CHAPTER – I

INTRODUCTION AND DESIGN OF THE STUDY

INTRODUCTION

In the modern era, various governments all over the world have entered or entering into a number of public projects for the economic and social security of their citizens. The various tools of public finance can be utilized as an instrument for bringing about the desired economic and social change in a country.

Public finance deals with the income and expenditure of public authorities. It deals with the finances of the central government, state governments and local governments. It studies public revenue, public expenditure, public debt, certain problems of the fiscal system as a whole, such as fiscal administration and fiscal policy. Income and expenditure of the government are regulated through marginal adjustment so as to give the maximum public benefit. A study of public finance of a country needs to encompass five main areas: taxation, expenditures, budget balance and public debt, inter-governmental financial transactions and fiscal policy. A country has to perform functions of allocation, stabilization and redistribution of income and
wealth. Taxation determines the allocation of resources between public, merit and private goods.¹

Public finance also deals with the problems of adjustments of income and expenditure of the government. The methods of expenditure and income of public bodies and borrowing by public bodies are known as operations of public finance. They are also known as fiscal operations, as they relate to the operations of the fiscal or public treasury. Fiscal problems and fiscal policies are integral parts of public finance.

The complex of problems that centre on that the revenue-expenditure process of government is referred to traditionally as public finance. They are not concerned with money, liquidity or capital markets. Rather, they are problems of resource allocation, the distribution of income, full employment, price level, stability and growth. These activities and policies that arise in the operation of the public budget.²

Public finance is an enquiring into the facts, techniques, principles, theories, rules and policies which shape, direct, influence and govern the use of

the scarce resources of the government. A politically strong and stable government can do much to increase the welfare of the people and bring about economic growth through its fiscal policy.

FISCAL POLICY

Fiscal policy is traditionally concerned with the determination of state income and expenditure policy. The crux of an effective fiscal policy is related to the policy decisions with regard to the entire financial structure of the government such as expenditures, loans, tax revenue and debt management and other similar things. The fiscal policy concerns itself with the aggregate effects of government expenditure and taxation on income, production, distribution and employment. Fiscal policy and deficit financing are to many people merely different terms for the same thing. This is however, erroneous conception. An increase in government outlays tends to increase the flow of national income, whatever the method of financing, but the expansionists effective vary according to the method used.³

The instruments of fiscal policy can be used by the government to regulate or modify the economic affairs of an economy keeping in view certain objectives. Fiscal policy is a package of economic measures of government regarding its public expenditure, public revenue and public debt or public borrowings. Taxation is an important aspect of fiscal policy. Taxation has significant effects on saving and investment in the economy on the allocation of resources between alternative sectors and uses on the efficiency with which resources are utilized. An important element of the long term fiscal policy (LTFP) must be to ensure that taxes levied are fully collected and strong action is to taken to curb tax evasion.\textsuperscript{4} Taxes are compulsory payments associated with certain activities. Revenue collected through taxation are used to purchase the inputs necessary to produce government-supplied goods and services or to redistribute purchasing power among citizen.\textsuperscript{5} It is important to note that a fiscal policy in the form of fiscal effects exists whether or not one is desired, because government can not act in budgetary matters without influencing the various economic goals including aggregate economic objectives. \textsuperscript{6}

\begin{itemize}
\item[5.] David N.Hyman, “Introduction to Government Finance”, Public Finance, Thomson South-Western Publishers, United Kingdom, 2007,PP\textsuperscript{397}
\item[6.] Bernard P.Herber, “Aggregate Fiscal Policy Goals”, Modern Public Finance, AITBS Publishers, New Delhi,2004,PP.\textsuperscript{386-387}
\end{itemize}
FISCAL POLICY AND ITS OBJECTIVES IN INDIA

In the Indian set up the constitution has provided sufficient powers to both the centre and the state governments to collect and share taxes on certain principles periodically reviewed by the finance commissions appointed by the president of India once in five years. The main objectives of Indian fiscal policy are: Full employment, price stability, accelerating the rate of economic development, equal distribution of income and wealth, economic stability and an encouraging investment.

In the Indian fiscal system the centre enjoys more powers in levying taxes than the states. The centre enjoys with many elastic sources of revenue. It has a wide national tax base. The important central taxes are personal income tax, custom duties, corporate income tax and capital gains tax. The state governments have less elastic sources of revenue. The tax base of the states is very much limited. But the states require more finance to perform their functions.

MEANING OF BUDGET

A budget is a financial plan which serves as the basis for decision-making and centre of expenditure and revenue for a specific period of time normally a fiscal year in the case of a government. In the Constitution of India, a budget has been referred to as the annual financial statement of the estimated receipts and
expenditure of the Government of India in respect of a financial year. Budget is the master financial plan of a government. It brings together estimates of anticipated revenues and proposed expenditures for the budget period and from these estimates the activities to be undertaken and the means of their financing can be inferred. Ideally, a budget is a statement of careful estimates and honest intentions.  

Therefore it is the statement of the financial plan of a government. It indicates the revenue and expenditure of the last completed financial year, the probable revenue and expenditure estimates for the current year and the estimates of the anticipated revenue and proposed expenditure for the next financial year. From the estimates of revenue and expenditure, the type of activities which the government undertakes and the methods of financing these activities can be judged. It also points out the way in which the financial resources in the economy are being directed by the government. In short, it reveals the basic character of the fiscal policy of the government. 

Budget is an instrument through which the government controls the entire economy. Different techniques of budgeting have been propounded by the

economists and statesmen with the object of curing the irregularities of the economic system the most important of them are the balanced and unbalanced budgets.

The very existence of the fiscal system has an immediate and inevitable influence on the level and structure of demand. Changes in budget policy are used as a positive means of obtaining or offsetting changes in demand.\footnote{Richard A. Musgrave and Peggy B. Musgrave, “Fiscal Functions: An Overview”, Public Finance in Theory and Practice, McGrew-Hill, Tokyo, 1976, P\textsuperscript{14}}

**ROLE OF THE BUDGET IN DEVELOPING ECONOMY**

The budget plays a very important role in the social and economic life of the community. In a developing economy, the activities of the government are fast expanding and they are tending to cover almost all aspects of the social and economic life of the nation. In the developing countries, the functional role of the fiscal policy is articulated in terms of mobilization of resources and directing them into productive activities.\footnote{Thavaraj, M.J.K., “An Evaluation of fiscal policy in India”, Financial Administration of India, Sultan Chand Sons, New Delhi, 1990, PP.\textsuperscript{168}} The Government is now an agency for promoting the general welfare of the citizens by positive acts. Government budgeting is one of the major process by which the use of the public resources are planned and controlled to attain certain objectives in a developing economy.
The budget has become a significant statement of government’s policy and major instrument of the expression of government programmes which has wide ramification and affects the national economy both in the public as well as private sector. The budget is a powerful tool with which the government can greatly influence the formation, distribution and spending of national income through its taxation, public expenditure and borrowings policy. The taxation and expenditure policy may lead to narrowing down of the class distinctions and inequalities. The expenditure and production policy may be aimed at removing poverty, unemployment and distribution of wealth and accelerating the rate of economic development. The public borrowing policy may be aimed at accelerating the rate of saving and for the mobilization of resources for the rapid economic development of the economy.

GOVERNMENT BUDGETING

There was a time when the activities of the governments were few and hence much important was not attached to government budgeting. It was rather a mere report for information of legislature. But in the modern times when countries are fast becoming welfare states with increasing responsibilities of government, the activities of public authorities have expanded and government budgeting has become a vital instrument of economic development.
The budget of government is obviously linked to the accounts. Government transactions are accounted for in the three parts such as consolidated fund, contingency fund and public account. The consolidated fund is divided into revenue account and capital account. The revenue account deals with the proceeds of taxation and other receipts classed as revenue and expenditure there from. The capital account deals with the expenditure met from usually borrowed funds and these resources outside the revenue account with the objects either increasing concrete assets of durable nature or of reducing recurring liabilities.\(^\text{10}\)

Budgeting of government is an estimation of its resources and application of those resources for administrative and welfare expenditure, in their widest possible coverage. This estimate is prepared for a 12 monthly period, which is called an accounting year or financial year.\(^\text{11}\)

Today the government budgeting is much more than a statement of income and expenditure of public authorities. It is a reflection of not only taxation and public expenditure policy, but also of a plan for future course of

\(^{10}\) Ganguly, S.P., “Fundamentals of Government Budgeting in India”, Concept Publishing Company, New Delhi, 2000, P\(^\text{13}\)

\(^{11}\) Ibid., P\(^\text{13}\)
action. From the study of a budget one can make an assessment as to the extent to which it is designed to secure the normative ideal of allocation, distribution, stabilization and growth. To achieve any purpose, planning is necessary. The government needs to achieve many goals all of which can not be attained at a time. A budget is such plan which explicitly mentions the programmes that are to be taken up in the course of the fiscal year. In the modern times, it is considered as an important instrument of economic policy of the national economy. The budget is not simply proposals of estimates but a comprehensive plan and programmes for the future on the basis of past experience, expressing the economy and social policy of the government and its ideology. It is prepared by the executive and is approved by the Parliament of the country.

Thus, budget is an instrument of fiscal policy. It undertakes the activities of plan of action, incentives in economic activities, development of human capital formation, building of economic overheads, balanced development, poverty removal, price stability, cost benefits and so on. From these arrangements, it can be concluded that budget is an integral part of economic development of a national economy. Thus, it is an instrument in the hands of the governments to achieve the desired goals of the country.
UNION GOVERNMENT BUDGET IN INDIA

The Union Government budget in India gives a complete picture of the estimated receipts and expenditures of the Union government for a year on the basis of the budget figures of the two previous years. Every budget gives three sets of figures as follows.

a) Actual figures for preceding year
b) Budget and revised figures for the current year
c) Budget estimates for the following year.

CLASSIFICATION OF UNION BUDGET IN INDIA

The budget in India is divided into two parts. They are Revenue Budget (or) Revenue Account and Capital budget (or) Capital Account.
Budget is a financial statement of planned revenue and expenditure of the Government of India in respect of a financial year. Indian Constitution authorises the union government to present before the Parliament, the annual financial statement for the fiscal year running from 1st April to 31st March. The budget at a glance gives a list of the government's receipts and expenditure in a brief manner along with the break up of plan and non-plan receipts and expenditure, resources transferred to state and Union Territory Governments, highlights of central plan. The explanatory notes given complete the picture to make the reader understand various terms.

This Annual Financial Statement shows the receipts and payments of the union government under the three parts in which government accounts are kept:

(a) Consolidated Fund;
(b) Contingency Fund; and
(c) Public Account.

The Union Budget actually comprises of the (i) Revenue Budget and the (ii) Capital Budget. This is because, under the Constitution, the Budget has to distinguish expenditure on revenue account from other expenditure.
REVENUE BUDGET

It consists of revenue receipts of government (revenues from tax and other sources) and the expenditure met from these revenues. Tax revenues are made up of taxes and other duties that the Union Government levies. The other receipts consist mainly of interest and dividend on investments made by Government, fees, and other receipts for services rendered by Government.

Revenue Receipts

Revenue receipts consist of tax revenue and non-tax revenue. Tax revenue comprise of direct tax and indirect tax revenue. The non-tax revenue consist of interest and dividend on investment made by the government, profits from the public sector undertakings, fees and other revenue for services rendered by the government.

Revenue Expenditure

Revenue expenditure is for the normal day-to-day running of government departments and various services, interest charged on debt incurred by government, subsidies. Usually, revenue expenditure covers all the expenditure that does not create assets. However, all grants given to State governments and other parties are also clubbed under revenue expenditure, although some of them may go into the creation of assets.
CAPITAL BUDGET

Capital budget consists of capital receipts and payments.

Capital Receipts

The major items of capital receipts are loans raised by the government from the public (called market loans); borrowings by the government from the Reserve Bank of India (RBI) and other parties through sale of Treasury Bills; loans received from foreign governments and bodies; and recoveries of loans granted by the Union Government to State governments, Union Territories and other parties. Capital receipts also include the proceeds from disinvestment of government equity in public enterprises.

Capital Expenditure

It comprises of expenditure on acquisition of assets like land, building and machinery, and also investments in shares and loans and advances granted by the Union Government to State and Union Territory governments, government companies, corporations and other parties. The Capital budget also incorporates transactions in the Public Account.
Plan Expenditure

The government's expenditure can be broken up into Plan and Non-plan Expenditure. Money given from the government's account for the central plan is called plan expenditure. This is developmental in nature and is spent on schemes detailed in the plan. Plan outlay is the amount for expenditure on projects, schemes and programmes announced in the plan. The money for the plan outlay is raised through budgetary support and internal and extra-budgetary resources. The budgetary support is also shown as plan expenditure in government accounts. The expenditure on general services, social services community services, economic services and assistance to the states and union territories are included in plan expenditure.

Non-Plan Expenditure

It consists of revenue and capital expenditure on interest payments, defense expenditure, subsidies, police, pensions, economic services, loans to public sector enterprises and loans as well as grants to State governments, Union Territories and foreign governments. Defence expenditure, interest payment and subsidies are the major items of non-plan expenditure.
DIFFERENT DEFICIT CONCEPTS

Revenue Deficit

It is said to be revenue deficit, if receipts under revenue account exceeds expenditure under the same account. Revenue deficit occurs when the actual amount of expenditure and actual amount of received revenue do not tally with the anticipated expenditure and revenue figures. Revenue deficit gives evidence of the deficit between revenue incomes and expenditures, which is normally met by capital account surplus, or borrowings.

Capital Deficit

It is said to be capital deficit, if receipts under capital account exceeds expenditure under the same account.

Budgetary Deficit

The sum of revenue receipts and capital receipt is total receipts or budgetary receipts. Similarly, the sum of revenue expenditure and capital expenditure is called as total expenditure or budgetary expenditure. If total expenditure exceeds total revenue it is called as budgetary deficit.

Fiscal Deficit

Fiscal deficit is an economic phenomenon, where the government's total expenditure surpasses the revenue generated. It is the difference between the government's total receipts and total expenditure. Fiscal deficit gives the signal
to the government about the total borrowing requirements from all sources. The concept of fiscal deficit is used to get a better understanding of the fiscal imbalances. Fiscal deficit includes the budget deficit add of borrowing. This is the gap between the government's total spending and the sum of its revenue receipts and non-debt capital receipts. It represents the total amount of borrowed funds required by the government to fully meet its expenditure

Fiscal deficit = Budget deficit + Borrowings.

Primary Deficit

Primary deficit is a deficit which is obtained by subtracting interest payments from fiscal deficit of a particular year.

Primary Deficit = (Fiscal Deficit – Interest Payment)

STATEMENT OF THE PROBLEM

In a developing country the objectives of the tax policy are to achieve a redistribution of the wealth to improve the fiscal activities of the government and to evolve a favourable and effective debt management system. Unless periodical assessments are made, the extent of realizing this goal would not become known. In a dynamic economic system periodical review become very important as they would help to review and adjust the policies according to the changing needs of the time.
Budget plays a very important role in the social and economic life of the community. In a developing economy, the activities of the government are fast expanding and they are tending to cover almost all aspects of the social and economic life of the nation. Government is now an agency for promoting the general welfare of the citizens by positive acts. Government budgeting is one of the major process by which the use of the public resources are planned and controlled to attain certain objectives in a developing economy. The budget has become a significant statement of government’s policy and major instrument of the expression of government programmes which has wide ramification and affects the national economy both in the public as well as private sector. The budget is a powerful tool with which the government can greatly influence the formation, distribution and spending of national income through its taxation, public expenditure and borrowings policy.

The taxation and expenditure policy may lead to narrowing down of the class distinctions and inequalities. The expenditure and production policy may be aimed at removing poverty, unemployment and distribution of wealth and accelerating the rate of economic development. The public borrowing policy may be aimed at accelerating the rate of saving and for the mobilization of resources for the rapid economic development of the economy. In the modern times when countries are fast becoming welfare states with increasing
responsibilities of government, the activities of public authorities have expanded
government budgeting has become a vital instrument of economic
development. Today the government budgeting is much more than a statement of
income and expenditure of public authorities. It is a reflection of not only
taxation and public expenditure policy, but also of a plan for future course of
action. From the study of a budget one can make an assessment as to the extent
to which it is designed to secure the normative ideal of allocation, distribution,
stabilization and growth.

Indian economy witnessed many changes after the introduction of new
economic policy in 1991. There has been much change in the economic policies
of the government, budgetary policies, plans and programs in accordance with
the changes in the economic policy. In order to manage and control fiscal deficit
and revenue deficit, as a part of the economic reform, the government of India
enacted Fiscal Responsibility and Budget Management Act (FRBM) in 2000. Therefore the present study is an attempt to know the impact of economic reforms on the performance of union budgets in India during the post reform periods.

**SIGNIFICANCE OF THE STUDY**

The study of public finance has been acquiring a prominent and important
place in the study of modern economic analysis. The functions and
responsibilities of the governments have been changing day by day. The days of Laissez-faire have given place to the era of a welfare state policy. In those days, the primary aim of the governments had been to raise funds so as to meet the financial requirements of the state for the maintenance of law and order. It became necessary to identify new sources of income and to levy new taxes and to make an optimum allocation of the funds to enable the spending of the limited amounts on various items of expenditures. The government can no longer depend on the foreign countries for all its requirements. Most of the studies conducted so far have focused their attention on the federal and financial aspects. Of course, such studies are important, but studies on the government budgets in India have to be pursued in great detail in order to find out the growth trend of each one of the taxes and consider the possibilities for tapping new avenues to improve the budgetary performance of the country.

The fiscal policies of India during the post economic reforms are differing from the fiscal policies during the pre economic reforms. Apart from that the central government in India enacted Fiscal Responsibility and Budget Management FRBM Act in 2000 and it came to effective from 2004 onwards with the objectives of reducing the revenue deficit and reduction of fiscal deficit to 3.5 per cent by March 2009.
This study is not a cheer academic exercise, but has some policy implications also. The result of this study would be of much use to the administrators and policy makers who depend mostly on readymade methods of tax revenue forecasting for framing tax policies and also for finding out new ways to reduce the burden of public debt and evolve an ideal expenditure pattern for the government.

OBJECTIVES OF THE STUDY

The major objective of the present study is to analyse the Union Government budgets in India in terms of revenues, expenditures and deficits. The main objectives of the study are as follows

1. To study the trend and pattern of revenue receipts and capital receipts in the union budgets in India during the study periods
2. To examine the trend and pattern of various kinds of expenditure in the union budgets during the study periods
3. To test the validity of Wagner’s law of state expenditure
4. To analyse the fiscal imbalances during the study periods and
5. To suggest suitable remedial measures to improve the tax system, effective management of expenditure and fiscal imbalances.
HYPOTHESES OF THE STUDY

In order to analyse the union budgets in India from 1990-91 to 2009-10 the following null hypotheses have been formulated and they have been examined with the help of the relevant statistical tools.

1. There is no significant difference between the growth rates of tax revenue and non tax revenue during the study periods
2. There is no significant difference between the growth rates of total direct tax revenue and total indirect tax revenue during the study periods
3. The tax system in India is not progressive
4. There is no significant difference between the growth rates of plan expenditures and non plan expenditures during the study periods
5. There is no significant difference between the growth rates of revenue expenditures and capital expenditures during the study periods
6. The Wagner’s Law of increasing government expenditure had not been operating in India during the study periods.
7. There is no significant differences in the growth rates of revenue deficit before and after the introduction of FRBM Act in India and
8. There is no significant differences in the growth rates of fiscal deficit before and after the introduction of FRBM Act in India
METHODOLOGY

In this study, the trends of receipts, expenditures and the fiscal imbalances in the union budgets in India during the post economic reform period from 1990–91 to 2009–0 have been analysed. The following methodology has been adopted to analyse the various objectives of the present study.

Period of the Study

The period of the present study taken up for the analysis is twenty years, from the year 1990-91 to 2009-10. The main reason for choosing this period is that it covers the post economic reform period. Another important reason for choosing this period is the Union Government in India enacted FRBM Act in 2000 which aims at to reduce revenue and fiscal deficits. In order to know the effectiveness of this act on these deficits, the present study covered these particular periods and there have been variations in the budgetary policies of the Union Government during these periods.

Collection of Data

This work has got its own methodology. The researcher used only the available secondary data for analytical purposes. Secondary data, which are not originally collected but are rather obtained form already published or from other unpublished sources. The data for the present study were collected from various sources such as the Statistical hand book on Indian Economy maintained by the
Reserve Bank of India, various issues of economic survey and public finance statistics of the ministry of finance.

The collected raw data were classified and computed according to the requirements of the study and with a view to analyse the union budgets in India the appropriate statistical tools have been employed. The analysis has been further interpreted and the observations relevant to the study have been made.

**Tools for Analysis**

To analyse the trends of various receipts, expenditures and deficits of the union budgets the statistical techniques of simple linear regression, log linear regression for computing the compound growth rates have been employed in this study.

**Trend Analysis**

One of the objectives of the present study is to analyse the growth and the patterns of receipts, the expenditures and the fiscal imbalances. For this purpose, two popular forms of trend analysis, namely the linear trend model and the semi – log trend model have been used.

To fit the straight line, a model of the following type has been used.

\[ Y = a + bt \]
Where

Y = Dependent variable

t = Time trend variable taking values 1, 2, 3.....

‘a’ is the intercept term and ‘b’ is the regression co-efficient showing the annual growth or decline in the variable taken for the analysis during the periods under study.

The compound growth rates have also been worked out for the various receipts, expenditures and deficits.

The above trend model gave only the linear annual growth of the budgetary position of Union Government of India. To get the constant annual compound growth rate, semi-log model of the following type was used in this study.

The semi-log model is

Log y = a + bt

Compound growth rate = [(antilog (b-1) X100)]

The above regression models were estimated using the principle of least squares.
“t” – Test

In order to test the null hypotheses, the following ‘t’ test was used.

\[
t = \frac{X_1 - X_2}{\sqrt{(\text{S.E of } X_1)^2 + (\text{S.E of } X_2)^2}}\]

Where,

- \(X_1\) = Average annual growth rate of first variable
- \(X_2\) = Average annual growth rate of second variable
- \(\text{S.E of } X_1\) = Standard Error of first variable
- \(\text{S.E of } X_2\) = Standard Error of second variable

**Measurement of Elasticity and Buoyancy of taxes**

The analysis of tax buoyancy highlights the nature of the existing tax structure and its impact on resource mobilisation. The study of tax elasticity brings out the scope of mobilising government resources. To measure the elasticity and buoyancy of various taxes, the following model has been used.

\[
\ln T = \ln \alpha + \beta \ln Y + U
\]

Where,

- \(T\) refers to tax yield.
‘Y’ denotes income and ‘U’ is the disturbance term. The slope coefficient of the model ‘β’ is the measure of the buoyancy of a tax on the tax system. Percentage analysis along with this model has also been used to study the elasticity of various taxes.

**Progressivity of the Tax System**

The progressivity of the tax system deals with the relationship between the tax revenue and income. The tax system is said to be regressive if the ratio between the tax revenue and the income increased at a lesser percentage than that of the percentage increase in income and vice versa. To assess whether the tax system of the Union Government has been moving towards progressivity in the course of economic development, a model of the following form has been used.

\[
\log (T/Y) = \alpha + \beta \log Y + \epsilon
\]

Where,

T is the tax revenue and Y is the income.

\( \beta > 1 \) indicates progressivity

\( \beta < 1 \) indicates regressivity,

\( \beta = 1 \) indicates neither progressivity nor regressivity.
Wagner’s Law of State Expenditure

Wagner’s Law is an important law concerning the growth of public expenditure. In this study, an attempt has been made to test the significance of this law for the Union Government of India.

\[(E/Y) = \ln \alpha + \ln \beta (Y/N)\]

Where,

The value of the regression Co-efficient (\(\beta\)) is a measure of direct elasticity (simple income elasticity). In this specification \(\beta > 0\) supports the Wagner’s Law of rising public expenditure.

Durbin-Watson statistic

To test whether there is presence of autocorrelation or not in various expenditure items during the study period, the Durbin-Watson statistic was used in the present study by using the following formula.

\[d = \frac{\sum_{t=2}^{T} (e_t - e_{t-1})^2}{\sum_{t=1}^{T} e_t^2}\]

Where,

\(d = \) Value of autocorrelation

\(e = \) Successive error terms

\(t = \) Time element
If \( d > 2 \) negative autocorrelation

If \( d = 2 \) No autocorrelation

If \( d < 2 \) Evidence for autocorrelation

**RATIO ANALYSIS**

In order to have a clear understanding about the importance of individual taxes to total taxes, tax-GDP ratio and individual expenditure items to total expenditure, ratio analysis have been used.

**MULTIPLE REGRESSION ANALYSIS**

Multiple regressions are a logical extension of two variable regression analysis. Instead of a single independent variable two or more independent variables are used to estimate the values of dependent variable.

The buoyancy of direct tax, indirect tax and total tax revenues, total expenditure and fiscal deficit are determined by many independent variables. This has been studied with the help of the following equation.

\[
Y = a + \beta_1 X_1 + \beta_2 X_2 + \ldots X_n + u
\]

Where,

- \( Y \) - Dependent variables [Tax revenues, Expenditures and Deficit]
- \( X_1, X_2, \ldots, X_n \) are independent variables
- \( u \) - Disturbance term
LIMITATIONS OF THE STUDY

The findings emerging from this study are subject to the following limitations.

1. This study covers only a period of 20 years (from 1990-91 to 2009-10)
   The conclusions arrived at this study are applicable to this period only.

2. Only selected direct and indirect taxes were taken for analysis on the basis of their significance and the size of amount contributed to the total revenue.

3. This study analysed only union budgets in India. No attempt has been made to make any comparison of this study with the state budgets in India.

4. The necessary data for this study have been collected from various secondary sources. The data for the last two years of the study are revised estimates. The conclusions arrived at this study are subject to the limitations of the data.

5. The statistical tools of regression analysis have been employed in this study. The conclusions arrived at this study are subject to the limitations of the regression models.
CHAPTER SCHEME

The present thesis has been presented in six chapters.

The First chapter is an introductory chapter dealing with the statement of the problem, significance of the study, the objectives, hypotheses, limitations, layout of the study and the methodology adopted in the present research work.

The Second chapter presents the review of the related earlier studies.

The Third chapter gives the trend and growth of the revenue receipts and capital receipts of the union budgets in India, buoyancy and elasticity of various taxes, tax burden analysis, ratio of individual tax items to the total tax revenue, determinants of buoyancy of various taxes and progressivity of India tax systems.

The Fourth chapter analyses the trend and growth of various kinds of expenditures. It also deals with the ratio of individual expenditure items to total expenditure, expenditure management, testing of the Wagner’s Law in respect of various expenditure items and determinants of total expenditure.

The Fifth chapter portrays the trend and pattern of revenue deficit and fiscal deficit before and after the introduction of FRBM act, primary deficit of the union budgets in India, deficit GDP ratio, financing of fiscal deficits and determinants of fiscal deficit in India.

The Sixth chapter summarises the salient findings, suggestions and the conclusion emerging from this study.