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Union Budget and its Impact on the Life of a Common Man in India

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ABSTRACT: This paper explains the relationship between budget and common man citizen of the country. Here we will refer "Budget" for union budget or the budget presented by government of India every year. States governments also present their respective budget every year but here we will only study union budget and its impact on common man. The study is purely based on secondary data. The available data were critically analysed. We will examine its impact by looking into the changes brought by the budget in the life of common man. Our endeavor in the paper is to establish the significance of budget coverage for masses and country economic development.

I. INTRODUCTION

Throughout the world, the processes to decide how to raise, allocate and spend public resources constitute one of the fundamental function of government. The way Public resources are used is a major determinant of the achievement goals of public policy. "A budget is an estimation of revenue and expenses over a specified future period of time and is usually compiled and re-evaluated on a periodic basis. Budgets can be made for a person, a group of people, a business, a government, or just about anything else that makes and spends money."¹ The word budget came from bougette or 'small bag' in middle French. The use of the word spread to England, where it came to designate the leather bag in which ministers of the crown carried financial plans to parliament, and eventually it became synonymous with its contents.

The first traceable legal definition of the budget is contained in a French decree of 1862: "The budget is a document which forecasts and authorizes the annual receipts and expenditures of the State...."² In most countries, the government budget is made at regular annally by the executive and tabled in the legislature for review and approval before the beginning of the fiscal year to which it applies.

The budget is the life-blood of the government; the financial reflection of what the government does or intends to do. A theory which contains criteria for determining what ought to be in the budget is nothing less than a theory stating what the government ought to do.

"Budgeting if government is estimation of its resources and application of its resources for administrative and welfare expenditure in their widest possible coverage."³ Globally budget process helps the better allocation of government resources for maximization of public good.

II. BUDGET IN INDIA

In India budget presentation is a reporting mechanism for government expenditure to common man. It is public document to explain public policy, fiscal policy, all revenues and expenditure, revenue surplus or deficit, appropriation from Consolidated Fund of India, various tax proposals, welfare measures, incentive schemes, borrowing and receipts from loans, estimates for next fiscal year and many more. Article 112 of the Constitution of India provide that "the President shall in respect of every financial year cause to be laid before both the Houses of Parliament a statement of the estimated receipts and expenditure of the Government of India for that year"⁴, it referred to as the "annual financial statement" is also called as 'Union Budget' in general language.

¹ Shastr, S., & Aggarwal, M. (2017). Analysis of Indian Union Budget 2017-18: A Crystal View. Available at SSRN 3205863.

² Stourm, R. "The Budget." New York: D Appleton and The Institute for Government Research, (1917): 2

³ Ganguly S. P. Fundamentals of Government Budgeting in India, Eastern Press and Publication (1987)

⁴ The Constitution of India. Chapter 2, Page 52 (2018)



In India budget process has a 162 years old history. It has been started in mid nineteenth century during British Raj. It is one of the oldest government budget making processes all over the world. In 1859, as the British Crown was still recovering from the injuries caused to it by the first Indian struggle for freedom of 1857. British government appointed a Scottish businessman to find a solution to India's financial crisis. James Wilson, then better known as the founder of The Economist newspaper, had a credible presence in England for his firm grasp over economic theory and policy as well as a practical knowledge of commercial affairs. Karl Marx in his book 'Capital' had described Wilson as 'an economic mandarin of high standing'.

Wilson would go on to present the first-ever Indian budget in 1860. He is credited with introducing a financial budget in India framed upon the English model. Although Wilson's budget did receive criticism for not taking into consideration Indian conditions but it did lay down the foundations of the way in which several economic institutions in India would go on to function, especially that of the income tax.

Reacting to the needs of the time, "Wilson wrote: Reforms become possible only when an emergency arises. Such an emergency has now arisen and reform and changes are now possible that have not been possible in our day."⁵ As the Indian Finance Member, the man appointed to solve the situation arise due to 1857 crisis, Wilson resolved to introduce major institutional changes and hoped to ensure the influence of economic principles in the financial management of India. The major proposals made by Wilson included taxing the trader community, a government paper currency, reform of the financial system with budgets, estimates and auditing, creation of a civil police, and a department for public works and roads. He is also credited for having set up a military finance commission and a civil finance commission.

Wilson presented his budget on February 18, 1860. He introduced three kinds of taxes- income tax, license tax and tobacco duty. However, only the first one went through, as the other two were dropped on the request of Charles Canning, the then governor-general of India.

The first (Provisional) Budget of independent India was presented on November 26, 1947 by the country's Finance Minister RK Shanmukham Chetti. The revised budget was presented in March 1948. Total revenues stood at rupees 171 crore at that time and fiscal deficit was rupees 24.59 crore. The total expenditure was estimated rupees 197.29 crore and fiscal deficit was rupees 24.59 crore. The total expenditure was estimated at rupees 197.29 crore. Highest spending was on defense almost 45.6 percent of total expenditure. Defense expenditure was rupees 92.74 crore. Since 1947, there have been a total of 73 annual budgets, 14 interim budgets and four special budgets, or mini-budgets. These budgets have been presented by 28 finance ministers from different political parties.

III. BUDGET AND COMMON MAN

In olden days, Public Budget was considered only as a simple statement of receipts and expenditures of the Government. Then it manifest only two objectives; Rationalization of taxes, how government can levy less taxes on taxpayers, which is just enough to maintain its essential activities at a proper level of efficiency and Parliament should be informed plan of expenditure of the government to vote for appropriation of funds government usage.

That was the position of the public budget in a laissez-faire economy but, since the development of the concept of welfare state the activities of the government have expanded at a very fast rate and now they encompass almost every aspect of the socio-economic life of the community. As compared to the old days the size of the Budget has swollen many folds. Its capacity to affect the national economy has greatly increased. The government activities are reflected through public budgets and they affect the production and distribution of national income and the utilization of the resources of the country. The government with the help of the budget can impact on the level of economic activity through its policies on taxation, expenditure and borrowing. The borrowing policy of the government may lead to an increase or decrease in interest rate and mobilization of resources for economic development of the country. That is why Van Philips remarked, "The superiority of the Budget is due to its more firm and direct hold on the economy, the results of the budgetary policies are more direct."

Annual Financial Statement to Common Man

Budget is annual financial statement by government of India to common man. Article 112 of the Constitution of India provide that "the President shall in respect of every financial year cause to be laid before both the Houses of Parliament

⁵ Bhattacharya Sabyasachi, The Financial Foundations of the British Raj, Orient BlackSwan.1971



a statement of the estimated receipts and expenditure of the Government of India for that year"⁶. This annual statement in parliament referred to as the "annual financial statement" is also called as 'Union Budget' in general language. Article 113-117 different parliamentary procedure related to the budget. Here one may ask that despite constitutional provision President of India never present the budget in parliament. The Union Cabinet of ministers acts as executive arm of president of India for governance in the country. The President is represented by Union Finance Minister for budget presentation in both houses of parliament. Through the parliament government report its finances and fiscal policy to common citizen of the country. After presentation in parliament budget is open for everyone. Finance Minister and senior bureaucrats of finance ministry do press conferences to highlight details of the budget proposals. During these conferences they interact with representative of print and electronic media. Even during the budget presentation by the union finance minister special arrangement are made for media person in the parliament for proper coverage of budget speech. Now a day's Lokshabha and Rajyassbha TV carryout live broadcast of budget speech, which can be used by all other channels without any copyright violation. Proper media coverage is facilitated during the parliamentary debates on budget. There is continuous effort by government to engage common masses with budget process. All these effort shows the importance budget and its coverage in public life.

Constitutional Responsibility on Budget

With the attainment of Independence, the objectives, the policy framework and the environment of financial administration underwent a radical change. The conflict between popular will and aspirations and the policy and procedures which had characterized financial management in the country disappeared overnight. Even though the basic features of the Government of India Act, 1935, with regard to financial management, were retained, there was no fundamental disharmony between these instruments and the national priorities. These instruments could be and were altered according to the change in objectives of the governance. As discussed earlier the budgetary processes in India follow the procedure laid down in Articles **112 to 117** of the Constitution. Accordingly, Annual Budget of the Union, called the Annual Financial Statement of estimated receipts and expenditure, is to be laid before both Houses of the Parliament in respect of every financial year.

According to Constitutional provisions Budget is something related to the survival of government. Major component of the Budget is annual financial statement and finance bill. According article 117 of constitution of India Finance bill can be introduced by the permission of President of India and should be passed by lower house of the parliament. This implies that disapproval of finance bill by lower house will lead to fall of the government. Parliamentary procedure provides special power vested in members of the Lok Sabha to oppose a demand being discussed for any allocation by the government in the Finance Bill as part of the Demand for Grants. If the cut motion is adopted by majority vote in lower house, it amounts to a no-confidence vote. Government is obliged to resign according to the norms of the House. The provision shows the importance of budget for common citizens. If the government of the day becomes unpopular among elected representatives they have a chance bring it down every year during the budget discussions.

Public wealth and Budget

The funds with government of India belong to the common citizen of the country. Through the budget government take permission for the use of those funds. The budget proposals for use of public funds always need larger public scrutiny. A number of time public scrutiny on budget is communicated through media and parliament members to the government, which sometimes made government to take back unpopular proposal ion past. The Budget have provisions and estimates for the receipts and payments of government in three parts. Most the government accounts are kept in these ; Consolidated Fund, Contingency Fund, and Public Account.

Budget announcements and Common man

Budget announcement has far reaching impact on life of common man. The impact of the budget is continuously growing year on year, especially after the adoption of new economic policy in 1991. Now it is now only taxes but a lot more. We can categories utility of budget announcements for common man in following four heads;

Macroeconomic indicators

Micro economic indicators may be popular tem used by economist but it always describes a layman picture of the country's economy which is very important common citizens. According to famous economist Professor Gardner Ackley "Micro economics deal with division of total output among industries, product and firms and allocation of recourses among competing usage. It consider problem of economic distribution. It interest in relative prices of major

⁶ The Constitution of India. Chapter 2, Page 52 (2018)



goods and services.”⁷ It contains GDP Growth Rates, Agricultural Sector Growth, Industry Growth, Services Growth, Consumption by Demand, Private Consumption by Demand, Public Consumption by Demand. It also deal with Gross Fixed Capital Formation (GFCE), Consumption, Capital Formation, Gross Domestic Saving (GDS), Saving-Investment Gap, Bank Credit Growth, Bank Deposit growth, Fiscal Deficit, State Fiscal Deficit, Combined Deficit of Centre and States. Inflation, Export, Import, Trade deficit, Current Account Deficit, Capital Account, Debt Service Ratio, Forex Assets, External Debt, Short Term Debt, Exchange Rate are also dealt under micro economic indicators. In common words micro economic indicators deals with trends related to income, employment and prices of goods and services, which of utter importance for common man.

Centrally Sponsored Schemes (CSS)

The Union government supports several developmental initiatives at the state level which are directly connected social and economic development of common man. Every year budget outline detail plan for government spending in these schemes. These schemes are targeted at supplementing the efforts made by state governments as the central government has more resources at its disposal. The category of centrally sponsored schemes comprises programs that have a national outlook or a regional character. Earlier, there were nearly 67 centrally sponsored schemes, but many of them were phased out after the implementation of suggestions given by 14th Finance Commission.

The central welfare schemes at the state level fall into two broad categories. The first category is centrally sponsored core of core schemes, and the second is the central sector core schemes. While the Union government fully funds the central sponsored core of core schemes, centrally sponsored schemes are jointly funded by the Centre and states.

The six core of the core of core schemes under CSS;

- MGNREGA or Mahatma Gandhi National Rural Employment Guarantee Act
- National Social Assistance Program
- Umbrella Scheme for Development of Scheduled Castes
- Umbrella Programme for Development of Scheduled Tribes
- Umbrella Scheme for Development of Minorities
- Umbrella Scheme for Development of Other Vulnerable Groups

There are 29 other centrally sponsored schemes, which are listed under core schemes. Most of the flagship schemes of the Union government are covered under this category. The centrally sponsored core schemes are:

There are different models to fund of centrally sponsored schemes, but major part of the funding comes from the Centre. In most of the cases, the Union government and the states fund these schemes at a ratio of 60:40. In few cases, the funding ratio could be 80:20. In the case of north-eastern states, 90 per cent of the funds come from the central government. Union government spends around 12 percent of its annual budget on centrally sponsored schemes. Amount of funds allocated these schemes are very important for common man. Example, if government increase significantly for MGNAREGA, a rural laborer can assume that he will get more days of employment under this scheme. This will help his planning for the whole year. He can take a call that he need or need not to migrate to other place from his village for getting employment. Same happen with other centrally sponsored schemes.

Infrastructure Creation

Every year government announces a number of infrastructure development plans in the budget. These infrastructure creations are aimed to bring social and economic development in under developed area and to nurture new growth initiatives in relatively developed areas. Some of these infrastructures are created under centrally sponsored schemes and some others are commissioned by special grant to those infra projects. These spending are termed as capital expenditure of specific ministry related to that infrastructure. The infrastructure related in the can be classified in these major heads;

Transportation and Railways: Spending on Highways, Roads, Rural roads, Airport, Ports etc come in transport category. Though railways can be classified under transportation but it has a huge infrastructure development budget right from railways tracts, railway stations to running of new trains. Railways have huge impact of growth and development of the country. Till 2016 Ministry of Railways use to have separate budget which was presented by Rail Minister in the parliament.

⁷ Gardner Ackley, Micro Economic Theory, page.4 (1961)



Health and Educational Infrastructure: Spending on building new Hospitals, Medical colleges, Research Institute and grant for expansion of old facilities. And spending on building new Universities, Colleges, Research Institute and grant for expansion of old educational institutions.

Tax proposals

FM budget speech has to parts – Part A and B. Part A, deals with macroeconomic indicators and grants. Part B, deals with tax proposal or taxation policy for the fiscal year. Changes in tax systems are of two types, one is permanent and other is for specific period. Changes in taxes are done through finance bill. Tax changes directly affect the life of the common man. It can indirectly put burden on his pocket by price hike of products or directly by asking more taxes on his income. There are broadly two types of tax proposals;

(a) Direct Taxes

The taxes that are imposed on the assets and income of an individual and a company are known as direct taxes. Direct taxes are paid directly to the government by the companies and the individuals. Every earning member of the society anxiously waits for income tax relief on personal income in the budget. Any tax relief on corporate income result into lowering of prices and capital creation for new private investments.

(b) Indirect Taxes

Indirect taxes proposal affect tax on goods and services. Before implementation of GST in 2017, indirect tax proposal used to be main attraction of the union budget. Then changes in Excise duty on domestic products, Import duty (Custom duty) imported products and service tax on services used to be altered through the union budget. On 1st July 2017 a new indirect tax system has been introduced. Most of the central and state indirect taxes got subsumed in new tax called Goods and services tax which is popularly known as GST. Now GST council of state finance ministers under chairmanship of Union Finance Minister tax decision on most of indirect taxes. From 2018, Union budget only propose changes in custom duty on imported goods, excise duty on petroleum products, liquor, tobacco and tax and few other goods left out of GST system.

IV. EXECUTION OF THE BUDGET FOR PUBLIC GOOD

The execution of the budget is the most important responsibility of the executive government. The procedures for execution of the budget depend on the distribution and delegation of powers to the various operating levels. As soon as the Appropriation Act is passed, the Ministry of Finance advises spending Ministries/ Departments about their respective allotment of funds. The controlling officers in each ministry/department then assign and advise the various disbursing officers. The expenditure is monitored to ensure that the amounts placed at the disposal of the expenditure authorities are not exceeded without additional funds being obtained in time. Thus the financial system broadly consists of the following levels:

- Controlling officer: Normally the Secretary of the ministry/department acts as the controlling officer
- A system of competent authorities is set to issue financial sanction
- A system of drawing and disbursing officers exist and A system of payments, receipts and accounts works.

The Department of Revenue in the Ministry of Finance controls and supervises over the collection of direct and indirect taxes. Such control is executed through the Central Board of Direct Taxes and the Central Board of Indirect Taxes. These Boards exercise supervision and control over the various operational level officers, who implement different taxation laws.

Benefit of Budget

Rapid economic growth and social justice are primary goals of fiscal policy adopted by government of India in form of budget. Union budget affect life's of common man in more than one way.

Stimulate Economic Growth

Economic growth of a country means the sustained growth in its GDP. The primary objective of the government budget is, therefore to boost GDP growth by promoting balanced economic development and improving people's standard of living. That is done by bearing in mind general public welfare.



Resource Allocation

In every budget the government allocates more resources to the socially productive sector where there is a shortage of private initiatives, like – providing electricity to rural areas, health, education, public sanitation, etc. Further, the government also undertakes initiatives for promotion of domestic industry, micro small and medium enterprises (MSME), while taking away resources from a few other sectors to ensure balanced growth.

Poverty Alleviation and Employment Generation

Social welfare is the most central objective of setting a country's budget. This budget is set in such a manner to ensure that every Indian can meet basic requirements like housing, clothing, food, alongside basic education and healthcare. Further, a budget is also set by keeping in mind to boost economic activities for generation new jobs. Poverty can be eradication by generating more and more employment.

Reducing Inequality

To reduce inequality in the country, the government can undertake measures like imposing taxes or granting subsidies. The government usually imposes taxes on the country's richs to reduce their disposable income and undertakes schemes to aid the country's poor. These takes are used to run social sector schemes and provide subsidies to economically weaker section of society. Redistribution of income is another measure undertaken by the government to promote economic welfare.

Management of Public Enterprises

The government runs public companies in those sectors of economy, where private investment is not attractive. Budget support activities of such public enterprises by way of capital infusion and allocate funds to build new public companies. These enterprises need huge investment are build to support growth in different sector. Some examples are public sector banks, Power, Steel, coal and Oil PSUs. All these public enterprises support the development goal of government of India like employment generation and address supply gaps in industrial sector.

Impact of Budget on Common Man

The government budget impact on life of common man and society in many ways. The national budget is a document that, once approved by the legislature, allows the government to raise revenues, incur debts and effect expenditures in order to achieve development goals. Since the budget leads the origin and application of public financial resources, it plays a central role in the process of governance. In fact we can say that preparation and implementation of budget is primary function government. The impact of budget on social life can be summaries in following aspects;

Economic Aspect

The budget is the country's financial plan. As a tool of economic policy, the budget is the means by which the government seeks to achieve three key economic policy goals; first, fiscal discipline, by controlling aggregate spending in line with macroeconomic constraints; secondly, the allocation of resources in line with the government's development goals; and thirdly, the economic, efficient and effective use of resources in achieving its policy goals.

Political Aspect

The budget process ensures the people's representatives scrutinise and approve the raising of taxes, the contracting of debts and the application of public funds by government. Budget keep government under continuous public scrutiny. One can say, that preparation and implementation of budget is most important work related to the government. Better execution of budget relate to better performance of governance. Governments are remembered in future due to achieving development goals by prudent budget execution. Better budget execution can help to create popularity for the government of the day, which will result into political gains in elections.

Legal Aspect

Enactment of the budget in law by parliament restrictions the powers of government, since the government may not raise taxes, which are not been approved by parliament and cannot spend a penny without parliament approval. An auditor (CAG) is accountable to parliament, scrutinises the budget to ensure compliance with parliamentary approvals.

Managerial Aspect

The budget communicates government policy to public institutions by informing them how much can be spent for any specific purpose. In budgeting systems, this function may be reinforced by the inclusion of specific service performance targets within the budget document. Performance budget is integral part of every budget. Through this



document all the ministry and department put forward the details of achievements in past project program and schemes run through budget spending.

V. CONCLUSION

It is concluded that that budget impacts life of a common man at large. It impacts common man by imposing and relaxing in direct and indirect taxes. Now indirect taxes are included in GST (Goods and Services Tax). As budget mention all the expenditure and revenues of the government for a financial year. So government's expenditure on different development activities and new infrastructure activities. These are health, education, transport, railway etc. Government expenditure on Centrally Sponsored Schemes (CSS) and subsidies also impact life of a common man by giving them facilities, employment, and economic support.

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