UNIT – V

Public expenditure, debt and the Budget

Canons · Debt · Budget · Finance Commission

Explanatory Lecture Slides

Economic Theory & Public Finance · Major-3 · Semester III

ECONOMIC THEORY & PUBLIC FINANCE

LEARNING OBJECTIVES

Topics covered in this unit

01 **State canons of public expenditure**

02 **Explain effects of public expenditure**

03 **Classify public debt and the burden**

04 **Read a Budget (balanced, surplus, deficit)**

05 **Place the Finance Commission**

06 **Note FRBM**

How this unit is organised

01	02	03	04	05	06
Canons of G	Effects	Public debt	Budget types	Finance Commission	FRBM

Canons of public expenditure

Benefit, economy, surplus (don't spend as a habit of deficit), elasticity, sanction (no spend without appropriation — Art. 266/114).

- Wagner's law: G/NI rises with development. Peacock–Wiseman: displacement (war/crisis ratchets G up).
- The legal canon is sanction: Art. 114, 266 — no money out of the Consolidated Fund without appropriation.

Canons of public expenditure

ECONOMIC

- Benefit.
- Economy.
- Elasticity.

LEGAL

- Sanction.
- Appropriation.
- Audit (CAG, Art. 148).

Effects of public expenditure

On production (infrastructure, human capital), on distribution (transfers), on economic stability (Keynesian G).

- A 10-mark with three heads. Add one Indian illustration each: highways, MGNREGA, a slump package.

Effects of public expenditure

PRODUCTION

- Roads.
- Schools.
- Courts as infrastructure.

DISTRIBUTION

- PDS.
- Pensions.
- Scholarships.

Public debt

Internal v external; productive v unproductive; funded v unfunded; voluntary v compulsory. Burden: on the present (taxes to service) and on the future (if unproductive).

- Ricardian equivalence (Barro): debt = future tax, so rational agents save against it — a 6-mark criticism of ‘cheap’ deficits.
- Art. 292 (Union borrowing), 293 (State borrowing with Union consent if indebted to the Union).

Public debt

LESS FEARFUL IF

- Productive.
- Internal.
- Growth > interest.

FEAR IF

- External in foreign currency.
- Unproductive.
- Rollover risk.

The Budget

A statement of estimated receipts and expenditure. Balanced / surplus / deficit. Revenue deficit, fiscal deficit, primary deficit.

- Fiscal deficit ≈ borrowing requirement. Primary = fiscal minus interest — the year's new sin.
- Vote on Account, Money Bill, cut motions — the parliamentary skin. Do not write a civics essay; name two deficits and Art. 112.

The Budget

FISCAL DEFICIT

- Borrowing to cover the gap.

REVENUE DEFICIT

- Current spend not covered by current receipts.

Finance Commission

Art. 280: every five years, recommends vertical (Union–States) and horizontal (among States) shares of taxes, grants-in-aid (Art. 275).

- The 15th/16th FC is the current citation; name the chair if you know it, skip if you do not.
- A 10-mark: composition, functions, latest two recommendations in outline.

Finance Commission

VERTICAL

- Union : States pool.

HORIZONTAL

- Among States — need, equity, forest, income distance.

FRBM Act 2003

A statutory ceiling on deficits and a glide-path. Escape clauses for war, calamity, collapse of agriculture, structural reforms.

- The legal form of ‘we will not always Keynes’. N.K. Singh review committee is an optional name.
- Pair with Art. 292: borrowing is a constitutional power, FRBM is a statutory self-restraint.

FRBM Act 2003

POINT

- Make deficits a rule, not a habit.

LIMIT

- A later Finance Act can amend the ceiling — it is not basic structure.

The Budget

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- Vote on Account, Money Bill, cut motions — the parliamentary skin. Do not write a civics essay; name two deficits and Art. 112.

LANDMARK AUTHORITIES

Cases a KSLU answer should name

CASE

In re Cauvery Water Disputes Tribunal

1993 Supp (1) SCC 96(2)

Inter-State resources and the Union’s fiscal/arbitral role — federal finance is not only tax shares.

CASE

Bhim Singh v Union of India

(2010) 5 SCC 538

Appropriation and the Consolidated Fund — spending needs legal sanction.

CASE

State of Karnataka v Union of India

(1977) 4 SCC 608

Federal structure — the political background of Art. 280 transfers.

STATUTE / SECTION MAP

Provisions & materials to quote

Art. 112–117	Budget, appropriation, votes on account.
Art. 266–267	Consolidated and Contingency Funds.
Art. 280 / 275	Finance Commission and grants-in-aid.
Art. 292–293	Borrowing by Union and States.
FRBM Act 2003	Deficit rules.

WRITE IT IN THE HALL

10 / 16-mark frames from this unit

Q1 Explain the canons and effects of public expenditure.

Q2 What is public debt? Examine its burden and redemption.

Q3 What is a Budget? Explain revenue, fiscal and primary deficits.

Q4 Discuss the composition and functions of the Finance Commission.

BEFORE YOU CLOSE THE FILE

Unit recap

1. G needs sanction (Art. 114/266) as well as a canon of benefit.
2. Wagner and Peacock–Wiseman for the 6-mark of ‘why G grows’.
3. Debt is a burden if unproductive or external.
4. Fiscal deficit is the borrowing number; primary strips interest.
5. Art. 280 + FRBM close the paper.