

## BUDGETARY PROCESS IN INDIA: AN ANALYSIS

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### *Abstract*

*“A Budget tells us what we can’t afford, but it doesn’t keep us from buying it”-William Feather (American Publisher; Author-1889-1981)(Holzer & Schwester 2011 p.289). In almost all the forms of government budget or budgeting falls within the jurisdiction of bureaucracy. The preparation of budget falls within the jurisdiction of public administration which is run and manned by civil servants. Hence budgeting is an important function of bureaucracy. But it alone cannot do everything about budgeting. In a parliamentary system of government every department is headed by a minister and at the head of finance department there is a minister who is called as finance minister The preparation of estimated expenditure and income is done under the guidance of the finance minister. In this paper I have tried my best to highlight the process of Indian budget with it’s historical development in a lucid manner.*

**Keywords:** Budget, Finance, Government, Bureaucracy, Minister etc.



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### **Introduction:**

In every government, money is considered as blood. Currency courses through the body politic, carrying with it civic health or public pestilence, depending upon how governments derive and disburse their dollars (Henry,2010).The term ‘Budget’ is derived from French word ‘bougette’ means ‘a leather bag’ or ‘wallet’ (Sharma & Sadana,1994). This word came in England by the year 1733. The Chancellor of Exchequer used to have a leather wallet to carry this papers etc. to the House of Commons. So when he set up to place his financial plan before the House of Commons, he used to open his ‘budget’ that is the bag.

The term was used in its present sense for the first time in 1733 in a satire entitled ‘open the Budget’ pointed against Walpole’s financial plan for that year. Since then, the term began to use for a financial scheme or statement. And gradually, it developed into an elaborate system of financial management which today includes not only a plan of public revenue and expenditure but “the entire condition of material finances as disclosed in the

ministerial statement placed before the legislature and the orderly administration of the financial affairs of the govt.”.

### **Meaning of Budget:**

According to **Dimock**, “A Budget is a financial plan summarizing the financial experience of the past stating a current plan and projecting it over a specified period of time in future”.

According to **Munro**, “the Budget as a plan of financing for the incoming fiscal year. This involves an itemized estimate of all revenues on the one hand and all expenditures on the other”.

Thus a budget is a financial report of statements and proposals which are periodically placed before the legislature for its approvals and sanction. A budget is a balanced estimate of expenditure and receipts for a given period of time.

In public administration the term refers to a financial document which is annually placed before the legislature, by the executive, giving a complete statement regarding the government revenues and expenditure of the past financial years and an estimate of the same for the next (*Bhagawan & Bhushan,2014*).

Generally, the term Budget we mean “the annual statement of Income and Expenditure”.

### **History of Indian Budget:**

The Union Budget of India also referred to as the *Annual financial statement* in the Article 112 of the Constitution of India, is the annual budget of the Republic of India (*The Constitution of India,1998*). The Government presents it on the first day of February so that it could be materialized before the commencement of new financial year in April. Till 2016 it was presented on the last working day of February by the Finance Minister of India in Parliament. The budget, which is presented by means of the Finance bill and the Appropriation bill has to be passed by both the Houses before it can come into effect from April 1, the start of India's financial year.

#### **1. First Indian Budget was presented by James Wilson:**

The first Indian Budget was presented by James Wilson on February 18, 1869. Wilson, whose designation was Finance Member of the India Council that advised the Indian Viceroy, was also the founder of The Economist and described by Karl Marx as an "economical mandarin of high standing."But he was also a largely self taught man who had worked in his

family occupation making and selling hats, before becoming a scholar and a writer largely based on his brilliance and knowledge of economics and commerce.

## **2. The Brit connection to Budget:**

Our Budget follows the UK Budget in many ways, including, for many years, timing, since it used to be held at 5:30 pm which was noon in the UK, and extreme secrecy, which may have been reinforced here by a scandal that broke out in the UK just as RK Shanmukham Chetty — the first FM — was preparing his first Budget. On Budget Day in the UK in 1947, Hugh Dalton, the British Chancellor of the Exchequer, met a journalist when he walked into Parliament and mentioned a few details on tax changes he was planning. The journalist broke the story before the Speech. Dalton had to resign and this might have made Chetty all the more determined to maintain secrecy.

## **3. First united-India Budget:**

Chetty was succeeded by John Mathai who, in 1949-50, delivered the most lucid Budget Speech as he took the decision not to read out all the details telling members that a White Paper with all details was being circulated. He then gave a mini lecture on inflation and economic policy.

It was the first Budget for a really united India, since it included the financial statements for former Princely States and where the biggest news was the news of forming of Planning Commission and the need for having five-year plans.

## **4. Deshmukh's Dilemma:**

The biggest problem for his successor, CD Deshmukh, was finding money for the Plans which meant higher taxes. In one Budget Speech he tried to buck up taxpayers with the story of a letter he claimed he had got from a villager who paid no taxes, but wanted to help. Deshmukh said, "He has remitted a sum of Rs 5 to me and has promised to remit a similar sum every year... so long as the common run of our people can produce men and women with this spirit, this country can face the future, however difficult it may be, with confidence." It is not recorded if this made taxpayers happier to pay rather more than Rs 5.

## **5. Budget with foreign relations:**

Budgets don't deal with issues like foreign relations, yet some sign of India's tilt towards Russia can be seen in the Budgets of the 1950s. Foreign aid inflows to help the new nation

were a major source of revenue, and at the start of the decade these were mostly from the US and UK.

But over the decade, aid from the USSR and its allies, like Czechoslovakia and Romania, become more important, culminating in the Bhilai Steel Plant project in 1959.

#### **6. Invention of two levies:**

TT Krishnamachari, who replaced Deshmukh, was an industrialist who, strangely enough, had a lot of enthusiasm for taxation. In 1957, he invented two new levies, a wealth tax and an expenditure tax, and sternly told those who had to pay these to display some patriotic spirit: "I am one of those who also believe that the greatest advances towards economic equality and positive social improvement are made in difficult times when the conscience and the solidarity of a people are raised to the highest pitch."

#### **7. Dreaded part of Morarji's Budget:**

Morarji Desai relished levying taxes. In 1968 he said: "I now come to the much dreaded part of my Budget speech. I trust Honourable Members will not take me to task if the proposals do not fulfill the expectations of dread. A deficit of this kind is usually an invitation to an FM to sharpen his knife...I propose to engage myself essentially in a minor operation of plastic surgery-taking out a little flesh here and adding a little bit there." Desai was the first to make the Budget into a big opportunity for publicity for the FM and also the first FM with serious aspirations for PM's seat.

#### **8. The first Chidambaram:**

C Subramaniam is also the first recorded FM to end his speech with the words, "I now commend the Budget for the acceptance of this House." Some variation on this has been the usual way to end the Budget. He was also the first Chidambaram to hold the post - that's what the 'C' in his name stands for.

#### **9. Spice & pickle, Dandavate style**

Madhu Dandavate was one of the first to start making rather laboured puns to introduce his specific excise proposals. In 1990, he quipped: "I propose to remove excise duty on pickles altogether in the hope that this will lend some flavour and spice to my budget."

#### **10. Singh's history in Budget**

Manmohan Singh is the most reticent of men, but in his first Budget Speech of 1991 he made some uncharacteristic personal remarks that recalled his own history: "I was born in a poor

family in a chronically drought prone village which is now part of Pakistan. University scholarships and grants made it possible for me to go to college in India as well as in England.

This country has honoured me by appointing me to some of the most important public offices of our sovereign Republic. This is a debt which I can never be able to fully repay. The best I can do is to pledge myself to serve our country with utmost sincerity and dedication. This I promise to the House."

**Why is Budget presented on the last working day of February?** (Banking Awareness, March 15, 2012)

If it's February, it's time for the Budget. Budgets have always been presented on the last day of February. So B-day is always on February 28, except on leap years when it is presented on February 29. This year, the Budget will be presented on February 29. This will be Chidambaram's first Budget on February 29 (all his other six Budgets were presented on February 28). Morarji Desai has presented two Budgets on February 29.

Until 2000, the Union Budget was announced at 5 pm on the last working day of the month of February. This practice was inherited from the British, when their Parliament would pass the budget in the noon followed by India in the evening of the day. Yashwant Sinha changed the timing to 11 a.m. For the first time in 92 years, the Rail Budget, usually presented separately, will be merged with the Union Budget of 2017. The Budget presentation is preceded by a Halwa ceremony wherein a sweet dish is served to the officers and staff involved in the printing of the budget documents, following the traditional belief that having something sweet before any important task is auspicious.

**Who decides the Budget day?**

In India, the Budget is presented in Parliament on a date fixed by the President. The Budget speech of the finance minister is usually divided in two parts. Part A deals with general economic survey of the country while Part B relates to taxation proposals. The General Budget is presented at 11 a.m. on the last working day of February, i.e. about a month before the commencement of the financial year except in the year when general elections are held. In an election year, Budget may be presented twice -- first to secure vote on account for a few months and later in full.

### **What is meant by vote on account?**

The discussion on the Budget begins a few days after its presentation. The Parliament discusses the budgetary provisions and the various proposals for taxation. Since Parliament is not able to vote for the entire budget before the commencement of the new financial year, it is important to keep enough funds at the disposal of government. A special provision is, therefore, made for 'vote on account' by which government obtains the vote of Parliament for a sum sufficient to incur expenditure on various items for a part of the year.

### **Process of Budget in India:**

The budgetary process in any country involves four (04) different operations (*Tyagi,1993*), viz;

- I. Preparation of the Budget
- II. Enactment of the budget
- III. Execution of the Budget
- IV. The Legislative Control of the Budget, i.e. Supervision and Control of Financial operations by Audit on behalf of the Legislature

#### **I. The Preparation of the Budget in India:**

Preparation of the Budget involves the following operations which follow the order given below:

1. Preparation of the Preliminary Estimates by the disbursing officers(i.e. heads of local offices)
2. Scrutiny and review of these estimates by the Controlling Officers.
3. Scrutiny and Review of the revised estimates by the Accountant General and the Administrative Department.
4. Scrutiny and review of these revised estimates by the Ministry of Finance.
5. The Final consideration of the Consolidated estimates by the Cabinet.
6. When the cabinet has approved the budget, it is ready for being introduced in the parliament.

#### **The Contents of the Budget:**

The Indian Budget which is called the “Annual Financial Statement” consists of two parts:

- (a) Budget speech of the Ministry of Finance, and
- (b) Budget Estimates

## **II. The Enactment of the Budget in India (How Budget Passed in the Parliament?)**

In Parliament the Budget goes through five stages, namely;

1. Introduction
2. The General Discussion
3. The voting of Demands for Grants
4. The Consideration and Passing of Appropriation bill, and
5. The Consideration and Passing of the taxation proposals, i.e. the Finance Bill.

## **III. The Execution of the Budget in India :**

After the enactment of the Budget, the next step in the budgetary process is its execution. The execution of the budget is the responsibility of the executive because the grants of money are made by the legislature to it. The two important principles involved in the execution of budget are:

- (i) That it must conform to the terms of the Appropriation and Finance Acts; and
- (ii) That there must be a high degree of honesty, integrity and efficiency.

### **The process of execution of the budget involves the following operations-**

- (i) Assessment and collection of funds (two statutory Boards Central Board of Direct Taxes Central Board of Excise & Customs)
- (ii) Custody of public funds (RBI & SBI)
- (iii) Disbursement of Funds
- (iv) Accounting (Keeping a systematic record of financial transactions)
- (v) Auditing (CAG, Financial Committee of Parliament – PAC, EC, PUS)

### **Principles of making the Budget:**

Long experience of the leading countries of the world suggests certain principles to which budget making should conform. Of course none of these is of such absolute validity as to permit no departure from it in any case but normally their observance is considered essential for sound budgetary practice. The more important of these principles are the following (Sharma & Sadana, 1994, p.528):

- (i) Normally the budget must be a balanced one.
- (ii) Its estimates should be on a cash basis.
- (iii) Its revenue and capital portions should be kept distinct.
- (iv) Budgeting should be gross and not net income.

(v) The form of estimates should correspond to the form of accounts.

(vi) The rule of the lapse.

### **Role of the Budget:**

The budget is central to administration. The scope and nature of the entire governmental operation is determined by the allocation of appropriations to the various big programmes such as education, communication, defence etc. In this way, budget today has become one of the primary tools of financial as well as developmental administration. The major roles of budget are described below:

1. Budget as a tool of financial control
2. Budget as an instrument of public policy
3. Budget as a Tool of Administration
4. Budget as a Tool of Accountability.
5. Budget and Planning
6. Informative Role
7. Role in Performance Evaluation.

### **Types of Budget:**

Budget can be classified on the basis of the following principles (*Bhagawan & Bhushan, 2014*):

- (i) The period covered
- (ii) Number of budget introduced in the legislature
- (iii) The overall financial position depicted in the budget
- (iv) The principle adopted in taking the items of income and expenditure in the budget
- (v) The classification of the receipts and expenditure in the budget.

On the basis of these principles the budgets can be either:

1. Annual or Long term Budget
2. Single or Plural Budget
3. Surplus, Deficit or Balanced Budget
4. Cash budget or Revenue Budget
5. Departmental Budget or Performance Budget

### **Instruments of Financial Control:**

There are four organs of government exercises financial control in a parliamentary democracy, the Legislature, the Government, The Finance Ministry and the Audit Department India follows four principles of financial control (*Basu,1992*):

- (i) The Executive, acting through Ministers, cannot raise money by taxation, borrowing or otherwise without the authority of Parliament; and proposals for expenditure requiring additional funds must emanate from the cabinet;
- (ii) Money Bills must originate in the Lok Sabha which has the sole power to grant money by way of taxes or loans and to authorize expenditure. Te Rajya Sabha may reject a grant but not add to it.
- (iii)The demand for grants must come from Government. Neither the Lok Sabha nor a State Assembly may vote a grant except on a demand for grant from Government.
- (iv)Likewise, the proposal for a new tax or far an increase in the rate of an existing tax must come from the Government.

The Functions of the financial administration are scrutinized and audited by the Comptroller and Auditor General of India. This is a very powerful constitutional authority of India. All the expenditures of the Government of India come under the direct scrutiny of CAG. The report of the CAG is placed before the Parliament (*Das, 2014*).

### **Conclusion:**

The budget is a crucial or most important test of the efficiency of government and the term efficiency is to be viewed from a greater perspective. Budgeting is perhaps the most complicated and brain-storming aspect of public administration and economic functions of government. No government can perform any activity without money. Finance is the lifeblood of the govt. administration and finance is as inseparable as a body and its shadow. All administrative acts involve expenditure of money, at least, for hiring the necessary personnel to carry out the tasks. Finance fuels the administrative engine, without it latter cannot operate. Rightly, therefore, did Kautilya remind “All undertakings depend upon finance? Hence, foremost attention shall be paid to the treasury.”According to Peter Self, “Government is judged in the main, both externally and internally, not by any sophisticated tests input-out put efficiency or by the value for money, but by its mix of social achievements subject to some overall limitation upon its total demands for taxation and investment”.

Finally, in 2017-2018 budget, the 92-year-old practice of presenting a Railway budget separately came to an end from merge it with the General budget in India.

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