VISION IAS

GENERAL STUDIES

GS

Complete Set

2023-24

PRINTED NOTES

ENGLISH MEDIUM

1. Introduction

Anything that has *utility* or *usability* is a resource. The government requires resources – human, physical and economic - to carry out its functions. In this document, we will deal only with economic resources. Mobilization of resources, in this context, means "**efficient collection and channelizing of resources**" to achieve some goal.

Ways of resource mobilization include direct or indirect taxes, import or export duties or fees for services, or borrowings.

2. Sources of Financial Resources of Government

There are three sources from where the government gets money. The first two are revenue sources, and the last one is borrowings and capital asset sales:

- **Tax Revenue** – This is the tax that the government collects in the form of personal income tax, goods and services tax etc.
- **Non Tax Revenue** – These are things like interests on bonds held, dividends from PSUs, and grants. They are revenue sources meaning they don't have to be repaid and are smaller than tax revenues.
- **Capital Receipts** – These are borrowings of the government like the market loans, short term borrowings, external commercial borrowings etc. The loans received from foreign governments and bodies, disinvestment receipts and recoveries of loans from State and Union Territory Governments and other parties are also part of capital receipts.

Some Estimates of Financial Resources Required

- India will need about **USD 4.5 trillion in the next 25 years** for infrastructure development. (Economic Survey 2018)
- Over the next decade, India requires over **USD 1.5 trillion** to fill up the infrastructure gap.
- Investment on infrastructure needs to increase to **INR 50 lakh crore over the next five fiscals** through 2022. (CRISIL)

3. Transfer of Resources from Center to States

In the federal system of India, state and local bodies depend a lot on Center for meeting their financial requirements. There exist several mechanisms to channel resources from Center to states, such as:

- Finance Commission to lay down principles which shall govern division of sharable pool of taxes of Union of India.
- Goods and Services Tax Council make the recommendation on rate of the GST, surcharges, Exemptions, Model of GST law, Place of Supply rules, and special rate of the GST, Special Provision for North east states or any other matter as decided by the council.
- Grants-in-Aid under Article 275 of the Constitution of India.
- Discretionary grants under Article 282.

Recent Changes Impacting Transfer of Resources

- With the **abolition of Planning Commission,** the model of grants tied to Five Year Plans (FYP) has been done away with (12th FYP which ended in 2017 was the last in series). The grants which were hitherto transferred through Planning Commission are now routed through Finance Ministry.
- **Goods and Services Tax (GST)** has subsumed a number of central and state indirect taxes and provided for a Goods and Services Council. But there has been criticism that it has led to an adverse effect on the fiscal position of the states. Accordingly, it has been provided that the Parliament may by law and with the recommendation of the GST Council, will provide compensation to the State on account of implementation of the GST.
- **Restructuring of Central Sponsored Schemes**: Starting from the FY 2016-17, the schemes of Centrally Sponsored Schemes (CSS) have been reduced drastically. The reduction in the

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1. National Income Accounting

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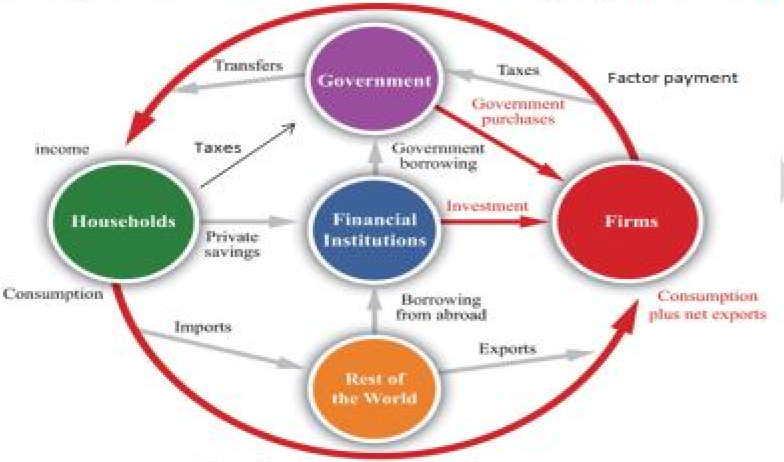
National Income Accounting or NIA refers to methods or techniques used to measure the economic activity in a national economy as a whole. As one can calculate income for a single person or an entity, the same can be done for a country also.

In an economy, households buy goods and services from firms, and firms use their revenue from sales to pay wages to workers, rent to landowners, and profit to firm owners. GDP equals the total amount spent by households in the market for goods and services. It also equals the total wages, rent and profit paid by firms in the markets for the factors of production.

The following Circular Flow Diagram shows the flow of resources (money) in an open economy:



The diagram describes all the transactions between households and firms in a simple economy. It simplifies matters by assuming that all goods and services are bought by households and that households spend all of their income.

Money continuously flows from households to firms and then back to households.

GDP measures this flow of money. It can be computed for an economy in one of the following ways:

- By adding up the total expenditure by households (Expenditure Method)
- By adding up the total income (wages, rent, profit) paid by firms (Income Method)
- By adding up the total value of all final goods and services produced in the economy (Output / Value Added Method)

Since all expenditure in the economy ends up as someone's income, GDP is the same regardless of how we compute it.

1.1. Significance of National Income Accounting

- **International Comparison:** National Income Accounting measures growth rate and development of nations, which can be used to compare standard of living of different countries.
- **Business Decisions:** It reflects the relative contribution and potential of various sectors of the economy which guides the business class to plan for future production.
- **Policy Formulation**: It throws light on the distribution of income and resources in the economy, which helps government in proper allocation of resources to bring equality and development in nation.