years with the growth and development of its population. It is to work as per the directive principles of the constitution. In our democratic set up parliament and state legislatures are to decide the course of action, which are implemented through different stages of government machinery. It requires huge amount of money to execute various developmental and other works.

Revenue of the government is a vital importance in so far as it has a bearing on the income of the people. The income of the people should be touched only to the extent welfare is promoted. Information about tax and non-tax revenues has to be sufficient to enable the government to decide which way to stretch its aims next year. Today government has to meet the people’s directive and the directive is for general wellbeing. By providing information about the revenue in detail government accounting enables the general public to form their ideas about the directive to be given.

After collection of revenue, government is to provide information on different expenditures. This is rather mandatory in nature in view of the fact that expenditure sanctioning authority like the legislature have a right to know whether expenditures have been made as per sanctions. The expenditure of public money raised through taxation and borrowing etc is sanctioned by the peoples representatives.

2 Concept of Government Budget

The basic principle of financial discipline in a democracy is that all money receipts and expenditures have to be budgeted and sanctioned. The estimates of expenditure are made, consolidated and classified. In the democratic set up without the sanction, neither a paisa can be raised through taxation and borrowing nor it can spend on any account except Contingency Account, in which case no sanction is necessary.

* Misra B: Economics of Public Finance: Macmillan India Limited: P- 18
Thus, budget is a proposal of raising money and for making government expenditures which must be passed by the legislature. Budget is also known as Annual Financial Statement of the government. This annual financial statement has to be presented in the parliament or state legislature before 31st March which is the last day of the financial year.

"The word budget is originated from the French word "BONGETTE" i.e. a small bag. In the past Chancellor of Exchequer (i.e. Financial Minister of Great Britain) used to carry the annual financial statement of the Government in a leather bag for presentation in the parliament and this was a traditional ritualistic practice. From then, the word budget became popular"**.

At present, the government budget has wide role to play with the development of the society. Budget reflects the government decision on taxation, borrowing, fiscal measures, resource allocation, income & wealth distribution, economic stabilisation & economic growth. Budget exhibits the government policy which it would like to pursue in the coming period (usually one year) and drawing up financial plans for discharging its activities. This financial plan describes in detail the estimated receipts and disbursement under various heads. Therefore, budget enables the government to decide about each individual items of revenue receipts & expenditure in overall context of the total plan.

"Government can not decide to go ahead with its decision regarding taxation, borrowing, expenditures on other fiscal measures at random. All decision and policies are interconnected and must form a part of the overall set of objectives, which the government plans to pursue."**

In general, a budget shows the financial accounts of previous year, the budget & revised estimate of current year and the budget estimate of coming year. Furthermore, estimate of coming year are split up into two parts, those based on assumption that the current year taxes and their rates and expenditure policy would continue and those based upon the proposal changed there in.

* Misra B: Economics of Public Finance: Macmillan India Limited: P- 18
A budget, in these sense, becomes both a description of fiscal policy of the government and financial plans corresponding to them. In a budget, it is quite possible that some revenue happen to be earmarked for certain specific expenditure. For example, certain project might be financed through public borrowing and special assessment might be earmarked to meet the cost of this project. Similarly on the expenditure of budget certain amount may be contractual and legal payment, which cannot be avoided, such as interest payment on loan, repayment of loan, payment arising out of decrees, amount following due for payment on account of salaries, pension, provident fund, loan etc.

A budget may be presented in parts. In India, for example, railway finance form a part of central government’s finance, but railway budget is presented separately from the main budget of central government. Similarly, budget may be divided on the basis of different layers of the government like central government, state government and local bodies etc. There are two other reasons also, because of which the budget of the year may be split up. The first is political cause, when technically, the executive government may or may not continue for the full year on account of the fact that elections are due, then a ‘lame duck’ budget is presented - a budget which cover only a part of the year. Such a budget enables the next executive to formulate its own budget for the rest of the year. The second reason is economic one which may result in supplementary budget. It is not always possible to foresee and provide for all emergencies which will necessitate an extra expenditure. Similarly for some reasons or other the revenue receipt may fall short of the expected amount. In this situation, the authority may find it fit to have a supplementary budget.

3. Classification of Budget:

In advanced countries, like U.S.A. have developed various types of budget, in order to meet the requirement of affecting the resource allocation, wealth distribution, economic stabilisation and economic growth objectives.

3.1 Administrative Budget:

In U.S.A the budget is generally submitted by the President to the Congress. This includes general tax and expenditure flows to and from Treasury, i.e. excludes special earmarked taxes, expenditures etc. This budget is essentially an
accounting budget and doesn’t serve well as guide to the economic policy because of its incomplete nature and timing problem.

The administrative budget is incomplete, because it excludes -

(1) Trust Fund.
(2) Certain transactions of the Government Corporations such as the post office Deptt.
(3) Some transactions of Government credit agencies such as Federal land bank
(4) Receipt from borrowing.

"Moreover the administrative budget only records taxes, as they are actually collected and not when they accrue even though the later may be important for corporate behaviour as a result of imposition of corporate income taxes. Similarly, a time lag may exist between the authorisation and actual increasing of expenditure. This timing problem and the exclusion of huge sum as already mentioned may render it difficult from the standpoint of policy making to ascertain the impact of Government fiscal activity on allocation, distribution, stabilisation and economic growth of public finance"*

Though the administrative budget states the total magnitude of the governmental activities and their impact on the economy, yet it receives the greatest attention from congress and highest publicity from the press.

3.2 Consolidated Cash Budget:

This budget is used by the federal government in U.S.A. The important differences of this budget from administrative budget are as follows -

(1) It includes trust fund activities.
(2) Certain non cash transaction like interest accrued but not yet paid on treasury security is deducted from cash expenditure.
(3) Intra governmental transaction such as interest paid by the treasury to the old age and Survivor Insurance Trust fund are eliminated.

This budget was developed to measure all cash inflows and outflows from treasury i.e. between the government and the private sector.

The cash budget has certain similarity with administrative budget e.g.

(1) Both budget treats loans made by the federal government as expenditures i.e. do not distinguish between current and capital expenditures.

(2) Both indicate tax receipts on a collection or cash basis rather than on accrual basis.

(3) Both take the receipt and expenditure of government corporation like the post office department on a net basis, i.e. only deficit or surplus are listed and not the gross figure.

As the cash budget gives a much more realistic picture of the over all magnitude than the administrative budget, this makes it more effective for economic policy decision.

3.3. National Income Account Budget:

“A national income account federal budget was developed in the United States in the sixties for making policy decision. The data for this type of budget are taken from the system of National Income and Product accounts which present the aggregate resource absorbing production and income creation by the private and public sector company.

The private sectors activities are given by consumption and investment separately and the public sector activities by federal and state or local component.

“The national income account budget doesn’t distinguish current from capital expenditure like the administrative and consolidated cash budget. It includes trust fund activities like the cash budget but unlike the administrative budget and is therefore comprehensive in avoiding one of the serious errors of incompleteness. Unlike the consolidated cash budget it concentrates upon income creating and resource absorbing activities and exclude certain loan transaction”*

It treats many expenditure on the accrual basis, i.e these are recorded when resources are absorbed and not when payments are made, unlike consolidated cash budget and administrative budget. It also records some major revenues such as corporation income tax on accrual basis, which is advantageous for policymaking purposes.

Moreover, it better training made possible by quality measurement of economic flows in respect of resource absorption and income creation is another advantages.

* Bhatia H.L. Public Finance: Vikash Publishing House Pvt. Ltd.
The national income account budget however excludes loans other governmental units, industries, and individuals, which is a defect because such credit extension do affect economic activities and goals of public finance. Otherwise, this budget type is more closely associated with the current use of productive resources for the production of economic goals i.e with basic economic activities.

In this case, after tax individual and business income which determine the private sector of national product is taken into account.

3.4 Full employment budget:

"This is one of the most recent budgetary concept, though this term was suggested first by the committee for economic development of the U.S.A. in 1947, when they recommended that tax rates and expenditures be devised so as to generate a surplus at full employment yet. In practice, this budget concept was first utilised in March 1964 in U.S.A, when the federal personal and corporational income taxes were reduced in order to promote full employment"*

Recently, it has been realised that this type of budget may generally show a considerable rather than slight surplus at full employment, and the persistent shortrun unemployment and the falling rates of long run economic growth experienced by the United States till the 1960s have been the result of respective budgetary policies.

This realisation led to substantial income tax reduction in that country during 1964. The full employment budget surplus has been defined as the federal budget surplus on a national income account basis that would be granted by given budget programmer, if the economy were operating at full employment with stable price throughout the entire fiscal year.

Full employment in a country like U.S.A. is defined as a situation when 4% or less of the labour force is involuntarily unemployed due to seasonal adjustment.

The full employment budget may prove to be a potential successful policy investment in economically advanced country particularly.

* Bhatia H.L. Public Finance: Vikash Publishing House Pvt. Ltd.
3.5. Current and Capital Budget:

Current budget is prepared with the tax revenues and recurring expenditures of the fiscal years. Capital budget on the other hand takes into account the proceeds from loan and borrowing and non recurring expenditure on capital assets of a durable nature.

3.6. Programme and Programming Budget:

"These two budget concepts are closely related but not synonymous. Program budget concept is more broader than performance budget. Programme budget includes several performance units. A particular performance goal is a component of a component of broader program. The performance budget concentrates on efficiency of input-output relationship in order to attain particular budgetary goal.

The Hoover Commission (1949) encouraged the use of program and performance budget by the U.S. federal government and recommended that in the interest of intelligibility 'the whole budgetary concept of federal government be refashioned by the adoption of a budget based upon function, activities and projects. These are designated as performance Budget"*.

According to the commission, the performance budget should form attention on the achievement of objectives rather than on allocation to agencies. Programme budget relating to broad programmes and assist policy making decision at top levels of government machinery, whereas performance budget are useful for efficiency control within a particular government agency.

3.7. Pricing and Programming Budget System:

"In early sixty, plannin g and programming budgeting system was introduced in the defence department in the United States. The use of Programme budget has led to growing use of planning and programming budget system. The efforts to apply the principles of CBA to government expenditure decision began with the application of cost effectiveness analysis in the Defence Deptt and later led to the introduction of the P.P.B. system to the entire federal government as well as to state and local government.

"This system seeks to integrate long range planning of governmental activities and programmes of specific activities with annual budgeting, making use of the programme budget structure and of various quantitative techniques in the evolution proposals. System analysis and cost benefit technique are employed with quantification of cost and benefit to aid in the selection of the best alternatives"*

This approach seeks to aid in defining the goals and in choosing among the goals, in specifying alternatives programmers to attain the goals in choosing best alternatives and subsequently measuring performance. Planning is not limited to current year but extended over to several years and the over all planning is reconsidered at interval. Programming establishes relationship between inputs and outputs incase of desired goals.

In the backward country and developing country of the world, simple accounting budget is prepared. Generally in developing country Plan & Non – Plan Budget and Balance & Un – Balance Budget are very much familiar. Plan Budget relates to the activities of government for different development programmes. All other expenditures which are not related to Plan Budget are included in to Non- Plan Budget

4. Classification of Accounts in Budget:

In India, budget exhibits the government transaction related with three government accounts (1) Consolidated Fund (2) Contingency Fund and (3) Public Accounts.

All the Capital Receipts and Revenue Receipts of the government are included in to the consolidated Fund. The Consolidated Fund comprises tax revenue, non- tax revenue loans and other receipts. Similarly, all expenditures are also incurred out of this fund. No amount can be spent from the consolidated fund of India without the sanction of Parliament.

The contingency fund is under the disposal of the governor to meet those expenses, which cannot be delayed. The public Accounts include funds collected because of Provident Fund, Small Saving etc. To make payment out of Public Fund the sanction of parliament or state legislature is not needed. There are three fundamental provisions in government monetary transaction which safeguard the interest of tax payers. (1) Non tax shall be levied or

collected if it is approved by the representatives of the peoples. In the constitution of India, it is mentioned that no tax shall be levied or collected except by authority of law. (2) In the constitution of India, it has been mentioned as no money out of Consolidated Fund of a state shall be appropriated except the purpose and manner as passed by the legislature. (3) In order to check the expenditure of the government, the provision of appointing Comptroller and Auditor General is laid down in India Constitution. The State Government Budget of Assam shows the receipts and disbursement of Consolidated Fund as under from 1995-96 to 2001-2002.

Table-A:1

(Rs. In Crores)

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Receipts</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Consolidated Fund</td>
<td>6692.42</td>
<td>6693.01</td>
<td>5220.90</td>
<td>5435.92</td>
<td>6459.99</td>
<td>7185.95</td>
<td>7939.76</td>
</tr>
<tr>
<td>2. Contingency Fund</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>3. Public Account</td>
<td>2299.09</td>
<td>1480.89</td>
<td>1648.47</td>
<td>1504.38</td>
<td>1963.07</td>
<td>2344.55</td>
<td>2276.09</td>
</tr>
<tr>
<td><strong>Total Receipts</strong></td>
<td>8991.51</td>
<td>8473.90</td>
<td>6869.37</td>
<td>6940.30</td>
<td>8423.06</td>
<td>9530.50</td>
<td>10215.85</td>
</tr>
</tbody>
</table>

| **Disbursement**    |          |          |          |          |          |          |          |
| 1. Consolidated Fund| 6676.25  | 6740.69  | 5066.59  | 5319.02  | 7086.23  | 7630.91  | 8550.36  |
| 2. Contingency Fund | -        | -        | -        | -        | -        | -        | -        |
| 3. Public Account   | 1938.72  | 1733.25  | 1880.19  | 1665.73  | 1794.41  | 1969.39  | 2149.10  |
| **Total Disburse­ment| 8614.97  | 8473.94  | 6947.58  | 6984.75  | 8880.64  | 9600.30  | 10699.46 |

| **Balance:**        | 376.54   | (-)0.04  | (-)78.21 | (-)44.45 | (-)457.58 | (-)69.80 | (-)483.61 |

(+)=surplus/
(-)=deficit

The table A1 shows that the receipts & disbursement of Consolidated Fund is more than the receipts & disbursement of Public Fund; as Consolidated Fund is the main fund for execution of government plan & programme. There are no direct inflow of resources to the Contingency Fund. As per constitutional provision, a fixed portion of amount is transferred from consolidated fund to Contingency Fund. The amount transferred from consolidated fund to contingency Fund was Rs. 150 crores per year in the period 1995-96 to 2001-2002. In practice, the expenditures incurred from Contingency Fund are usually recorded as regular expenditures of Consolidated Fund after getting approval of legislature. So no amount is exhibited directly as outflow of Contingency Fund in annual financial statement of the government.

5. Budgetary Procedures:

In India agriculture is depended upon monsoon, therefore budget should be prepared at busy season of economy, By this way it can cease the gambling of monsoon. But, in practice, budget becomes effective from 1st April to 31st March instead of October to November.

It is also agreed that the annual practice of preparation and presentation and passage of budget is wasteful one, expenditure against amount sanctioned starts with a time lag, while preparation for next annual budget starts soon after.

In other word, the budget has become a continuous and time consuming activity of the government. “It argued that this practice allows the authority to have a flexible tax structure, but this argument had no weight. Even now, the authorities are in a position to vary those taxes where such need may arise (such as in custom duty). In respect of most of other taxes, however frequent changes do not allow a judicious assessment of the effect of various tax measures. According it is suggested that the board feature of tax structure should be left unaltered for a few years at a time and only minor changes should be allowed from year to year”*

This however does not prevent the authorities from introducing major changes in time of national emergencies. Secrecy, surrounding budget proposal is debatable issue.


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It is asserted that the budgetary proposals are unnecessarily kept secret till their actual presentation to legislature. It is caused of damaging poor planing of economic activity of every one. State Government also cannot access their transfer of share from central Govt. By this way state budget are indirectly affected by inflationary impact of central government budget. A sound budget procedure helps to establish sound financial discipline.

It involves four steps.

1) Preparation of the budget
2) Enactment of the budget
3) Execution of the budget
4) Parliamentary control over finance.

"The budget cycle begins around Sept/October, i.e. 5-6 months before the commencement of the financial year. The cycle begins with circular sent out by the ministry of finance to the various ministry and department inviting their estimate for the ensuing year. The general rule is that he who spends the money must also prepare the estimate in advance"*.

The items of this statement exhibits

(a) Actual figure of the previous 3 years.
(b) The sanctioned budget estimate for the current year.
(c) Revised estimate of the current year
(d) Proposed estimates for next financial year with explanatory notes for any increase or decrease in estimates.
(e) Actual of the current year available at the time of preparation of the estimates and actual for corresponding period of the previous year.

The estimate prepared by the ministry/ deptt then goes to respective department’s controlling officer who scrutinise the matter fully, revise the estimate where necessary, with explanation of the reason thereof and give the approval.

The consolidated estimates are then transmitted to the ministry of finance in course of October/ December. Finance Ministry analyses the estimates as charged and

voted items. Finance Ministry’s role is least one in standing charge of voted item. (i.e. permanent charge like salary and allowances of employee etc)

Finance Ministry scrutinises the new item incorporated by the respective department. But, the new items have to be recommended by the concerned financial Adviser before submission for the consideration of Planning Commission and the ministry of Finance. The decision of ministry of finance is final in the matter of determining the provision. Different between Ministry of Finance and Spending Ministry/ Deptt can be resolved by referring the matter to the Prime Minister or Cabinet (In case of state government, the same matter may be resolved by the Chief Minister or his Cabinet).

At the time of concurring the estimates Finance Ministry observes following points.

(1) Estimates are on cash basis.
(2) Proper distinction are made on capital and revenue budget.
(3) The form of expenditure is corresponded to accounting head i.e. major head, minor head sub head and detailed head.

Finance Minister Compiles the estimate of various department as unified budget. He presents the budget in Parliament. Parliament discusses the matter for a couple of days (i.e 20-25 hrs). After that, Demand of Grants are presented, which take at least 120-140 hours for discussion and to be voted.

“Demand for Grant is to show the estimates of expenditure of the government. Generally, one demand for Grant is group of estimates for one department. However large ministry or department may have more than one Demand for Grant”*

Un-discussed demand clubbed together and put to vote. This is called guillotine. This is followed by introduction of Appropriation Bill, which comprises all Demand for Grants voted. The bill become an Act when it is voted. Appropriation Act gives authority to the government department to spend money against the sanction amount of Demand for Grant.

This is followed by the Finance Bill, containing proposals for taxation, when it is voted, it becomes Finance Act. Parliamentary discussion on budget may continue to the end of April.

A vote on Account is taken to enable the government to spend money in anticipation of pending approval of budget. Once budget is voted, the respective grants are communicated to the different departments, budget becomes enforceable. Same procedure is adopted in case of State Government budget and it is approved by the state legislature.

6. State Government Budget:

Government Budgets are prepared separately for Central and State Government. Actually, state government budgets are depended on central government budget.

Share of Central tax and Grant in Aid of center are major sources of state revenues. So, the fiscal policy of the Central Government also determines the shape of state government’s budget with the allocation of central shares. The following table exhibits the proportion of revenue receipts of the Government of Assam from various sources in the year 1998-99, 1999-2000, 2000-2001.

The proportions are shown in percentage out of total revenue receipts in table A 2.

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>1. Share of central tax</td>
<td>31%</td>
<td>29.2%</td>
<td>23.6%</td>
</tr>
<tr>
<td>2. Grant in Aid from centre</td>
<td>38.2%</td>
<td>41.6%</td>
<td>48.5%</td>
</tr>
<tr>
<td>3. Revenue received from Central Government</td>
<td>69.2%</td>
<td>70.8%</td>
<td>72.1%</td>
</tr>
<tr>
<td>4. State tax</td>
<td>20.8%</td>
<td>21.7%</td>
<td>20.7%</td>
</tr>
<tr>
<td>5. Non tax Revenue (State)</td>
<td>10%</td>
<td>7.9%</td>
<td>7.2%</td>
</tr>
<tr>
<td>6. Total revenue received from the sources of the state</td>
<td>30.8%</td>
<td>29.6%</td>
<td>27.9%</td>
</tr>
</tbody>
</table>


The proportion of revenue received from central government is 69.2%, 70.8% and 72.1% in 1998-99, 1999-2000, and in 2000-2001. It explicits that the State Government of Assam is largely depended on revenue received from the central government. Besides, the revenue received from central government, the state
government also collect revenues from state taxes and profit of state enterprises. State Government cannot exercise their power for collecting tax revenues on the items, which are under central government list. State Government tax can be imposed on the items which are under state list and concurrent list (i.e. list of items on which both Union Government and state Government can impose taxes).

"The distribution of legislative power under the 1935 Act was made in terms of 3 lists, viz, federal, provincial and concurrent. The federal list contained 59 entries, the provincial list had 94 entries, and 36 entries were included in the concurrent list. The long list of concurrent responsibilities was a peculiar feature of this constitution. The sources of revenue were categorised as follows:

(a) **Taxes levied and collected by provinces**: Land revenue, irrigation receipts, excise duties on alcoholic liquors, opium, Indian hemp and other narcotic drugs, medicinal and toilet preparations manufactured and produced in the province, duties in respect of succession to agricultural land, taxes on mineral rights, capitation taxes, taxes on professions, trades, callings and employment, taxes on animal and boat taxes on sale of goods and on advertisements, cesses on entry of goods into the local area, amusements, betting and gambling, stamps and registration duties on passengers and goods carried on inland waterways, tolls, fees in respect of the matters in the provincial list but not including fees taken in any court.

(b) **Taxes levied and collected by the federal government but assigned to the provinces**: Duties in respect of succession to property other than agricultural land, stamp duty on bills of exchange, cheque, promissory notes, bills of landing, letters of credit, insurance policies, proxies, receipts, terminal taxes on goods or passengers carried by railway or air and taxes on railway fares and freights.

(c) **Taxes levied and collected by the federal government but shared with the provinces**: Taxes on income other than agricultural income, salt duties, excise duties on tobacco and other goods not included under State excise list, export duties on jute.

(d) **Taxes levied and retained by the federal government**: Corporation tax, currency and coinage, receipts from railway, posts and telegraphs, import and export duties and military receipts".*

The share of central taxes are given to the state as per the recommendation of Finance Commission. Ultimately, the state government finance is affected by the decision of Finance Commission. For example; the Finance Commission gives share of income tax on following basis.

Table A: 3

BASIS OF RECOMMENDATIONS OF FINANCE COMMISSIONS RELATING TO INCOME TAX.

<table>
<thead>
<tr>
<th>Finance Commission</th>
<th>States Share of Income tax (percent)</th>
<th>Percentage Distribution of Income tax of the States on the basis of Population</th>
<th>Collection</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
</tr>
<tr>
<td>First</td>
<td>55</td>
<td>80</td>
<td>20</td>
</tr>
<tr>
<td>Second</td>
<td>60</td>
<td>90</td>
<td>10</td>
</tr>
<tr>
<td>Third</td>
<td>66</td>
<td>80</td>
<td>20</td>
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<td>Fourth</td>
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<td>Fifth</td>
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<tr>
<td>Sixth</td>
<td>80</td>
<td>90</td>
<td>10</td>
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<tr>
<td>Seventh</td>
<td>85</td>
<td>90</td>
<td>10</td>
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<tr>
<td>Eighth</td>
<td>85</td>
<td>90*</td>
<td>10</td>
</tr>
<tr>
<td>Ninth</td>
<td>85</td>
<td></td>
<td>See footnote below</td>
</tr>
<tr>
<td>Tenth</td>
<td>77.5</td>
<td></td>
<td>See footnote below</td>
</tr>
</tbody>
</table>

Source: Reports of Finance Commission.

** A new formula for distribution of this share has been devised as follows: 25 percent on the basis of population; 25 percent on the basis of the inverse of per capita income multiplied by population; 50 percent on the basis of distance of per capita income from the highest per capita income State multiplied by the population of the State.

"Under Article 202, the government of state shall in respect of every financial year, cause to lay before the state legislature, a statement of estimated receipts an expenditure of the state for that year before the end of current financial year, which will be discussed and approved in the legislative Assembly. The approval must be accorded in the from of Appropriation Bill which should be duly passed by the Houses. As like union
Government Budget all the transaction of the state Government are exhibited in three accounts, i.e consolidated Funds, Contingency Fund and Public Accounts*

The tax revenues, fees, duty, loan revised, recovered loan, share of taxes, and grants received from central government are kept in Consolidated Fund. Contingency Fund is created by transferring a fixed amount from consolidated Funds for meeting unforeseen and unbudgeted expenditures. The Public Accounts includes the amount of General Provident Funds, Security Deposits, District council and Panchayat Fund. The state Government acts as trustee of this fund.

The estimated expenditure of the budget are required to be shown in two different head i.e charged expenditure and voted expenditure. The change expenditure at the state level includes emoluments and allowances of the Governor, Speaker, Dy Speaker of the state legislature, Judge of High Court Chairman & Members of States Public Service Commission Debt Charged Loan Repayment Interest Repayment, Payment on Account of Court Judgement and Decree etc. These expenditures require no approval of state legislature. In case of other expenditures from consolidated Fund, approval of state legislature is compulsory.

Like union government budget, the state government budget also exhibits a distinction in between Revenue Receipt and Capital Receipt and Revenue Expenditure and Capital Expenditure.

All revenue receipts like tax, fees, duties, grants, interest earned are shown in the Revenue Account. Loan and Advances required by the government are capital receipts and shown under capital Account. All expenses for payment of services and goods and maintenance of existing services, assets are treated as expenditure on revenue account.

Expenditure incurred for creation of capital, payment of liabilities and expenses met from borrowed fund are treated under capital Account. no money shall be withdrawn from consolidated Fund of the state except under appropriation passed by the House. The state Government budget visualises the state Government policy for over all development of the state. It has good impact on resource mobilisation for socio-economic development of the province.

The Budgetary provision of the Government influences greatly on the economy of a country where the Government is more involved in planning and directive the country's economic development. The following tables indicates receipts and expenditure from the consolidated Fund of Assam from 1995-96 to 2001-2002.

Table A: 4

(Rs. In Crores)
Receipt and Expenditure from Consolidated Fund of Assam Government Budget

<table>
<thead>
<tr>
<th>Year</th>
<th>Receipts</th>
<th>Expenditure</th>
<th>Surplus/Deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995-96</td>
<td>Revenue + Capital = Total</td>
<td>Revenue + Capital = Total</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3744.14 + 1281.92 = 5026.06</td>
<td>3717.16 + 1482.76 = 5199.92</td>
<td></td>
</tr>
<tr>
<td>1996-97</td>
<td>4292.18 + 1370.31 = 5662.19</td>
<td>4570.48 + 1616.44 = 6186.92</td>
<td></td>
</tr>
<tr>
<td>1997-98</td>
<td>4442.93 + 1362.04 = 5804.97</td>
<td>4628.37 + 1533.11 = 6161.48</td>
<td></td>
</tr>
<tr>
<td>1998-99</td>
<td>5120.91 + 1350.03 = 6470.94</td>
<td>5481.92 + 1602.89 = 7084.81</td>
<td></td>
</tr>
<tr>
<td>1999-2000</td>
<td>5567.42 + 1743.02 = 7310.44</td>
<td>6686.51 + 1858.43 = 8544.94</td>
<td></td>
</tr>
<tr>
<td>2000-2001</td>
<td>6554.29 + 2803.26 = 9357.55</td>
<td>7455.15 + 3157.24 = 10612.39</td>
<td></td>
</tr>
<tr>
<td>2001-2002</td>
<td>66.48.75 + 2066.33 = 8715.08</td>
<td>8331.65 + 1935.98 = 10267.63</td>
<td></td>
</tr>
</tbody>
</table>

* (-) Figures indicate deficit balances in the State Government Budget of Assam.
* Source: Annual Financial Statement of the Government of Assam 1995-96 to 2001-02

The table A:4 explicits that the Revenue Receipts and Revenue Expenditures are more than Capital Receipt and Capital Expenditures. The flow of Fund is more in Revenue Account as government spends large amount for maintenance of existing services and assets.

The budget exhibits list of expenditure and revenue. It contains financial data for the previous year revised figure for the current year and estimated figure of coming year in respect of expenditure and revenue. As an instrument of Planing and control, budget assets to plan the activities and compare the actual cost with projected cost.

It forces government machinery to take proper discussion. Without well define budget, it would be difficult to control the spending of the government. Budget also improves the accountability of public sector undertaking. Formal budgeting and
accounting techniques can be used to check whether money has been spent in the way prescribed by the legislature.

The Public Account Committee and Estimate Committee (i.e., Special body of parliament or state legislature constituted for checking and analysing government activities) examines the account of government department on the basis of government budget.

Limited tax paying capacity, limited sources of revenue demand a proper adjustment of expenditure with revenue. Budgeting provides prudent adjustment of various expenditure with limited resources. Modern budget is a projection of expenditure and revenue rather than forecasting. It is the plan of future expenditure in advance. It is not merely a statement of expenditure, it is an indispensable tool of resource allocation and wealth distribution.

Budget is a means, which affect resource allocation, income generation, wealth distribution, economic stabilisation and economic growth for the society as a whole.

Budgeting therefore requires careful consideration of the effect of taxes, expenditure, and debt on the economy in order to assess the extent of attainment of the objectives of public Finance. As a means of financial plan and the basis decision making and control of revenue and expenditure, budget is an indispensable government tool for implementing government socio-economic policy.

Its socio-economic importance demand the systematic presentation of budget for approval of legislature which after consideration and modification if any, approved budget is returned to executive for implementation.

7. Control of State Legislature on Budget:

Government decision on budgeting is influenced by the political process. The groups which influence the government activities are voters, political parties, legislators, and administrators. The budgeting process is an interaction of executive and legislature. Influence of each group and interaction of each group vary from place to place and time to time.

In presidential democratic system, like in USA, the President and Congress both are important parties for the preparation of budget. In USA, President prepare the budget
with the aid of Bureau of Budget and same is presented to congress for approval. Congressional Budget Office assists the house of representatives and Senate to draw an overview idea on budget by examining the budget in details. In India, Union Budget is approved by the parliament and state budget is approved by the State Legislative Assembly after discussion and modification of the same. State legislature authority control the budget in all the states of India. All money bills must be initiated in lower house of State Legislative Assembly. The tax and expenditures proposed in the budget can not be given effect until the sanction by legislative body. State Legislative Assembly tries to control government spending and ensure that no ministry or department exceeds the amount sanction to it. For this purpose there is independent audit by the Comptroller & Auditor General.

"There are two committees in State Legislative Assembly as like as in parliament. These two committees are Public Account Committee and Estimate Committees. Public Account Committee is entirely composed of non-official members of the state legislative assembly. Chairman of this committee is chosen from among the members of opposition parties. This committee works under general direction and control of state assembly speaker. The Public Account Committee examines audited accounts to detect the fraud and irregularities on the basis of budget the PAC recommends the Ministry of Finance from time to time to revise and tighten its rules to ensure proper check on spending of ministry. It has made useful suggestion regarding procedures in various financial matters. These suggestions are usher of budget procedure.

The Estimate Committee reviews the detail estimate to present in the legislative assembly. It ensures the economy of expenditures and plans. The Chairman of this committee is appointed from the members of ruling party. The committee studies thoroughly the affairs of ministries. It make recommendation in regard to reforms of administration, improvement in organisation, suggestion with regard to forms in which estimate should be presented in the state legislative assembly"*

Besides these two committees, the state assembly also forms Committee for Public Undertaking to look after the working of public enterprises.

The suggestion and findings of aforesaid legislative bodies enable the executive and legislatures to have wise budgetary decision and to make detail discussion.

Though the systematic procedures are adopted for discussion and acceptance of budget in state legislature, the debate of budget in state assembly is not qualitative in many times due to narrow political motive. So scientific analysis and expert opinion should be envisaged in legislative procedure of appraisal and acceptance of budget.

In view of the above, the study- “The impact of State Government Budget on Socio- Economic Development of Assam” is undertaken with the following objectives.

8. Objectives of Study:

1) To study the Tax and Non - Tax Revenue of the Government of Assam for last seven years from the annual budgets of the state.

2) To examine the Development and Non- Development Expenditures of state government during the period of study.

3) To study the nature of Consolidated Fund and Contingency Fund of Government of Assam.

4) To analyse the impact of budgetary expenditure on the economy of Assam

5) To suggest measure for improving revenue collection as well as financial management and utilisation of fund.

9. Hypothesis:
The following hypotheses are formulated and have been tested in different chapters of this research - study.

1. Budget is not an instrument of financial planning and control.

2. Budgetary allocation of fund does not help in the creation of assets of country.

3. Budgetary provision for socio - economic development does not help in the process of Economic Development.
10. Methodology:

The study of state government budget has been conducted to establish a linkage between government expenditure and socio-economic development of Assam. Therefore, research methodology is adopted to investigate the budgetary expenditure and its effect on the economy of Assam. This investigation is based on both primary and secondary information. As it is empirical study, various information are collected from the field survey with the help of questionnaire and personal interview. A questionnaire with 25 questions is prepared to collect relevant information from different groups of respondents. The universe of the study is all the government departments and all the population of the state out of the total 71 government departments for which budgetary provision are made annually by the government, 12 departments have been selected on the basis of socio-economic importance. These departments are:

1. Police
2. Agriculture
3. Flood Control
4. Irrigation
5. Industry
6. Cottage Industry
7. Medical & Public Health
8. Elementary Education
9. Higher Education & Technical Education
10. P.W.D (Building)
11. P.W.D (Road)
12. Forestry

It is also considered that these 12 departments would be representative and these departments could focus the overall socio-economic development of the state.

In the second step, a questionnaire was prepared to know the implication of budgetary allocation of fund from the general public, economist, politician, social
thinker, financial analyst, head of the government department government official to know their reaction.

Basically, while designing the questionnaire, it was kept in mind that all the required information were being collected through the questionnaire. It was also necessary to consider that the questionnaire do not become too much lengthy and become boresome for the respondent to answer. Then questions were ranked from 1 to 5 points according to the stability of information.

Ranks are arranged in the following manners

1. Excellent
2. Very Good
3. Good
4. Average
5. Unsatisfactory

After getting all the facts, a few statistical analyses were made to arrive at our conclusion. A pilot survey was conducted among so government department. this survey help to formulate the relevant questions needed for finding information. Since it was not possible to cover all the government departments of Assam, hence, a few departments were selected to simplify the process of data collection. This selection of departments based on probability sampling i.e. according to the needs of the situation and for the convenient of data collection.

Discussion with different level of government official was held in two different settings, so that, information of two different stages could be reconciled and specific observations were made. Out of 300 respondents, 150 complete filled-up questionnaire were received back, almost all the recommendations were made on the basis of 150 questionnaires.

Secondary data were collected to supplement the primary data for the research work from the following.

1. Budget copies for 1995-96 to 2001-02
2. Supplementary budget for 1995-95 to 2001-02
3. Finance Accounts of Government of Assam 1995-96 to 2001-02
4. Appropriation Accounts of Government of Assam 1995-95 to 2001-02
5. The Report of Comptroller & Auditor General of India 1995-95 to 2001-02
7. The Report of Estimate Committee 1995-95 to 2001-02
9. Union Government Budget 1995-95 to 2001-02
10. R.B.I. Bulletins

11. Books & Journals:
   A. Government Accounting - B.M. Mukherjee
   B. Economics of Public Finance - B. Misra
   C. Economics of Public Finance - P.C. Jain
   D. Public Finance - H. L. Bhatia
   E. Public Finance - Aronson . J. Richard
   F. Government Accounting - Chaturvedi & Gupta
   G. Financial Administration of India - M.J.K. Thavaraj
   H. Economic Times
   I. Indian Journals of Commerce: All India Commerce Association
   J. The Journal of National Institute of Public Administraion
   K. The Publications of the Director of Economic & Statistic, Assam

12. Library:
   I. K.K. Handique Library, Gauhati University
   II. Assam Secretariate Library
   III. Arunachal University Library
   IV. Dibrugarah University Library
   V. Delhi University Library
   VI. The Library of ICSSR, Delhi.
   VII. National Library of Kolkata.

13. Periodicity of the study:
    Initially the study was conducted for five years from 1995-96 to 1999-2000. But as research work is not completed during the last five years, so to update the
information another two years have been added. Thus the study period spread over from 1995-96 to 2001-02.

14. Plan of works:

The thesis is divided into the following chapters.

Chapter 1:

Chapter 2:
Consolidated Fund-Nature of Receipts-Capital Receipts and Revenue Receipts-Disbursement- Capital Expenditure- Revenue Expenditure.

Chapter 3:

Chapter 4:

Chapter 5:
Impact of budget on social & general services -Trend of Expenditures-Classification of Expenditures- working of Various Department under social and general service category.

Chapter 6:

Chapter 7:
Conclusion and Suggestion.

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