CHAPTER - I
INTRODUCTION

Government has several policies to implement in the overall task of performing its functions to meet the objectives of social and economic growth. For implementing these policies, it has to spend huge amount on defense, administration, and development, welfare projects and various other relief operations. It is therefore necessary to find out all possible sources of getting funds so that sufficient revenue can be generated to meet the mounting expenditure. The government has to perform manifold functions like maintaining law and order and protecting their territories while implementing plans for economic and social betterment. They also provide a variety of social services like education, health, employment and housing to the people. Needless to say, Government requires more funds and other resources to discharge these functions effectively. The budget plays a very important role in the flow of funds in the economy.¹

Budgeting is an intricate and a complex process, containing many factors. It can be viewed as a puzzle. The pieces cannot always be arranged sequentially because several of them interact simultaneously. Although a beginning of the budget activity is indicated as a purpose for administration, it is actually a
continuous process and therefore does not necessarily follow a sequence in which it should be examined.\(^2\) The budget is future oriented in that it expresses anticipated actions as distinguished from an accounting balance sheet that indicates existing assets and liabilities.\(^3\)

As a financial blueprint of a government, budget is an important instrument to carry out its policies and programmes. It is through the budget that a government arranges financial resources and allocates them among competing uses. Budget is also a chief source of government finance statistics to facilitate research and decisions on fiscal and economic matters.\(^4\)

### 1.1 Budget: Meaning and Definition

The budget is not just a technical financial document. It is an astonishingly powerful tool of empowerment for economists and ordinary citizens.\(^5\) The word ‘Budget’ is derived from the French word ‘Bougette’, which means a small leather bag or ‘pouch’. It was first used in England to describe the white leather bag that held the seal of the medieval court of the exchequer. Later, the Chancellor of the Exchequer’s bag, containing his proposals for government expenditure became a ‘budget’.\(^6\)

A Government budget is a financial plan covering outlays and receipts, usually for a period of one year. It is also typically an occasion for spelling out the government’s economic and social
aims, and ways to achieve these. It plays a very important role in the flow of funds into the economy.\textsuperscript{7}

There is no precise, generally accepted terminology of budgeting. The word ‘budget’ is used of many kinds of statements of future plans and expectation, varying enormously in their form and content and the uses to which they are put. Different organizations have evolved their own terminology, and one will speak of ‘programmes’ or ‘forecasts’ whereas others, talk of ‘budgets’ or ‘estimates’. Before attempting to compare their practices, it is therefore necessary to define the terms in which they are to be described.\textsuperscript{8}

The Encyclopedia defines budget as, “the annual statement relative to the finances of a country, made by a proper financial functionary, which presents a balance sheet of the actual income and expenditure of the past year and an estimate of the income and expenditure for the coming year, together with a statement of the mode of taxation proposed to meet such expenditure”.\textsuperscript{9}

The chief characteristics of a budget are

- It is a plan or programmes for the future.
- It should not be considered merely a preliminary proposal; it is rather a plan of action.
- Items included in the budget are merely estimates.
- It is a comprehensive plan.
- It is generally an annual plan.
- It is always prepared and presented on behalf of the executive.
- It is put before the legislature to be voted for.  

Thus, ‘A budget is a comprehensive programme, ready for execution containing an estimate of revenue and expenditure for a definite period, usually a year, prepared and presented by the Executive before the legislature to be voted for’.  

The budget of a government is something more than a mere statement of financial transactions for a year. It is an operational document through which the executive and the legislature decide the act on estimates about programmes to be undertaken, expenditures to be incurred, resources to be raised and to be distributed. In a democratic country like India, the state is primarily responsible for implementing social welfare schemes and hence the public expenditure should be adequate for providing the people with education, public health, water supply, sanitation and social justice.  

1.2 Historical Background of Budgeting in India  

Till 1857 the country was in the possession of East India Company. All the powers in relation to Government were vested in
and were exercised by the company in trust for the British Crown. After the first unsuccessful War of Independence of 1857, these powers were transferred to and vested with the Queen, to be exercised in her name. But it was suited to the commercial practices of the East India Company. It was generally said that the British had provided so many good ‘Generals’ to India but not a single Finance Minister. The finance machinery established by the East India Company broke down during the Revolt of 1857, till then there was no finance member to look after the finance department. It was only in 1859 James Wilson was appointed as the Finance Member. He took historic steps to establish a budgetary system in the country. He presented his first budget to the Council on 18th February, 1860.

The establishment of the budget system in India was the greatest achievement of James Wilson, whereby the financial estimates of each year are arrayed, considered and approved by the Legislative Council before the commencement of the financial year. In this way, James Wilson is to be regarded as the ‘Father of the Budgetary System’ in India. He transplanted the British budgetary system in the country which grew successfully with the passage of time. The object of the new scheme was clearly expounded in the Financial Resolution of 7th April, 1860, which was published in the Government Gazette for general information. It explained the
advantages of framing estimates of the anticipated income and
proposed expenditure before the commencement of the financial
year especially in a large country like India, having many provinces
and departments.

The budget systems were introduced in India in the year
1860, but certain features were added to that system later on. The
Finance Member in India, theoretically had all the power which a
British Chancellor of Exchequer enjoyed, but in practice, there was
a great difference. In Britain, the Treasury had always wielded
great influence, but in India the Finance Member always depended
upon the support and influence of the Viceroy. The Finance
Members’ control over the budget was then absent.

The Council Act 1892 authorized the Governor-General of
India in council to frame rules authorizing discussions on the
budget in the Legislative Council. But such discussions, when
permitted under rules framed by the Governor-General were
subject to some conditions and restrictions. But this restricted
privilege was utilized by Indian members to voice their feelings and
grievances in a very restrained way. The Indian leaders who were
fighting like the early commons, to secure control over the public
purse were very much dissatisfied with the crippled right of
discussion so granted by the Act 1892.
1.2.1 Act of 1907

The government of India issued a circular in August, 1907, to the Provincial Governments inviting their opinion on some proposals incorporated therein. This circular was followed by the Dispatch from the Government of India to the Secretary of State, conveying the proposals for giving greater freedom of discussions on the Indian budget in the Imperial Legislative Council. It was proposed that the members should be given the liberty to move resolutions relating to the figures in any of the items appearing in the budget. Such resolutions should be in the form of recommendations to the Government. Lord Morley, the secretary of the state accepted these important suggestions as per his dispatch to the Government of India No. 193 dated 27th November, 1908. These suggestions were incorporated into the Council’s Regulations of 1909 framed under section six of the said Act. Later on an amendment to the Regulations was made which gave the members the right to discuss and move resolutions recommending modifications in the budget items, but they were not allowed to vote.

1.2.2 Government of India Act 1919

For amending the Government of India Act of 1915, Parliament passed the Government of India Act 1919. By this amendment the Legislature was given some power of very restricted
nature to vote upon some parts of the estimates. Certain items which were enumerated in detail were non-votable. They were charged on the revenues of India. The list of items of expenditure thus kept beyond the vote of Legislature was long and formidable. It substantially diluted the principle that the Legislature shall grant the money after giving an opportunity for the expression of grievances. Even in the matter of votable grants, the position was not satisfactory. The Government had always overruled the general opinion.

1.2.3 Act of 1935

The Government of India Act 1935, section 34(2) gave similar powers to either of the two chambers, but the Governor-General was given over-riding powers to restore a grant, either in whole or in part, which has been rejected or has been reduced. In his opinion the refusal or reduction would affect the due discharge of Government responsibilities. On many occasions the popular representatives refused supply or reduced some of the demands, which were restored by the Governor-General.

1.2.4 Indian Constitution

After independence, when Indian Constitution came into force, a new era began in the development of Government budgeting. Complete democratization of the Indian budgetary system was done under the provisions of the Indian Constitution.
As regards provisions of the Indian Constitution concerning budget procedure, the fundamentals of British procedure were adopted. As regards the day of the presentation of the budget, the financial year then commenced on 1st May. The first budget was presented by James Wilson on February 18, 1960, his successors have been presenting the budget every year, except 1873, and the three following years the budget was published in the Gazette and not presented to the council.

Wilson’s successor presented the budget on 27th April 1861. After 1892, the budgets were almost invariably presented in the month of March, though the dates varied. The first day of March, statements were presented till 1920. But the final budget was presented under the Council’s Regulations of 1909 on or before 24th March every year. The Indian Legislative Rules 1920 provided that the budget should be presented on the day or days as approved by the Governor-General. From 1921 to 1924 the First March was the date of presentation of budget. The budget for 1924-25 was presented on 29th February 1924 by Sir Basil Blackett, since then, the budget is being presented annually, on the last day of February with few exceptions. In the year 1962, due to general elections, the interim budget for the year 1962-63 was presented on 14th March, 1962 instead of the last day of February. This budget was finally presented in the parliament on 23rd April, 1962.
1.3 **International Status for Budget**

A budget occupies a leading place among the special tools of the government employed to direct and control the affairs of a nation. The budget has played an important part in the history of all countries.

1.3.1 **Budget in England**

In England, the budget system emerged along with Parliamentary control over the Crown. The budgetary system developed as part of the growth of people’s control over the Crown. In early days, the Crown used to impose taxes for meeting a particular expenditure. Thus the funds raised were specifically used for that purpose alone. With the Revolution of 1688 and the Bill of Rights in the following year, no man would be compelled to make any gift, loan or benevolence or to pay tax without common consent by the Act of Parliament. The accountability of the Government to Parliament also dates back to 13th or 14th Century, when Parliaments after spending the money in certain cases, called for an account from the king for the expenditure incurred.

During the Second Revolution when William of Orange came to throne the budgetary system of England was perfectly established. Up to 1688 it was the first phase of the development of Government budgeting, the second phase goes on from 1688 to 1856 when Gladstone became the Chancellor of the Exchequer.
During this period, various terms like ‘Money Bill’, ‘Consolidated Fund’, ‘Supplementary Grants’, etc were evolved. Beginning with the Peel-Gladstone era in 1840 due to the genius of Gladstone, budgeting occupied an important place in the national economy. It was he who introduced the concept of a ‘Public Accounts Committee’. It was in his time that the office of the Comptroller and Auditor-General was created and the Exchequer and Audit Departments Bill of 1866 was passed. The Court of the Exchequer maintained its separate existence until late in the 19th century when it became in the first place, a Division of the High Court and finally in 1880, lost its identity by being merged into the Queen’s Bench Division of the High Court.

1.3.2 Budget in United States of America

In the United State’s the budget system developed almost a century later than in Western Europe. The long delay in the development of a unified budgetary procedure was due to political changes, caused by American Revolution. During this period, the financial tasks of the Government were left in the hands of a Treasure Board. The Treasure Act created a Treasury with a single head and thus paved the way for content between Congress and the executive branch for dominance in budgetary matters. The first Secretary of the Treasury was Alexander Hamilton, and the
Congress of that time was unwilling to establish a unified budgetary process.

Gallatin became the secretary in 1801 and he recommended that the Committee be established in 1796, transformed into a Standing Committee to examine Treasury Reports on all budgetary matters including, revenues, expenditures and public debt. In 1814, this committee was relieved of the burden of its appropriation function. In the beginning of 1865 a separate House Appropriate Committee was established and then it failed. By 1885 there were eight Committees of the House with authority to recommend Appropriations. Later this was increased to ten in the House. The period from 1880 to 1909 was of extreme laxity in federal finance. With the beginning of the 20\textsuperscript{th} century, there was a growing sentiment inside and outside the Congress for an integrated budgeting system. A number of attempts after 1890 to tighten up federal fiscal procedure wakened public interest in budgeting procedure.

President William Howard Taft in June 1910, appointed a Commission on Economy and Efficiency, and assigned the task of studying the administration, organization and financial procedure of the Government. The Budget and Accounting Act 1921 also established a General Accounting Office under the direction of, the Comptroller General. There were several Congressional Committees
to help in budget procedure, but there was no co-ordination in their work until 1946 when a Legislative Re-organization Act was enacted. The Budgeting and Accounting Procedures Act 1950 brought another change in dividing responsibilities. It made agency heads responsible for their accounting system, and the Comptroller General was empowered to prescribe the forms of accounts and to review the system of accounting employed by the agencies. This is to be done with the consultation of Treasury and the Bureau of Budget.

1.3.3 Budget in Sri Lanka

Sri Lanka engaged in budget reform in 1969. This ultimately led to the widespread adoption of a system that closely paralleled the program budgeting. By 1974, virtually the entire government was presenting the budget in a program budget format. By 1975, a modest amount of performance data was also being presented by each of the twenty-three ministries.

The program budgeting reform was spearheaded by a program budget unit, which was established in the Ministry of Finance in 1971. This unit issued guidelines on budget preparation, designed the required documentation, advised departments on the development of performance measures and objectives, and reviewed department performance against budgeted targets. By the mid-1970s, the Sri Lankan budget reform seemed
to succeed. In 1977, the socialist government was replaced by a free-market focused government. The program budget unit was disbanded by the new government, depriving program budgeting from its focus and impetus. Department budget offices continued to submit the required reports for a time, but the sanctions that had existed for failure to do so were eliminated and ministries became much more lax in their adherence. Further, by the 1980s, the government no longer had any method of forecasting cash flows. Following the recommendation of the IMF, each ministry was required to report monthly expenditures, but not in relation to programs or performance. Sri Lankan budgeting came full circle; cash flow budgeting triumphed over performance monitoring.\textsuperscript{14}

1.4 Theoretical Background of Budget

Various theories have been proposed during the last three decades to offer explanations of different aspects of public expenditures. Several of them are normative and do not seek to offer an empirical or operational theory of budgeting. Some of them are models, which depending on the choice of the researcher, based on assumptions and seek to analyze the effects on prices, income, and income distribution on the pattern of public expenditure.

The theories contain several elements but only those strands of thought which have a direct impact on budgeting, as distinct from the wider philosophical issues relating to social choice, are
considered here. A detailed survey is obviously inappropriate, for it would divert attention from budgeting to the broader issues of public finance. In considering these theories, three major qualifications need to be kept in mind: (1) they have no settled body of knowledge, (2) they deal with societies that are essentially democratic, and (3) to a large extent they were developed in the western democracies.

Budgetary theory can be divided into three Aspects,

(a) The classical approach,

(b) The modern approach,

(c) The underdeveloped countries’ approach.

1.4.1 The Classical Approach

The classical approach towards budgetary theory was based on the economic fundamentals accepted at that time. The approach was based on the assumption of non-interference by the State. The classical economists were staunch supporters of ‘Laissez Faire’ policy. Under this theory an adequate financial policy for government is one in which the finance minister undertakes ‘prudent reduction of outlay’ and ‘skillful adjustment of resources’. A balanced budget may be achieved by either postponing certain payments or by reducing the quantity of stores, etc. But in the classical sense a balanced budget implies that total revenues and expenditures should balance without resort to any window-
dressing tactics. If there is any budget deficit, it should be made up either by increasing revenue through additional taxation or by economizing expenditure. The classical economists regarded ‘balanced budget theory’ as the doctrine of sound finance and it was supposed to be the natural rule for a full employed economy. Any departure from this doctrine leads the government to extravagance.

The French economist, J.B. Say, was as vehement as Adam Smith in his opposition to unbalanced budgets. He was of the opinion that budget deficits are due to wasteful governmental expenditure. He believed that the wealth which passes from the hands of tax payers to the tax gatherer is consumed and destroyed. Other classical economists like Ricardo, Malthus, J.S. Mill too, were of the same opinion. Mill stressed that government borrowing to meet the budget deficits is harmful, as it destroys capital. An important change in these views was made by Dalton, though he also favoured balanced budget. He applied the principle of marginalise to public finance. He advocated that disutility from taxation should be equal to the utility derived from public expenditure. Utilities and disutilities are balanced when the budget is balanced.
1.4.2 The Keynesian Approach

Keynes is of the opinion that full employment does not exist. Unemployment in the present economic set-up is due to deficiency in effective demand. He advocated full employment as the goal of budgetary policy and pleaded for full employment budget. This change of the approach as compared to classical approach was made necessary due to increasing responsibilities on the part of the government, and nature of the present economic society. He pleads that the budget should not necessarily be balanced and it should not be a small one. A deficit budget is an index of the government efforts for raising the level of income, output and employment. It is demanded that government should follow a systematic budget policy to compact unemployment and raise the level of income and output. This led to modernization of traditional budgetary policy. It is felt that the effects of taxation and public expenditure on production, employment and income are not confined to a particular fiscal year, but have far-reaching efforts on various sectors of the population and on the economy as a whole. The budget policy of a government brings about a continued transfer of wealth from one set of persons to another.

Alvin Hansen, who is regarded as American Keynes, attacked the classical principle of balanced budget and gave numerous suggestions to improve budgetary technique to make budgets more
flexible and of greater use. Hansen, discussing the problem of balancing the budget, points out that the expenditure incurred by a state can be divided into ‘operating expenditure’ and ‘capital expenditure’. Some countries, notably Sweden, in order to exhibit these expenditures adopt ‘double budget system’. The current and operating expenses are accounted, in the operating budget, and the capital outlays in capital or investment budget. In a modern community characterized with wide fluctuations in income and employment, it will not be possible to cover even the regular expenditures with the current tax receipts. He laid emphasis on increased public expenditure in depressions as the primary solution to unemployment, he does not object to budgetary deficits under such cases.

The theory of cyclical budgeting is based on the idea that the public expenditure has a tendency to check economic fluctuations. Under a scheme of cyclical budgeting, an attempt is made to shift certain public expenditures from prosperity to depression period. Halm points out that in following an anti-cyclical budgetary policy we give up old fashioned ideas and consider unbalanced budgeting during depression. Lord Beveridge, who was another exponent of the Keynesian school, viewed that the national budget should be drawn not on the basis of purely financial considerations but on the income and expenditure of the community as a whole.
According to him, the primary objective of government’s economic and fiscal policies should be to achieve the goal of full employment of human and material resources, so that poverty misery, unemployment and starvation may be removed from the national economy.

Thus Keynesian approach to budgetary theory did not emphasize balanced budgets. The approach was that of a ‘Managed or controlled Budget system’. The approach implies adjustments on public taxation and expenditure for the purpose of attaining economic stability. According to this approach, the budget is a means and not an end. The end is to achieve full employment of human and material resources of the country.

1.4.3 Underdeveloped countries’ Approach

Before considering the underdeveloped countries’ approach, it is necessary to understand what an underdeveloped country is. According to the United Nations experts, an underdeveloped country is one in which, “on the whole, production is carried on with a relatively small amount of real capital per head and with relatively backward techniques in the broadest sense of the world”.

According to E.M. Bernstein, “The best test of an underdeveloped country is its level of real income and the rate at which per capita real income is increasing. In short, an underdeveloped country is one in which output per capita is relatively low and in which
productive efficiency is increasingly very slow if at all”. Thus an underdeveloped country is characterized by low levels of income and investment. It has a vicious circle of poverty having predominantly agricultural economy and large unemployment.

Budgetary theory is thus, at the crossroads. Quick development will surely demand sufferings and sacrifices on the part of the people. Hence for an underdeveloped or developing country economic balance is more important than budget being balanced. Efforts should be made to make the economy balanced and at the same time keeps it growing. Stability in the budget will be helpful in bringing stability in the economy of a country. Stability should not be taken for stagnation, but for steady growth. This will stimulate economic growth, maintain a reasonable level of income, saving, investment and employment, where there will be no wider economic fluctuations.15

1.5 Budgeting and Budget System

The words “budget” and “budgeting” have varied meanings, the definitions depending upon what particular referent is in mind. In other words, “budget” has different meanings for the family, corporation, and government. Budgeting as a decision making process can best be understood in terms of a system, which can be defined simply as “a set of units with relationships among them”. Budgetary decision making, consists of the actions of executive
officials (both in a central organization such as the governor’s office or the mayor’s staff and in executive line agencies), legislative officials, organized interest groups, and perhaps even unorganized interests which may be manifested in a generally felt public concern about public needs and taxes. All these actions and interactions relate to each other, and understanding budgeting means understanding these interrelationships. Such understanding is best achieved by thinking in terms of complex systems. A complex social system is composed of organizations, individuals, the values held by these individuals, and the relationships among these units and values. A system may be thought of as a network typically consisting of many different parts with messages flowing among the parts.

In a budgetary system, the outputs flowing from this network of interactions are budget decisions that will vary greatly in their overall significance. Not every unit of the system will have equal decisional authority or power. A manager of a field office for a state health department is likely to have less power to make major budgetary decisions than the administrative head of the department, the governor, or the members of the Legislative Appropriations Committee. Yet, each participant does contribute some input to the system. The field manager may alert others in the system to the rise of a new health problem and in doing so, may
have contributed greatly to the eventual establishment of a new health program to combat the problem.

As with the outputs of any other system or network, budget decisions are seldom final and are more commonly sequential. Decisions are tentative in that, each decision made is forwarded for action by another participant in the process. This does not mean that all decisions are reversible. Major breakthroughs like passage of the Elementary and Secondary Education Act of 1965, which provided sizable federal aid to education, is not readily abandoned. Subsequent budget decisions are therefore, in large part bound by previous decisions. As the increment list model stresses, decisions tend to center on the question of changing the level of commitment allocating more resource and different kinds of resources to achieve higher levels of impact or different types of impacts. Once a breakthrough is achieved, there will be little opportunity for deciding to eliminate the established program.

Another feature of a system is that a change in any part of it will alter other parts. Since all units are related, any change in the role or functioning of one unit necessarily will affect other units. In some instances, changes may be of modest nature that their ramifications are difficult to discern in other parts of the system. In a truly parliamentarian form of government the budgetary system is designed to serve the cardinal norms of financial and
legal accountability of the Executive to Parliament, and within the Executive, of subordinate authorities to controlling officers. Financial accountability implies that funds are raised and expenditure incurred by the executive departments strictly in accordance with legislative authorizations. Financial accountability is observed both in terms of the quantitative limit of resources and the purposes for which the financial sanctions have been actually made by the legislative authority.

In order to observe the norm of accountability, the administrative budget is classified in terms of objects, character of the expenditure and organization unit. Under object classifications, public expenditure is classified in accordance with different items of expenditure, like personal services, transfer payment, the purchase of commodities, and the purchase of property. The object classification of budget aims at sharply limiting the discretionary power of the executive departments. It may be considered as a major improvement in government budgeting. It may be noted here that lack of faith and distrust of both legislators and citizens at large for administrators serve to strengthen the philosophy of object classification. It represented a major budgetary innovation as the budget account could be easily linked with the government accounting systems. The line-item classification of budget focuses its attention on government
operation, mainly in terms of things bought, and rendered it possible to formulate a uniform pattern of accounts to the government. This is because departments and agencies within government, and among government, tend to purchase the same things.

Under the traditional budget system, in which the budget expenditures are normally classified, not by reference to the programs or objective which a particular expenditure is intended to serve, but rather by the type of expenditure involved, the system becomes grossly deficient in information on costs and output. Consequently, the scope for planning is greatly constrained and the process of analysis of alternative courses of action for achieving objectives is largely impaired.17

1.6 Classification of Public Budgets

On the basis of nature of functions the public budgets are classified as

- **Balanced Budget**

  A Budget is said to be balanced when both the proposed expenditure and anticipated revenue are equal. In a balanced budget there is neither any deficit nor any surplus. While framing the budget every possible effort should be made to have a balanced budget.
• **Unbalanced Budget**

  When a budget shows that the government proposed expenditure and anticipated revenue are not equal, it is said to be an unbalanced budget. The imbalance may be due to excess of expenditure over income or an excess of income over expenditure.

• **Revenue Budget**

  Revenue Budget consists of revenue receipt from Government, and the expenditure is met from these revenues. Tax revenue comprises of proceeds of taxes and other duties levied by the union government. Other receipts of government mainly consist of interest and dividends on investments made by the government, fee and other receipts for services rendered by the government.

• **Capital Budget**

  Capital Budget consists of capital receipts and payments. The main items of capital receipts are loans raised by the government from public. Capital expenditure is met out of capital receipts or receipts on acquisitions of assets. Besides, loans advances granted by Central Government to State Governments, Government Companies, Corporations and other parties are also included in the capital expenditure.
• **Surplus Budget**

When the public revenue exceeds the public expenditure it is called surplus budget. A surplus budget decreases the liabilities of the government or increases its revenue.

• **Interim Budget**

It is one which is prepared for an interim period which means less than twelve months. In case there is a delay in preparing regular budget for full year then an interim budget is prepared so as to meet the expenditure in between.

• **Ordinary Budget**

Ordinary Budget is that which is prepared in ordinary circumstances one year. It is prepared during the normal course of time.

• **Deficit Budget**

When the proposed expenditure exceeds the anticipated income, it is called deficit budget. In a planned economy, the Government usually prepares deficit budget so as to meet development expenditure. A deficit budget increases the liability of the government or decreases its revenue.

• **Supplementary Budget**

In case, during the course of regular budget the expenditure exceeds the revenue or the government is required to incur
expenditure on some specific project for which no provision was made in the regular budget, supplementary budget is prepared so as to meet this extra expenditure.

- **Emergency Budget**

Emergency budget is that which is prepared to meet emergency situations, such as war, heavy depression, and natural calamities and so on.\(^\text{18}\)

### 1.7 Budget and Economic Development

Improvement in the standard of living of the fellow human being is one of the essential objectives of all activities including mining, manufacturing, agriculture, trade and commerce, and all government operations. All these activities are directed, essentially towards creation of wealth. The net measure of their joint economic success is provided by the growth of net real per capita national income. Apart from the direct and indirect links between the budgets of industrial, agricultural, business enterprises and government budgets, the direct link to the national income budgets is much stronger. In effect, budgeting provides a set of economic tools for national economic advancement. Thus budgeting is essentially an economic service for the entire nation. Every central Government budget in India takes into account few objectives and the priorities are given to those objectives to promote economic development of the country.
The government expenditure on the social sector was an important aspect of the development expenditure of a country. In the developed economies, the emphasis had been usually on evolving development strategies in terms of promoting the human well being of the country rather than on the growth of GNP for coming out successfully in the ultimate test of their success. Good health, education and such other basic capabilities of the people are very valuable not merely for their intrinsic worth in themselves, but to serve as the inputs on the growth process. The expenditure on the social sector had been increasing in India in recent times as it promotes the process of development. The Government of India was committed to establish a Welfare State rather than a Law and order state alone. The economic development depends on many factors which are briefly explained as follows.

1.7.1 Growth with Justice

The basic objective of every central budget has been a conventional one which was adopted for the past several years, viz. growth with justice. Equitable distribution and social justice cannot be achieved through increased production alone. Hence, the various budgets entail special programmes to improve the standard of living, as well as the quality of life of the under privileged sections of the community. The urgency imparted to the implementation of land reforms, provision of house sites,
emancipation of bonded labour etc., through the twenty point economic programme were all in the direction of growth with justice. The prime objective of the central budgets has been to stimulate the economy, to achieve a higher rate of growth in output and employment and simultaneously to ensure that the fruits of economic progress are as widespread as possible.

1.7.2 Agricultural Development

As India lives in her villages, the foremost priority is given to programmes of agricultural development and supporting factors like power, irrigation, fertilizers and pesticides. The abolition of mass poverty in India can be ensured only through sustained attack on rural poverty. But, an effective attack on rural poverty and on under employment can only be planned in the frame work of an integrated programme of rural development. Inspite of repeated assertions of the need to improve conditions in rural India, the rural sector has not yet received a fair share of the total invisible resources. The various Indian budgets have stressed the need for a systematic and integrated use of our national resources in the agrarian sector and have tried to engage every person in production and social occupation for earning to meet his basic minimum needs.
1.7.3 **Industrial Growth**

Indian budgets have always deliberately laid emphasis on industrialization, and significant progress has been made in diversifying her industrial structure. Even then, the industrial growth rate has been highly unsatisfactory. Larger proportion of resources available to the public sector is diverted to agricultural development. Resources for industrial growth will have to be found by enterprises themselves generating internal resources of their own through more efficient operation as well as more effective pricing policies. The central budgets continue to pay special attention to the development of industries such as fertilizers, pesticides, cement, power and petroleum which have an important bearing on agricultural productivity.

1.7.4 **Employment**

Experience in the last thirty years shows that the unemployment problem cannot be solved through exclusive reliance on industrialization, and hence new strategies will have to be evolved in future budgets to provide gainful employment on a large scale in the rural areas. More irrigation, double cropping, better cultural practices, increased use of fertilizers etc., will certainly create more job opportunities. Further, construction of network of rural roads, expansion of marketing, processing of local produce in the villages will provide more employment in rural
areas. Population control should also be taken as an integral part of budgetary policy and any investment necessary for family planning should be undertaken without any hesitation.

1.7.5 Export Promotion

Budgetary measures should boost up the exports. Increase in the volume of exports at the annual rate of over eight per cent is an essential condition to establish equilibrium in the balance of payments. India should push ahead in the international markets where exports can be encouraged. The Indian government should be committed to provide a stable policy framework conducive to continued expansion of exports through the budgets.

1.7.6 Economic Stability

The significance of maintaining full employment was revealed by the experience of the Great Depression of 1930’s and the importance of price stability was underlined by the widespread inflation in the post-war era. Price stability suggests the avoidance of sharp movements (short term) in the general level of prices. Most economists favour both price-level stability and flexibility of relative prices. The state acts as a balancing force of the economy, by deliberately manipulating its revenue expenditure process to off-set the fluctuations and maintain stability, for these anti-cyclical budgetary operations.
The above cited budgetary objectives in India are not basically different from the economic goals of allocative efficiency, economic growth, stability and optimum income distribution which guide fiscal policy in advanced countries of a free enterprise base. Budgets are the instrument of economic betterment and stability. They provide the material soil within which human dignity and political freedom can grow by way of overall economic development of the nation.19

1.8 Need for Budget

Budget covers, budget expectations, live telecast/webcast of budget speech, discussions and analysis on various TV channels/newspapers/magazines, elation and disappointment, joy and distress. It is like a carnival. But have we ever pondered over the need to prepare our own household budget? More often we tend to live from salary to salary, without seriously giving thought to either balancing our own budget or financial planning.

To the question one may ask – “Why budget?” The answer is – B.U.D.G.E.T.

- **It is a Beacon**

Budget is the roadmap to our financial success and independence. Budget tells us where we are heading financially. Living without a budget is akin to driving without any destination in mind. We will burn up a lot of petrol (a costly proposition) and
still end up nowhere. Budget provides the necessary ‘purpose’ and ‘direction’ to our financial journey. A budget can act as an early warning signal, which can help us to take corrective action on any financial disaster.

• **Checks Unnecessary Spending**

A budget shifts the power from money to you. You become the master and manage the money rather than money managing you. On one hand the income is usually limited. But when it comes to spending, the options are almost unlimited. This is true today with the boom in consumerism. Therefore, it becomes imperative that we manage our resources diligently to prevent any financial stress and meet our important expenses – food, clothing, shelter, education and comfort. Once we list down our expenses we can identify the areas of financial waste and take necessary steps to curtail needless expenses.

• **Helps Manage Debt**

A budget warns us if we are living beyond our means. With easy availability of finance – by way of credit card, personal loans and EMI-based purchases we tend to overspend and end-up straining our finances, even before we realize it. This results in debttrap and the consequent and trauma. Budget helps us to prevent the debt traps. Suitable aligning of spending pattern can
free up a lot of cash, which can be used to rationalise one’s debt and work towards becoming debt-free in due course of time. We can then manage debt to our advantage, rather than compromise our future for a few moments of pleasure today.

- **Promotes Goal Setting**

  We all have certain basic needs. Apart from this we also have our dreams and aspirations, be it a car, a house, children’s education, marriage or foreign trip. It all usually ends up on the question of money. A clear view of our financial position assists in defining our possibilities. It helps the family to prioritize and focus on important goals. The financial milestones get defined. More important is that it sets a direction for our saving and investment pattern, it helps in proper asset allocation. Usually we earn, we spend and whatever remains we save. This strategy generally fails to build-up the desired wealth. Instead, we should first earmark a percentage of our income towards savings and investment, and then work out the expenses around the balance income. This discipline of forced savings is a must to curtail impulse buying.

- **Prepares for Emergencies**

  Any emergency for example, an immediate need for medical attention, can be very traumatic. If on top of this we have no idea of how to arrange for finance at a short notice, then we are only
compounding the problem. If we are in control of our finances, we can deal with any crisis situation more effectively. While making a budget we should plan to set aside a small amount regularly and build up an ‘emergency corpus’. This will come in quite handy and this amount should be kept in a short term investment like bank fixed deposit or money market mutual fund so that it is easily accessible. In case any money from our ‘emergency corpus’ has been used; replenishing it should be the top priority.

- **Taste financial Success**

A budget helps us to stop worrying and start ‘enjoying’ our money. As we keep achieving our desired goals as planned, there is a sense of satisfaction, a sense of achievement. When we are out for a movie or dinner or on a vacation, we don’t have any unpaid bills haunting us. The taste of this financial success is sweet and long lasting than any impulse purchase. **Before concluding a warning – preparing a budget is relatively the easier part of the job. The difficult part is adhering to it – month after month, year after year. It requires time and commitment.**

1.9 **Items Included in Union Budget**

In the Budget 1987-88 the Government of India adopted a new classification under which public expenditure was classified as Plan expenditure and Non-Plan expenditure. Plan expenditure includes expenditure on:
Central plans such as development of agriculture, rural development, irrigation and flood control, energy, industry and minerals, transport, communications, science and technology and environment, social services and others.

Central Assistance for the Plans of the States and Union Territories.

Non-Plan expenditure comprises of Expenditure on Revenue Account, and Expenditure on Capital Account.

- **Expenditure on Revenue Account**: All expenditures incurred out of the proceeds of taxes and other revenue receipts are included in this category. It means the expenditure incurred out of money balances created or owned by the Government.

- **Expenditure on Capital Account**: Capital account includes all these money which is neither owned nor created by the government, like loans, deposits, and collections which cause changes in physical assets owned by the Government.

### 1.9.1 Components of Revenue Expenditure

Revenue expenditure is composed of general services and defense services, social services, economic services and grants-in-aid to states. Each of these is explained below.

#### 1.9.1.1 General Services

General services includes the expenditure on the following.
- Organs of the state-parliament, president, vice-president, council of ministers, administration of justice, elections, comptroller and auditor general and his office.

- Fiscal services like collection of taxes, customs duties, currency, coinage and mint.

- Debt service like interest charges on internal and external loans.

- Salaries, allowances, pension and other retirement benefits to the government employees including defense forces.

### 1.9.1.2 Social Services

Expenditure on education, sports and youth services, art and culture, medical public health family services, water supply sanitation, housing and urban development, information publicity and broadcasting, labour and employment, nutrition, relief on account of natural calamities, social security and welfare, welfare of scheduled castes and scheduled tribes and other backward classes and secretarial – welfare services are included under this head.

### 1.9.1.3 Economic Services

Expenditure in respect of secretariat and attached offices of the following ministries and departments are included under this head:

- Agriculture and allied activities
- Rural development
- Special areas programmes
- Irrigation and flood control
- Energy
- Industry and Minerals
- Transport
- Communication
- Science, Technology and Environment
- General economic services.

1.9.1.4 Grants –in- Aid and Contributions

Grants - in – aids are given to the state governments and Union Territories for filling the revenue gap for other specific purposes.

1.9.2 Components of Capital Expenditure

Capital expenditure of the government of India is composed of general services including defense services, social services, economic services, public debt and loans and advances. Capital expenditure may be the expenditure on different fields such as

1.9.2.1 General Services

Expenditure on general services of capital nature is included under this head, for example, expenditure on currency note press, bank note press, security paper mill and mints at Kolkata, Mumbai and Hyderabad. It also includes capital expenditure on other fiscal services such as collection of taxes on income and expenditure,
collection of taxes on wealth and gift tax, union excise duties and commodity taxes, stationary and printing, public works and other administrative services and miscellaneous general services. Besides this defense expenditure is also included under this head. The capital expenditure on general services is chiefly on the office and administrative buildings. So far as the defense expenditure is concerned it refers to the non-residential buildings, ordinance factories, machineries, tools and equipment

1.9.2.2 Social Services

Capital expenditure on education, sports, arts and culture, medical and Public health, family welfare, water supply and sanitation, housing and urban development, information publicity and broadcasting, welfare of schedules castes, scheduled tribes and other backward classes, social security and welfare and other social services, are included under this head. The expenditure increases the standard of living of people and thus leads to an increase in the efficiency and productivity of human resources of the country.

1.9.2.3 Economic Services

Under this head, capital expenditure on agriculture and allied services, rural development programmes, special area development programmes, irrigation and flood control, capital expenditure on power and energy projects, capital outlay on industry and minerals,
capital expenditure on transport, capital expenditure on technology and environment and capital expenditure on general economic services are included.\textsuperscript{21}

1.10 Social Sector

Social sector refers to that capital stock and to those of the institutions which provides services to the producers indirectly. As a result of such services, the productive capacity of the people increases. A sound mind and sound body is essential for an economic change as the people are involved in the process of economic development. To a significant extent, a good mind is a gift of nature, but the possibility of developing a good mind and a good physique through good education, good training, good housing and good medical care by human efforts can not be underestimated. The significance of the social sector in the form of schools, colleges, hospitals and housing facilities which serve as the basic elements for human growth in terms of a robust physique and a dynamic brain become very important in this respect. In an underdeveloped economy the first and foremost thing to be borne in mind is that economic development alone is not a sufficient and complete condition to ensure an all round and complete development of that country. Though, there has been a rise in per capita real income in the underdeveloped countries, it has failed to reach the common man and the masses.
United Nations Research Institute for Social Development (UNRISD) adopts a broad definition of social sector development—one that is concerned with processes of change that lead to improvements in human well-being, social relations and social institutions, and that are equitable, sustainable, and compatible with principles of democratic governance and social justice. The definition emphasizes social relations, institutional arrangements and political processes that are central to efforts to achieve desirable development outcomes. It includes material achievements, such as good health and education, access to the goods and services necessary for decent living, social, cultural and political achievements, such as a sense of security, dignity, the ability to be part of a community through social and cultural recognition, and political representation.22

Social sector development depends on total expenditure and their effective implementation. Providing greater resources for social development will create greater opportunities for growth. The annual budget is the most crucial policy document to judge the social and economic priorities accorded by the governments. The social sector expenditure is the total of the expenditure on social services and rural development by the central and the state governments. Social services include education, health, housing, water supply and sanitation. Rural development which has been
listed under the economic services in the budget classifications was related mostly to the various anti-poverty programmes. The combined social sector expenditure of the central and the state governments put together provides the best picture of India’s commitment towards the social sector.

The government expenditure on the social sector is an important aspect of the developmental expenditure of a country. In the developed economy the emphasis is on evolving development strategies in terms of promoting the human well being of the country rather than on the growth of the Gross National Product (GNP) for coming out successfully in the ultimate test of their success. Good health, education and such other basic capabilities of the people are very valuable not merely for their intrinsic worth in themselves, but also to serve as the inputs in the growth process, which will contribute to further improvement of the well being of the people. The Government of India is committed to establish a Welfare State rather than a Law and order state alone. Therefore the expenditure on the social sector has been increasing in India in recent times as it promotes the process of development.

The social sector expenditure can be broadly classified into:

- Education, art and culture
- Medical and public health, water and sanitation
There are three ways of examining trends in social sector expenditures. The first is to calculate it as a percentage of overall government expenditure, the second is to look at social sector expenditure as a proportion of GDP, and the third option is to look at real per capita social sector expenditure.

**1.10.1 Union Government’s Budgetary Expenditure on Social Sector and Total Union Government’s Expenditure**

Development of social sector is nothing but the development of whole economy. Union government’s budgetary expenditure on social sector shows an increasing trend every year. The following table shows the percentage of union government’s budgetary expenditure on social sector to total union government’s expenditure.
Table 1.1  Percentage of Union Government’s Budgetary Expenditure on Social Sector to Total Union Government’s Expenditure (‘ in Crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Union Government’s expenditure on Social Sector</th>
<th>Total union Government’s Expenditure</th>
<th>Percentage of social sector Expenditure to total Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991-92</td>
<td>39,255</td>
<td>1,11,414</td>
<td>35.23</td>
</tr>
<tr>
<td>1992-93</td>
<td>44,468</td>
<td>1,22,618</td>
<td>36.27</td>
</tr>
<tr>
<td>1993-94</td>
<td>49,451</td>
<td>1,41,853</td>
<td>34.86</td>
</tr>
<tr>
<td>1994-95</td>
<td>55,143</td>
<td>1,60,739</td>
<td>34.30</td>
</tr>
<tr>
<td>1995-96</td>
<td>63,975</td>
<td>1,78,275</td>
<td>35.88</td>
</tr>
<tr>
<td>1996-97</td>
<td>71,896</td>
<td>2,61,007</td>
<td>35.78</td>
</tr>
<tr>
<td>1997-98</td>
<td>81,427</td>
<td>2,32,053</td>
<td>35.08</td>
</tr>
<tr>
<td>1999-00</td>
<td>1,13,690</td>
<td>2,98,053</td>
<td>38.14</td>
</tr>
<tr>
<td>2000-01</td>
<td>1,24,919</td>
<td>3,25,592</td>
<td>38.36</td>
</tr>
<tr>
<td>2001-02</td>
<td>1,29,253</td>
<td>3,62,310</td>
<td>35.67</td>
</tr>
<tr>
<td>2002-03</td>
<td>1,33,648</td>
<td>4,13,248</td>
<td>32.34</td>
</tr>
<tr>
<td>2003-04</td>
<td>1,46,164</td>
<td>4,71,203</td>
<td>31.01</td>
</tr>
<tr>
<td>2004-05</td>
<td>1,64,077</td>
<td>4,98,252</td>
<td>32.93</td>
</tr>
<tr>
<td>2005-06</td>
<td>1,89,430</td>
<td>5,05,738</td>
<td>37.45</td>
</tr>
<tr>
<td>2006-07</td>
<td>2,22,988</td>
<td>5,83,387</td>
<td>38.22</td>
</tr>
<tr>
<td>2007-08</td>
<td>2,65,466</td>
<td>7,12,671</td>
<td>37.24</td>
</tr>
<tr>
<td>2008-09</td>
<td>3,59,849</td>
<td>8,83,956</td>
<td>40.76</td>
</tr>
</tbody>
</table>

Source: *Hand Book of Statistics of Indian Economy, RBI, Various Issues*

Table 1.1 reveals clearly that the percentage of union government’s budgetary expenditure on social sector to that of the total union government’s expenditure ranges from 31.01 percent in 2003-04 to 40.76 per cent in 2008-09. The Social sector expenditure is the highest in 2008-09 with `3,59,849 crores (40.76 per cent of total union government’s expenditure)

### 1.10.2 Union Government’s Budgetary Expenditure Social Sector to GDP and Per capita Expenditure

The per capita expenditure on social sector increases even though population increases. It may be because of increased
allegation for union government’s budgetary expenditure on social sector. But the percentage of union government’s budgetary expenditure on social sector to that of GDP often fluctuates. The following table shows the details clearly.

Table 1.2  Union Government’s Budgetary Expenditure on Social Sector to GDP and Per capita Expenditure

<table>
<thead>
<tr>
<th>Year</th>
<th>Union Government’s Expenditure on Social Sector (` in Crores)</th>
<th>GDP at factor cost</th>
<th>Percentage of Expenditure on social sector to that of GDP</th>
<th>Total Population</th>
<th>Per Capita Expenditure on Social Sector in `</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991-92</td>
<td>39,255</td>
<td>5,94,168</td>
<td>6.61</td>
<td>85.6</td>
<td>458.58</td>
</tr>
<tr>
<td>1992-93</td>
<td>44,468</td>
<td>6,81,517</td>
<td>6.51</td>
<td>87.2</td>
<td>509.95</td>
</tr>
<tr>
<td>1993-94</td>
<td>49,451</td>
<td>7,92,150</td>
<td>6.24</td>
<td>89.2</td>
<td>554.38</td>
</tr>
<tr>
<td>1994-95</td>
<td>55,143</td>
<td>9,25,239</td>
<td>5.95</td>
<td>91.0</td>
<td>605.96</td>
</tr>
<tr>
<td>1995-96</td>
<td>63,975</td>
<td>10,85,289</td>
<td>5.90</td>
<td>92.8</td>
<td>689.38</td>
</tr>
<tr>
<td>1996-97</td>
<td>71,896</td>
<td>12,60,710</td>
<td>5.70</td>
<td>94.6</td>
<td>760.00</td>
</tr>
<tr>
<td>1997-98</td>
<td>81,427</td>
<td>14,01,934</td>
<td>5.80</td>
<td>96.4</td>
<td>844.67</td>
</tr>
<tr>
<td>1998-99</td>
<td>98,127</td>
<td>16,16,082</td>
<td>6.70</td>
<td>98.3</td>
<td>998.24</td>
</tr>
<tr>
<td>1999-00</td>
<td>1,13,690</td>
<td>17,86,526</td>
<td>6.36</td>
<td>100.1</td>
<td>1,135.76</td>
</tr>
<tr>
<td>2000-01</td>
<td>1,24,919</td>
<td>19,25,017</td>
<td>6.48</td>
<td>101.9</td>
<td>1,225.89</td>
</tr>
<tr>
<td>2001-02</td>
<td>1,29,253</td>
<td>20,97,726</td>
<td>6.16</td>
<td>104.0</td>
<td>1,242.81</td>
</tr>
<tr>
<td>2002-03</td>
<td>1,33,648</td>
<td>22,61,415</td>
<td>5.90</td>
<td>105.6</td>
<td>1,265.60</td>
</tr>
<tr>
<td>2003-04</td>
<td>1,46,164</td>
<td>25,38,170</td>
<td>5.75</td>
<td>107.2</td>
<td>1,363.47</td>
</tr>
<tr>
<td>2004-05</td>
<td>1,64,077</td>
<td>29,67,599</td>
<td>5.52</td>
<td>108.9</td>
<td>1,506.67</td>
</tr>
<tr>
<td>2005-06</td>
<td>1,89,430</td>
<td>34,02,316</td>
<td>5.56</td>
<td>110.6</td>
<td>1,712.74</td>
</tr>
<tr>
<td>2006-07</td>
<td>2,22,988</td>
<td>39,41,865</td>
<td>5.65</td>
<td>112.2</td>
<td>1,987.40</td>
</tr>
<tr>
<td>2007-08</td>
<td>2,65,466</td>
<td>45,40,987</td>
<td>5.84</td>
<td>113.8</td>
<td>2,332.74</td>
</tr>
<tr>
<td>2008-09</td>
<td>3,59,849</td>
<td>52,28,650</td>
<td>6.88</td>
<td>115.4</td>
<td>3,118.27</td>
</tr>
</tbody>
</table>

Source: Hand Book of Statistics of Indian Economy, RBI, Various Issues

The percentage of the expenditure on social sector to that of the GDP had fluctuated from the level of 5.70 per cent in 1996–97 to the maximum level of 6.61 per cent in 1991–92. The per capita expenditure on social sector had increased steadily from ` 458.58 in 1991–92 to ` 3,118.27 during 2008–09. The analysis of the data clearly states that the per capita expenditure as well as the total social sector expenditure had been increasing steadily. The
standard of living of the people in a country depends much on the country’s social sector development. Though there is an increase in the population the per capita expenditure also increases.

### 1.11 Lay Out of the Study

The present study “Union Budget and its Impact on Social Sector Development – An Analysis” is presented in **Seven Chapters**.

The **first chapter** deals with the Introduction, Meaning and Definition of budget, Historical background of budgeting in India, budget in other countries, theoretical background of budget, budgeting and budget system, types of budgets, budget and economic development, need for budget, items included in the union budget, social sector development in the Indian perspective and the layout of the study.

The **second chapter** presents a set of classified and categorised review of literature suitable to the present study and gives the significance of the problem, objectives of the study, hypotheses, scope of the study, limitations of the study and methodology adopted for the study.

The **third chapter** analyses the budgetary expenditure and its impact on India: an educational scenario.

The **fourth chapter** deals with the union government’s budgetary expenditure on public health, family welfare and nutrition and their impact.
The **fifth chapter** analyses union government’s budgetary expenditure and its impact on rural and urban development.

The **sixth chapter** studies about the union government’s budgetary expenditure and its impact on social sector development – an overview.

The **seventh chapter** presents summary, findings, along with the recommendations and conclusion.
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