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The Impact of Budget (2016-17) on Economic Growth, Income Distribution and Standard of Living

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Abstract:

The Indian Economy is moving through a great turmoil and amidst that the Finance minister presented the Budget for the year 2016-17. Many people look at its positive future impact but many also feel its shortcomings in the short run. This budget presents itself with the main focus on Rural/ Agricultural Sector, Small and Medium Scale Enterprises, New startups, Public Sector Banks, Social Security and most importantly the issue of Black Money. But with all this emphasis the economy can face is in the form of implementation of the new reforms presented in the budget because this budget will reach its highest potential only when acted upon with strict measures and control.

Keywords: Budget 2016-17, MSME, black money, social security, STARTUPS, agricultural sector, economic growth, standard of living.

1. Introduction

The world comprises the humanity having the similar needs of survival but as the world is divided into various countries, segments, economic Zones, religions and coping with own peripheral problems and resolving the same with Growth pattern so that Standard of living improve and disparity of income be reduced besides safeguarding the country from inside and outside threats.

Every country chooses growth pattern of its economy according to availability of resources, its strength and weakness and intellectual level of its Human resources. Arabian countries have achieved Growth due to their existence on such segment of the earth where abundant petroleum reserves available. Similar the Japanese are ahead in technology and Chinese are competent to cater world economy by creating Mega factories. The countries once ruling the world now suffering from internal crisis, natural calamities and economic slowdown.

So it is utmost responsibility of the government that its economy should grow and people should have the optimal standard of life, and tolerable inequality of income. Political and social unrest should not be there in the economy and it should be corruption free and spending of budgeted funds for social welfare should be need based and properly monitored. Industries operations should be hassle free and moment of goods and services with in country from one state should be automated. Country protection from inside and outside should be properly managed.

As our country is having Mixed economy and to regulate all sectors monetary and fiscal policies are implemented and major roles are played by RBI by quarterly review of monetary policies to regulate financial sectors and annual Government Budgeting to regulate resources and social spending. Here we are dissecting the Budget as to How far it is going to achieve the objectives.

The Impact of Budget (2016-17) On Economic Growth, Income Distribution and Standard of Living;

The finance minister presented a transformative budget that combines the Imperatives of fiscal consolidation with a growth stimulus. On one hand it provides boost to investments by spending on infrastructure and provide policies to regulate banking lending towards start- up of new ventures, provide boost to Demand/ consumption by increasing the purchasing power specially of rural sector and on the other side by steadfastly staying committed to Fiscal deficit target of 35 % of GDP (Gross Domestic Product) for the next fiscal year. Finance Minister has sent a signal of financial prudence to domestic and foreign investments. This in turn can set the stage for RBI to reduce the interest rates on lending, spur the industrial investments, encourage the foreign inflows, stabilize the currency and keep inflation under control. Thus Fiscal prudence is a good macro-economic strategy.

2. Budget and Rural/ Agriculture Sector

This budget by focusing on rural, agriculture sector is a big leap forward for equitable growth and spelled that by 2022 their income will be doubled. The trust on spending in rural areas and agriculture is most optimistic and timely as the rural economic and agriculture sector was facing a distress like situation in most parts of the country. This was partly due to two successive draughts which in turn reduced the demand and purchasing power of farmers. In the Budget government has taken the following corrective steps.

2.1. Crop Insurance Scheme (CIS)

The CIS has been announced which is a great safety net for the farmers. The focus on rural economy in the budget tries to ensure not only food security but aims to double the farm income double over the next five years.

2.2. Rural Roads

Rural roads and connectivity with railways have got a special emphasis so that farm products reached the market efficiently without losing quality of product as well as to get better prices by direct sales to consumers. Many perishable items are wasted due to lack of connectivity and better roads and railways services. Govt. has allocated for this more than Rs 2.00 lac crores. Due to multiplier effect and supplemental industries will get private investments, will generate more jobs and reduce the movement of rural sector workers to metros.

2.3. Ujjwala Scheme

The rural women are using Chulas with cow dung - upley and smoke generated by the same is affecting their lungs and eyes. WHO estimates says about 5.00 lacs women die in India due to unclean cooking fuel Govt. has decided to allocate RS2000.00 crores in UJJWALA scheme to provide LPG connection roughly 1.5 cores women below poverty line (BPL) per year. This is very bold Rural – Centric scheme to provide clean cooking medium to rural women. This will not only help the rural women but also the environment. The cow dung will be used for making manure and farming will be organic and instead of based on chemical fertilizers This scheme will be continued for at least 3 years so that it covers at least 5 crore families by 2018-19.

2.4. Pahal

The subsidies granted on LPG is properly regulated by the scheme called PEHAL by which a system is made based on the adhar card to identify the poor people, who should be eligible to get the subsidized LPG cylinders. The subsidy is now directly credited to the bank account of the beneficiary. By This scheme govt. has made it that subsidy is reached to deserving individuals. It has named in Guinness Book of Records.

2.5. Big Boost to Irrigation

The farming is very much depended upon the rain and due to untimely rain or draught the crops are affected badly Rural economy was affected due to successive draughts for last TWO years and reduction in Farmer's income. They are unable to survive or to repay the loans taken for crop, leading to their suicidal attempts This budget sets an ambitious goal of doubling farmer's income by 2022 by giving a big boost to irrigation, which will be done by fast tracking – 89 irrigation projects to irrigate parched lands of 80 lacs hectare. This will reduce rural distress in a big way and will improve the rural income and standard of living. If the govt. had not addressed the rural distressed in such a big way it would have proven to be a big political and economic blow to Govt.

2.6. Boost to Farm Credit

In this budget Rs 9.00 lac crores is allocated for farm lending for better improved seeds, manure, irrigation facilities and other farmer's need. NABARD will be monitoring agency and the funds will be used under various schemes as per needs of the farmers.

3. Budget and Micro Small & Medium Enterprises (MSME) Sector

The economy is passing the stage of recession i.e. people are not having the jobs as well as income with low purchasing powers. industrial growth is affected due to lower demand and investment. The economy requires the boost in demand i.e. purchasing power is increased so that industrial growth will take place.

3.1. Small Business Enterprises

It is the small and medium industries which are more labor intensive requires small investments and lower gestation period as compare to large industries. The budget has given special attention for the MSME sector by providing incentives for skill development and lower taxations. The govt. has increased the limits of investments in the small business enterprises from Rs. ONE crore to Rs TWO crores earlier units with a turnover of Rs. One crore could avail the benefit of presumptive tax i.e. exemption from maintain detailed books of accounts and regular audits. This often prevented the units from expanding the scale of operations because then they would lose this benefit. The increase in limit will provide incentive to grow further, and will give more employment being the labor intensive.

3.2. Small Scale Industries

SSI are those industries in which gross investment in plant and machinery is less than Rs. 5.00 crores. These industries are mostly labor intensive and give employment. the tax benefits will be provided from the next year.

3.3. Start Ups.

Startup India is a flagship initiative of the Government of India, intended to build a strong eco-system for nurturing innovation and Startups in the country that will drive sustainable economic growth and generate large scale employment opportunities. The Government through this initiative aims to empower Startups to grow through innovation and design.

Startup means, an entity, incorporated or registered in India, not prior to five years, with annual turnover not exceeding Rs 25 crore in any preceding financial year, working towards innovation, development, deployment or commercialization of new products, processes or services driven by technology or intellectual property.

To reduce the regulatory burden on Startups thereby allowing them to focus on their core business and keep compliance cost low. Startups shall be allowed to self-certify compliance (through the Startup mobile app) with 9 labor and environment laws. In case of the labor laws, no inspections will be conducted for a period of 3 years. Startups may be inspected on receipt of credible and verifiable complaint of violation, filed in writing and approved by at least one level senior to the inspecting officer.

3.4. Fund of Funds with a Corpus of Rs. 10,000 crore

Government will set up a fund with an initial corpus of INR 2,500 crore and a total corpus of INR 10,000 crore over a period 4 years. The Fund will be in the nature of Fund of Funds, which means that it will not invest directly into Startups, but shall participate in the capital of SEBI registered Venture Funds.

3.5. Key features of the Fund of Funds are highlighted below:

The Fund of Funds shall be managed by a Board with private professionals drawn from industry bodies, academia, and successful Startups. Life Insurance Corporation (LIC) shall be a co-investor in the Fund of Funds the Fund shall ensure support to a broad mix of sectors such as manufacturing, agriculture, health, education, etc.

3.6. Tax Exemption on Capital Gains

To promote investments into Startups by mobilizing the capital gains arising from sale of capital assets Exemption shall be given to persons who have capital gains from investment in Startups, if they invest such capital gains in the Fund of Funds recognized by the Government. Investment in 'computer or computer software' (as used in core business activity) shall also be considered as purchase of 'new assets' in order to promote technology driven Startups.

3.7. Tax Exemption to Startups for 3 Years

To promote the growth of Startups and address working capital requirements Profits of Startup initiatives are exempted from income-tax for a period of 3 years. The exemption shall be available subject to non-distribution of dividend by the Startup.

3.8. Tax Exemption on Investments above Fair Market Value

Under The Income Tax Act, 1961, where a Startup (company) receives any consideration for issue of shares which exceeds the Fair Market Value (FMV) of such shares, such excess consideration is taxable in the hands of recipient as Income from Other Sources under section 56(2) (viiib). Currently, investment by venture capital funds in Startups is exempted from operations of this provision. The same shall be extended to investment made by incubators in the Startups.

4. Statutory Status to Adahar

Statutory status to adahar has been given in the budget which will give a legal recognition to adahar, so far adahar has faced many petitions questioning its legal validity. Henceforth adahar will become base for large number of schemes and development program and projects. All benefits, subsidies or services funded through the consolidated fund of India will be made through Adahar. This will plug/stop the large scale leakage of subsidies being given to beneficiaries.

At present UID authority (which issues adahar card) was functioning under the notification of the planning commission (which is now abolished) but the enlarged and unique role of adahar card for direct transfer of subsidies, old age pensions, other benefits to deserving categories directly to their bank account will pave the way for its role as part of Jandhan Adahar and mobile (JAM)

5. Budget and Public Sector Banks

Budget has placed special emphasis on role of banking in the growth of the economy and taken steps to improve their health, which was effected badly as accounts becoming NON PERFORMING ACCOUNTS due to economic slowdown or other reasons. Govt. has cleared 100 % FDI in Assets Reconstruction companies (ARC). ARC buy bad loans from banks and recover money from them and in a way banks are able to improve their net worth after sale of bad loans, the budget also indicated to consolidate banking sector by merger of public sector banks, so that their strength increases with increase in sizes. Budget has also moved to reduce their stake in banks below 50 % by selling their equity. They have started with IDBI Bank. Govt. will also support those banks capitalization, whose net worth is effected by cleaning of balance sheets. The budget has allocated Rs 25,000/- crores for the same. For growth of industries interest rates on lending be linked with marginal cost of deposits, since deposit rates are slashed by banks.

6. Budget and Social Security

Basic need of health care is also taken care. Accidental policy of Rs 2.00 lac @ Rs. 12/- P.A is provided to every citizen which will take care in case of injury or any disability due to accident. Life insurance of Rs 2.00 lac is also provided to every citizen at the annual premium of Rs330/- only The schemes MANREGA scheme is further boosted so that labour engaged in farm sector should have proper valuation of their produce. Post offices will also work as Banks so that every citizen is linked for proper distribution of subsidies, incentives, old age pension etc. without any pilferage and only deserving person should get the same. AIIMS like hospitals and research centers to be opened to be opened at Punjab and Jammu & Kashmir. Higher education Hubs to be developed and IIT to be opened at more places. Provision for one Rank one pension is also provided so that every ex-army person should have equal income according to Ranks.

7. Budget and Black Money

The black money as nomenclature represents the unaccounted money which is floating in the economy business on which neither tax is paid initially or nor paid subsequently when it generates income. Due to this reason it is called black money. Hence it grows with more pace as compare to accountant money on which tax is regular outflow. The float of black money in the economy reduces the income of the govt. and also effects the measure to control the market cycles of inflation and deflation. It also effects the canalling of investments according to need of the economy. It badly effects the distribution of income in the economy and rich become much richer and poor become more poor.

Govt has taken few steps to regulate the same by implementing much disclosure in the tax returns, more vigilant to correlate the activities. The loop holes where people park their black money is gold, real estate, dummy accounts in the bank, routing of black money thorough Tax haven countries. Effective steps were initiated like imposition of 1 % VAT on gold jewelry, TDS on sale of Real estate, disclosure of properties in Tax statement, treaty with tax haven countries is modified, accounts outside the countries are also monitored. Though it is initiative but no fruit full results have been achieved so far.

8. Shortcomings of the Budget and Policies

Although budget has projected many good measures and policies to increase the GDP and growth in rural economy, which is the vote bank to have the mandate in other states. The effectiveness and desired results can be achieved provided it is acted upon vigorously and with good attention and honesty. The following areas are of concern which have not given the desired level of inclusion in the budget and simultaneously other policies modification is required.

1. The growth in economy will be achieved only if demand of the products of basic needs and luxuriance goods are increased. The demand depends upon the income of the individuals. No effective steps are taken to increase in income by way of reductions in tax burdens or increase in deposits rates. Senior citizens are mostly having the interest income which is reduced substantially effecting their propensity to consume. Inflation trend is continued which is effecting the savings as well as in turn Investment factor. So if no demand is increased than how the GDP will increase and industries will revive.

2. The infrastructure development emphasis is on roads which will be of Bitumen (a petroleum product) will effect foreign reserves. It should be planned to have the cement roads so that it will give boost to cement industry also.

3. The budget has not taken steps to put curb on black money, which is curse to economy. The people having foreign accounts where they have parked black money is still to be crystalize. So long parallel economy of black money will continue, the economic growth with equal distribution of income cannot be achieved.

4. No measures are taken for monitoring of end use of funds as per allocation in the budget. The leakages in the system of government spending will not produce the desired results.

5. No steps have been taken to reduce the under employment or brain drain. The persons with technical ability or higher educations or specialized in particular field is not utalised for the same. It is the firm belief that GURU i.e. the teacher is the prime factor in any economy to create the creamy layer in the economy. No special emphasis is given for growth or their livelihood or status of the teachers. They should have the special status in the economy.

6. The policies of reservation based on caste or tribe is to be modified and reservation should be only for weaker section only belonging to any caste or tribe till the graduation level only. More emphasis on technical educations be given so that self-employment be generated After graduation level they have to compete on the basis of their caliber and skill for job or for higher education. Due to political reasons same is not initiated.

7. Banking sector is drowning due to bad loans / non-performing assets. non-performing assets are those bank loans which are not performing / repaying the amount as per sanctioned terms. The bad loans occur due to economic trade cycles or assessment of loans are made under undue pressures from higher authorities or political influences. The system of accountability in banks makes the lower level as escape goat. If same is modified that who so ever is sanctioning the loan will be only accountable and not the other ones. The capital induction is not the solution to revive the banks. Government should buy back the bad loans amounting to more than 25.00croresthrough the respective ministries to which bad loan industry belongs and start or merge with existing public sector units. If power plant units become bad loan let it be merged with NTPC or NHPC. Banking sector boards or CMD will be made accountable increase in bad loans.

8. Tourism is the sector in which ecological set up of India is best having all the seasons at same time in different parts of the country. Enriched with costal, Hills, Mountains, deserts at one side and heritage sites on the other hand. No vigorous efforts are made to bloom the tourism. No stringent actions are taken on demonstrations or loss of government properties by them. Unable to generate the feeling of INDIAN ONLY FIRST and CASTE THERE AFTER.

9. Conclusion

Although budget is a step ahead for rural development and revival of industrial growth but it should be ensured that end use of allocated funds reaches to deserving class. Rigid steps be taken to reduce corruption and make the person accountable. Law and order system be improved to attract tourism. Banking sector to be modified to illuminate the pressures and pulls which is effecting the mortality of banks financial assets. Reservation system based on caste and tribe to be modified so that creamy layer blossoms for growth of economy and brain drain to curbed by offering suitable placements. Above all education industry, its teachers be rewarded for their contribution in education and make the India as HUB of education.

10. References

- i. Budget publication,
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