FACULTY OF JURIDICAL SCIENCES

Lecture-25

Union Budget

The Union Budget is the blueprint of the Government's revenue and expenditure for a fiscal year, starting from 1st April of one year to 31st March of the following year. It is presented during the month of February so that it can be materialized before the start of a new financial year. According to Article 112 of the Indian Constitution, it is an extensive financial statement that presents the Government's estimation of revenue sources and estimated expenses for the year. It is classified into two parts – revenue budget and capital budget. Revenue budget contains the government's revenue receipts and expenditure, while the Capital Budget comprises of the government's capital receipts and payments.

The Union Budget for 2017-18 presented a noticeable shift in more ways than one. The date of its presentation was moved to the first working day of February from the last working day of the month. In addition to this, the Railway Budget also became a fundamental part of the Union Budget, a break from the 92-year old tradition of treating the Railway Budget as a separate entity.

Union Budget of India: A Brief History

The first Union Budget of India, a concept introduced when the country was still under the British colonial rule, was presented on 7th April, 1860, by the then Finance Minister of India, James Wilson. The first Union Budget of Independent India was presented on November 26, 1947, by Sir R.K. Shanmugham Chetty (the first Finance Minister of Independent India).

The first Union Budget was presented amidst widespread riots that followed the partition. This budget was planned for seven and a half months, after which the next budget was expected to be implemented from 1st April, 1948. It was also decided that India and Pakistan would both share the same currency till September 1948.

Following the resignation of Sir R.K. Shanmugham Chetty, the baton was passed on to his successor, John Mathai, who presented the 1949-50 and 1950-51 Union Budgets. The Union Budget of 1949-50 holds the record of being the first budget for a United India, which included all the princely states.

Types of Union Budgets

As mentioned above, the Union Budget can be classified into two parts – revenue budget and capital budget. Here is a look at what they mean:

- **Revenue Budget:** Revenue budget comprises of the government's revenue receipts and revenue expenditure. Revenue receipts can be further classified into tax revenue (income tax, excise duty, corporate tax, etc.) and non-tax revenue (interest, profit, fees, fines, etc.). Revenue expenditure refers to the regular expenses incurred from the daily functioning of the government as well as for the range of services offered to the public. In the event that

the revenue expenditure is greater than the revenue receipts, the government is said to incur a revenue deficit.

- **<u>Capital Budget</u>:** Capital budget, whose components are of a long-term nature, consists of capital expenditure and capital receipts. Some of the primary sources of government receipts include loans from citizens, Reserve Bank of India (RBI) and foreign governments. Capital expenditure, on the other hand, comprises of costs incurred on development and maintenance of equipment, machinery, health facilities, building, education, etc. When the government's expenditure is greater than the total revenue collected, a state of fiscal deficit occurs.

Objectives of Government Budget

Reallocation of resources – It helps to distribute resources, keeping in view the social and economic advantages of the country. The factors that influence the allocation of resources are:

Allowance or Tax concessions – The government gives allowance and tax concessions to manufacturers to encourage investment.

Direct production of goods and services – The government can take the production process directly if the private sector does not show interest.

Minimize inequalities in income and wealth – In an economic system, income and wealth inequality is an integral part. So, the government aims to bring equality by imposing a tax on the elite class and spending extra on the well-being of the poor.

Economic stability – The budget is also utilized to avoid business fluctuations to accomplish the aim of financial stability. Policies such as deficit budget during deflation and excess budget during inflation assist in balancing the prices in the economy.

Manage public enterprises – Many public sector industries are built for the social welfare of people. The budget is planned to deliver different provisions for operating such business and imparting financial help.

Economic growth – A country's economic growth is based on the rate of investments and savings. Therefore, the budgetary plan focuses on preparing adequate resources for investing in the public sector and raising the overall rate of investments and savings.

Decrease regional differences – It aims to diminish regional inequalities by implementing taxation and expenditure policy and promoting the installation of production units in underdeveloped regions.

Elements of a Government Budget

The main elements of a budget are:

a. It determines government expenditure and receipts.

b. The budget is estimated for a fixed period, typically for a year.

c. Investment and sources of finance are prepared with the objectives of the government.

d. All the budget needs to be passed by assembly or parliament before its implementation.

Importance of Budget

Following are the importance of budget:

a. Though budgets do not assure 100% success in economic stability, they help to bypass failure.

b. A budget is a tool that transfers a general idea into a productive, action-oriented, and inspirational goal.

c. It acts as a device that identifies and focuses on the development of an underprivileged person.

d. It provides a benchmark to evaluate success or failure in achieving goals and provides suitable improving measures.