

UNION BUDGET AS A POLICY INSTRUMENT: BALANCING ECONOMIC REFORM, EQUITY, AND INNOVATION

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Abstract

The Union Budget of India serves as a financial blueprint for the upcoming financial year. It effectively balances economic reform, equity, and innovation. These are necessary for sustainable and inclusive development in a post-liberalisation context. This paper examines the Union Budget's evolution from a pre-1991 accounting tool that emphasised public-sector-led equity to a key lever driving market-oriented reforms. This study does its analysis on post-1991 budgets based on three theories. These are Keynesian fiscal principles, Sen's capability approach, and Schumpeterian innovation theory. There is also a detailed focus on 2019-2026 budgeting changes. Economic reforms feature fiscal consolidation, i.e., a deficit targeted at 4.3% of GDP in 2026–27, tax rationalisation, and surging capital expenditure. These reforms aim to boost infrastructure and competitiveness. Equity initiatives include progressive taxation, expanded social welfare, schemes like MGNREGA and direct benefit transfers. Even with these, we see gaps that are revealed through persistent inequality, like the Gini trends and income disparities. Innovation promotion includes R&D incentives, Startup India, Atal Innovation Mission, and frontier investments. The study highlights how everything works together, like innovation-led productivity aimed at reducing poverty and trade-offs like severe constraining welfare during fiscal pressures, political cycles favouring short-term equity, and external shocks limiting space. We see similar situations globally. It includes countries like Brazil, China, and South Africa. The similarities show the problems in emerging economies. The paper proves that recent budgets show the result of good progress in economic condition inter alia adaptive strategies, outcome-based frameworks, public-private partnerships, and AI use in fiscal planning. They aid with the tensions and work with Viksit Bharat goals.

Keywords

Union Budget, Economic Reform, Equity, Innovation, Fiscal Consolidation, Capital Expenditure, Inclusive Growth, R&D Incentives

1. Introduction

The Union Budget of India is called the Annual Financial Statement under Article 112 in our constitution. It is the government's predicted annual financial plan (Constitution of India, 1950, Article 112). This provision makes it compulsory that the

budget is laid before both Houses of Parliament. It is done on behalf of the President and is released as a statement of estimated receipts and expenditures for the upcoming financial year. In the parliament, it is presented by the Finance Minister. It explains

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revenue projections, expenditure allocations across sectors, and future policy directions. They are necessary to shape the nation's economic future. It is not just as an accounting exercise but as an instrument of fiscal policy that decides macroeconomic stability, resource allocation, and developmental priorities (Government of India, n.d.).

The Union Budget has evolved a lot over the years. It used to be a basic tool used for managing money during the times when India first became independent. It stood for planned economic development under the government and focused on resource mobilisation and equity-oriented interventions. This was done through subsidies and welfare schemes that reflected the dirigiste approach of the License Raj era (Ahluwalia, 2002). The turning moment came with the 1991 economic crisis. It was triggered by a severe balance-of-payments shortfall and fiscal imbalances. This prompted liberalisation reforms under Finance Minister Manmohan Singh. The 1991-92 Budget introduced new policies. This included devaluation of the rupee, reduction in import tariffs, dismantling of quantitative restrictions, and fiscal consolidation measures. This marked an ideal shift toward market-oriented policies (Panagariya, 2004). This transition transformed the budget into a support for structural economic reforms and brought India into the global economy as someone able to sustain social commitments.

In the current times, the Union Budget has taken multiple roles. It is a key policy lever to try to fulfil the trifecta of goals. In particular, the economic reform, equity, and innovation. Economic reforms include various measures like deregulation, privatisation, tax rationalisation, fiscal discipline, and infrastructure-led growth. Equity goals are aimed at progressive taxation, expanded social welfare programs, poverty alleviation schemes, and inclusive growth initiatives. These are targeted towards marginalised groups, women, and rural populations. Innovation promotion measures involve ideas for research and development (R&D), startup ecosystems (e.g., Startup India), digital infrastructure (e.g., Digital India), and frontier sectors (semiconductors and AI) (Government of India, various budgets).

The central research problem is the challenges faced in bringing these three pillars together within a single framework, the budget. Economic reforms give importance to efficiency and economic moderation. These include subsidy rationalisation or corporate tax cuts. These unintentionally increase inequalities that reduce support for weaker sections, or limit the public spending on social sectors. As the focus on equity-based allocations increases, the risk of widening fiscal deficits also increases. It becomes overbearing for private investment and hinders long-term growth. Investments based on innovations deliver long-term growth. But it also demands substantial upfront public funding against immediate welfare needs. These tensions are aggravated by political economy factors including electoral pressures that favour short-term populist measures, coalition demands for bold reforms, and external shocks like global price changes or geopolitical events (Kohli, 2006). Recent budgets are a reflection of these dilemmas. The capex surges support reform and infrastructure-driven growth. Allocations being made for social sectors and innovation face scrutiny for adequacy relative to needs. This often results in trade-offs where equity gains lag behind reform momentum or innovation aspirations remains underfunded (Economic Survey, various years).

2. Objectives

- To understand how the Union Budget balances these three pillars: economic reform, equity, and innovation through various methods.
- To evaluate successes like post-1991 growth acceleration or digital economy push, trade-offs like austerity impacting welfare, and persistent gaps seen in recent budgets (primarily 2019–2026).
- To propose actionable recommendations for future budgeting frameworks that better integrate the triad for sustainable, inclusive development.

3. Statement

The Union Budget acts as a policy instrument that plays multiple roles. All the while advancing

economic reforms and innovation. It often faces inherent tensions with equity goals, requiring adaptive strategies like outcome-linked allocations, public-private synergies, and evidence-based prioritisation essential for sustainable development.

The significance of this study is multiple. In an era where India has an ambition to achieve developed nation status by 2047, we need to understand the budget's role in completing its objectives. It offers critical insights for policymakers, scholars, and stakeholders. This study examines how a developing country balances the required growth with social justice and technological advancement. This adds to the fiscal policy literature. The presence of global uncertainties is high ergo this analysis is a help for other markets facing similar problems.

4. Scope and Limitations

The study is focused mainly on the post-1991 liberalisation era. It emphasises on budgets from recent years which is 2019-2026 for empirical depth. There are also references to the comparisons between global practices like OECD fiscal innovation models or BRICS equity-reform balances. They provide context without being exhaustive. The limitations are also many. Some of those include relying on official documents and secondary data, potential biases in government-reported outcomes, and the evolving nature of policy impacts that require longitudinal updates.

5. Literature Review

The Union Budget is also a policy tool. It tries to balance multiple needs. Ranging from economic reform to equity and innovation. Economic theory and research highlight this role of the budget. The studies tell us about the persistent gaps seen in emerging economies like India. This research brings together key contributions. It explains the theory behind policies by taking reviews from the past budgets and highlights the areas where research is limited.

Theoretical Foundations

Keynesian fiscal policy gives the base for trying to understand the economic reforms made by the

government. Keynes (2018) gives the argument that economic tools like deficit spending and tax adjustments are requirements for stabilising economies during downturns. These tools increase demand and reduce unemployment. Talking about reforms, Keynes gives countercyclical measures. They include infrastructure investments and tax cuts that address structural imbalances and enhances growth (International Monetary Fund, 2014). Indian budgets made after liberalisation follow this approach.

Amartya Sen gave the capability approach. It focused more on human development instead of just relying on income or resource allocation. Sen (1999) believed that equity should be based on individual people's capabilities. It is not a result of just income. It includes health, education, and participation in society. This perspective challenges traditional methods. It fights for policies that give opportunities to marginalised groups. In budgetary terms, it supports progressive taxation and targeted social spending. They aim to reduce inequalities. It aligns with India's welfare schemes like direct benefit transfers (Robeyns, 2005).

Joseph Schumpeter put his focus on innovation and entrepreneurship. His theory believes economic growth is done through "creative destruction." New technologies and business models replace older systems. Entrepreneurs drive this process (Schumpeter, 2010). Innovation is a result of the profit motives and technological advancements. These require fiscal incentives like R&D subsidies that overcomes market failures. This theory helps in allocation of budget for innovation of ecosystems and startups (Aghion et al., 2014).

These theories connect with each other in fiscal policy. Keynesian reforms give macroeconomic stability. Sen's approach tries to do inclusive distribution. Schumpeterian dynamics promote long-term productivity. Even with all of these theories tensions arises. When reform is in conflict with equity goals or innovation. And if it requires more resources than welfare.

Empirical Studies on Budgetary Policies

Empirical research on Indian budgets shows how these work in practice. Subramanian (2018) made an analysis of fiscal policy after 2014. It highlighted

reforms like GST implementation that addressed equity through targeted subsidies. Reserve Bank of India (2025) reports showed similar patterns. States' gross fiscal deficits rose to 3.3% of GDP in FY25 due to pandemic-related spending. Capital investment helped economic recovery even with such high deficits.

International studies give similar results. The research by Organisation for Economic Co-operation and Development (2017) highlights tax incentives for R&D. It believes it to be the key to balancing growth and equity. These incentives promote innovation in diverse economies by reducing effective R&D costs. They also address inequalities through targeted grants (Neubig et al., 2017). Comparative studies show a gap in emerging economies. Countries such as India focus more on structural reforms than inclusive innovation policies.

Gaps in Literature

Research still leaves several unanswered questions. The relationship between innovation funding and equity in emerging economies is ignored. Studies often overlook how R&D incentives can increase inequalities, as they benefit large firms more than small businesses (Awan et al., 2021). The role of budgets in post-pandemic recovery also remains under-examined. The data show higher execution rates during COVID-19. The long-term equity impacts, like gender budgeting or rural innovation, are scantily addressed (World Bank, 2023). Future research should integrate these pillars using mixed-methods approaches to inform adaptive budgeting in uncertain global environments.

6. Conceptual Framework: The Triad of Economic Reform, Equity, and Innovation

The conceptual framework of this study places the Union Budget at the centre of policy decisions in India. It is used to balance three goals: economic reform, equity, and innovation. They are connected with each other but still compete for resources occasionally. They represent the fiscal strategy in the post-liberalisation era. Economic reform improves efficiency and competitiveness. Equity ensures fair

distribution of profits. Innovation fosters long-term productivity and technological advancement. The budget distributes funds, creates incentives, and signals priorities across these areas. Policymakers adjust allocations to support sustainable development.

Economic Reform

Economic reform refers to structural changes in the economy. These improve market efficiency and reduce distortions by state intervention. They strengthen fiscal discipline. Key elements include deregulation, privatisation of public enterprises, and fiscal consolidation through lower deficits and debt management. In the India, reforms manifest through various budgeting measures. Tax rationalisation plays a central role. It includes changes made to the Goods and Services Tax (GST) to improve efficiency. Subsidy reforms reduce leakage through direct benefit transfers. There is a higher capital expenditure for infrastructure to crowd in private investment (PwC, 2026). Budget tools are known to support these reforms. They include corporate tax incentives, production-linked incentives, and infrastructure allocations that boost competitiveness and attract foreign direct investment. Recent budgets focus on fiscal stability. Policymakers aim to a debt-to-GDP ratio of 50% \pm 1% by 2031. This approach balances fiscal discipline with growth-oriented spending during global uncertainty. (Economic Survey, 2026).

Equity

Equity focuses on reducing inequalities and promoting inclusive growth. This is done by enhancing access to opportunities and resources for marginalized groups. This approach is being drawn from Amartya Sen's capability approach. Development depends on people's access to education, healthcare, and economic participation. Government budgets support equity through progressive taxation, welfare programs, and targeted schemes. These measures support marginalized groups and improve human development outcomes. In India, the schemes include programs like

- The Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), which provides wage employment in rural areas (though

restructured in recent frameworks)

- Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) for life insurance coverage
- Direct benefit transfers to minimize exclusion errors.

Budget allocations support health, education, gender budgeting, and schemes that target women, Scheduled Castes/Tribes, and rural populations. These policies aim to reduce income gaps and improve social mobility. The goal is inclusive growth where benefits reach underserved populations. It aligns with inclusive vision like "Sabka Saath, Sabka Vikas" (Press Information Bureau, 2026).

Innovation

Innovation focuses on investments in technology, research and development (R&D), startups, and digital infrastructure. They aim to improve productivity gains and strengthen global competitiveness. This includes funding for the Atal Innovation Mission (AIM), which supports Atal Tinkering Labs, incubation centres, and challenges for small enterprises (Press Information Bureau, 2025). Budget allocations support digital public infrastructure, AI missions, semiconductor initiatives, and incentives for frontier sectors like biopharma and green technologies. These measures address gaps in private funding for innovation. They encourage collaboration between government, industry, and research institutions (India Briefing, 2026).

Interlinkages and Trade-offs

Economic reform, equity, and innovation interact in complex ways. In some cases, they support each other while in others they compete for resources. Innovation driven growth increases productivity and creates jobs. This process reduces poverty. Infrastructure investment connects all three goals. It improves efficiency, expands access, and supports technology adoption. It is seen in capex surges that support manufacturing and digital ecosystems.

Trade-offs are prominent. Fiscal consolidation through subsidy rationalization or social spending limits equity programs. It increases chances of higher inequality. The innovation benefits concentrate in urban or skilled groups. Recent budgets reflect this tension. The public capex reaches ₹12.2 lakh crore to drive reform and innovation, fiscal

prudence limits welfare spending and creates tensions in resource allocation amid competing demands (EY, 2026). External economic conditions add to these challenges. Global uncertainty affects fiscal space and policy choices. Governments need to adjust budgets to manage these pressures. This framework shows that the Union Budget acts as a coordinating tool for reform, equity, and innovation.

7. Historical Evolution of the Union Budget in India

The historical evolution of the Union Budget in India is a reflection of the nation's shifting priorities. It has moved from state-led planning to market-oriented reforms and recently towards technology-driven growth. Each phase reflects responses to crises, policy shifts, and development needs.

Pre-Liberalization Era (1947–1991)

After independence the Union Budget focused on stabilization and nation-building during the times of partition-related turmoil, refugee crises, and security concerns. The first budget, presented by R. K. Shanmukham Chetty in November 1947, covered seven-and-a-half months (August 1947–March 1948). Revenue stood at ₹171 crore. Expenditure reached ₹197 crore. A large share went to defence. The focus stayed on stability and basic administration rather than on ambitious development.

The establishment of the Planning Commission in 1950 marked a shift toward a planned economy. It followed socialist principles and the Soviet model. Budgets during this period focused on public sector dominance, import substitution industrialization, heavy industry nationalization, and equity through centralized resource allocation (Wikipedia, n.d.). Social spending focused on poverty alleviation, rural development, and basic infrastructure. The private sector played a limited role under the License Raj regime (Ahluwalia, 2002). Economic policy gave importance to equity and self-reliance. Innovation was slow and reforms were incremental and state-controlled. Growth averaged around 3.5% annually (the "Hindu rate of growth"). It was hampered by inefficiencies, fiscal imbalances, and external shocks (Panagariya, 2004). Budgets

supported equity through public spending. At the same time, they gave limited support to innovation and market reforms.

Liberalization and Reforms (1991–2010)

The 1991 balance-of-payments crisis forced a major shift. Foreign reserves were depleted. Inflation rose and fiscal deficits exceeded 8% of GDP. Finance Minister Manmohan Singh gave a landmark 1991-92 Budget under Prime Minister P. V. Narasimha Rao. He presented it on July 24, 1991 and introduced key reforms. Key measures included rupee devaluation, dismantling industrial licensing, reducing import tariffs, easing foreign direct investment norms, and initiating public sector disinvestment (Government of India, 1991). Singh famously declared, "No power on earth can stop an idea whose time has come". It declared India's awakening to global integration (The Hindu, 2025).

These steps marked the start of liberalization, privatization, and globalization. Economic growth increased to about 6 to 8 percent in the following years. Budgets continued to support reforms while maintaining social programs. It included programs like targeted subsidies and rural employment schemes. Policy focus in this period included

- Fiscal consolidation through Fiscal Responsibility and Budget Management Act(2003)
- Tax rationalization
- Infrastructure investment

It balanced reform momentum with social commitments (Subramanian, 2018). The government expanded welfare programs to support equity. At the same time, subsidy reforms created pressure on vulnerable groups. Innovation received some attention. The IT sector grew due to policy support. Still, innovation remained secondary to structural reforms.

Post-2010 Shifts

After 2010 budget policy integrated innovation as a core pillar. The government began to link technology with growth and inclusion. The 2015 Budget, under Finance Minister Arun Jaitley, launched Digital India. It emphasised digital infrastructure, e-governance, and broadband connectivity. It aimed to improve access and efficiency (EY, 2025).

The Goods and Services Tax (GST) implementation in 2017 represented a major reform. All the indirect taxes were brought in one place. It enhanced efficiency, and promoted cooperative federalism. The starting phase brought equity concerns for small businesses and states (GST Council, n.d.). Post-2014 budgets showed priorities like: -

- Capital expenditure surges for infrastructure
- Production-linked incentives
- Fiscal discipline targeting debt-to-GDP reduction

Innovation plays a larger role through Startup India, Atal Innovation Mission, and digital public infrastructure (India Briefing, 2026). Equity was still a concern. The budget needed to address inequality even during GST impacts and subsidy reforms. Government tried to balance it through direct benefit transfers and targeted schemes.

The Union Budget has moved beyond just accounting. It works as a strategic policy tool balancing reform, equity, and innovation. Along with adapting to economic shocks and supporting long-term development goals.

8. Analysis of Recent Union Budgets (2019–2026)

Recent Union Budgets show a clear shift in policy. It has moved towards fiscal prudence, infrastructure-led growth, and inclusive development. It faced challenges like the COVID-19 pandemic and increasing geopolitical tensions. But it still tries to balance economic reform, equity, and innovation. Capital expenditure plays a central role, while welfare and technology also receive attention. The trade-offs remain visible.

Economic Reform Measures

Fiscal consolidation is a key priority. The fiscal deficit declined from 4.6% of GDP in 2019–20 to a targeted 4.3% in 2026–27 budget estimates. It was supported by strong tax collection and non-debt receipts (PRS India, 2026). Tax incentives are provided for businesses. It includes production-linked incentives (PLI) that expanded to ₹2.03 lakh crore in 2023–24. It boosted manufacturing and exports

and reduced import dependence in sectors like electronics and pharmaceuticals. Infrastructure spending has seen exponential growth; capex allocations rose from ₹4.39 lakh crore in 2019–20 to ₹12.2 lakh crore in 2026–27 (3.1% of GDP). It emphasised roads, railways, and urban development. Total effective capex, including grants, reached ₹17.1 lakh crore. This equals about 4.4 percent of GDP. Higher public investment encourages private sector participation. These steps supported recovery after the pandemic. GDP growth reached about 7 percent in FY26. External risks such as global trade tensions still affect stability (Economic Survey, 2026).

Equity Initiatives

Social spending increased to address issues in inequality. Health and education remained key-focus areas to aid in reducing the problems. Health expenditure grew from ₹62,659 crore in 2019–20 to nearly ₹1 lakh crore in 2026–27. It funded expansions in Ayushman Bharat and pandemic resilience (KPMG, 2026). Education spending supported human capital through Samagra Shiksha (₹42,100 crore) and PM POSHAN (₹12,750 crore) in 2026–27. Gender budgeting crossed ₹3 lakh crore in recent years. It supported schemes like women's safety and entrepreneurship. Despite these efforts income inequality is still present. India's Gini coefficient increased from 0.46 in 2019 to 0.41 in 2023. The top 10% holds 58% of national income while the bottom 50% receives only 15% (World Inequality Lab, 2025). Direct Benefit Transfer systems reached about 90 crore people. These programs improve targeting but still face delivery gaps (Drishti IAS, 2026).

Innovation Promotion

Innovation receives stronger focus in recent policy budgets. R&D funding is targeting frontier

sectors. The 2026–27 budget allocated ₹40,000 crore to India Semiconductor Mission 2.0 and ₹10,000 crore to Biopharma SHAKTI. Startup India has supported over 1.4 lakh startups since 2016 (Press Information Bureau, 2026). Green innovation is also a prominent feature. The renewable energy subsidies, including ₹20,000 crore for carbon capture, utilization, and storage (CCUS) in 2026–27 has increased from ₹19,100 crore in 2024–25. Digital infrastructure under Digital India has seen its share rise to ₹1.03 lakh crore in 2025–26. It gave importance to AI and data hubs. However, India's R&D spending remains behind global averages, low at 0.7% of GDP (ORF, 2026).

Balancing Act: Case Studies

Successes

COVID relief measures show effective coordination. Total stimulus reached about ₹29.87 lakh crore which is equal to about 15 percent of GDP.

Key actions included:

- Free food grains for 80 crore people
- Cash transfers to women
- Support for businesses and workers

Unemployment dropped from about 25 percent in 2020 to 8 percent in 2021. These measures supported recovery while maintaining reform efforts (Levy Economics Institute, 2024).

Challenges

Trade-offs are seen in subsidies reform. Fuel subsidies highlight the changes. Recent budgets reduced subsidies from ₹2.07 lakh crore in 2022–23 to ₹11,925 crore in 2025–26 through decontrol and DBT. This freed funds for infrastructure but increased costs for low-income households (IndiaSpend, 2024). Rising fuel prices added pressure on inflation and inequality. Subsidy rationalization prioritized reform goals over immediate equity.

9. Quantitative Assessment

The following table compares allocation percentages across pillars (as % of total budget expenditure)

Table 1

<i>Year</i>	<i>Economic Reform (Capex % of GDP)</i>	<i>Equity (Social Welfare % of Budget)</i>	<i>Innovation (R&D/Innovation % of Budget)</i>
2019–20	2.9%	12.5%	0.6%
2020–21	3.2% (<i>Stimulus-adjusted</i>)	14.2% (<i>COVID relief</i>)	0.7%
2021–22	3.0%	13.8%	0.8%
2022–23	3.3%	13.5%	0.9%
2023–24	3.4%	13.0%	1.0%
2024–25	3.2%	12.8%	1.1%
2025–26	3.1%	12.7%	1.2%
2026–27	3.1%	12.5%	1.3%

Source: Data compiled from Government of India, 2026a; PRS India, 2026; ORF, 2026.

Table 1, shows a shift toward reform and innovation. The equity allocations are stabilizing but not expanding proportionally.

These budgets demonstrate progress in trying to fulfil the triad. The rising inequality and external shocks ask for more adaptive strategies.

10. Challenges and Critiques

Even after all the progress in trying to integrate economic reform, equity, and innovation through the Union Budget, we see several challenges and critiques against it. These issues do not allow the expected policy outcomes. Major problems are fiscal constraints, political pressures, external shocks, and weak measurement systems.

Fiscal Constraints

Limited fiscal space restricts the government's spending ability. It is not able to provide enough resources towards the innovation and equity ideas. The fiscal deficit target stands at about 4.3 percent of GDP for 2027. Public debt remains high at around 55.6 percent of debt-to-GDP ratio (Government of India, 2026; Press Information Bureau, 2026). The government reduced deficits after the pandemic peak of over 9 percent in 2021. This supports macroeconomic stability. It limits fiscal space for social spending or R&D investments. A large share of the budget goes to fixed commitments. Those are:-

- Interest payments take about 20-25% of total expenditure

- Mandatory transfers to states
- They further reduce the funds available for new programmes. Due to this the funding for long-term innovation like R&D remains at an all-time low of 0.7% of GDP, social welfare faces it's own limits and equity programs for energy transition enablers like grid infrastructure and storage remain uneven (Institute for Energy Economics and Financial Analysis, 2026). The government often prioritizes infrastructure spending to drive growth. This focus can reduce attention to immediate welfare needs.

Political Economy

The political incentives often decide the design of the budget. Elections influence how the budget is allocated. It gives preference to short-term equity measures for votes over long-term reforms or innovation investments. In India the pre-election budgets give importance to welfare expansions, subsidies, or cash transfers which acts appealing to voters. This trick is particularly used in rural areas marginalized communities (Times of India, 2026a). These actions aim to get voters support. This creates a short-term policy focus.

- Long-term reforms receive less attention
- Innovation funding lack continuity
- Fiscal discipline weakens during electoral cycles

Recent budgets like the one in 2026-27 has showed more restraint. It focused on stability and continuity. Policymakers avoid excessive populist spending due to global uncertainty (Times of India, 2026b). Still, political pressure remains strong. Coalition politics and state elections increase demand for targeted benefits. This makes it harder to implement structural reforms like subsidy reduction.

External Factors

Global happenings that affect domestic budgeting. Events outside India like geopolitical tensions and climate change creates uncertainty and pressure. Key external challenges are:-

- Trade restrictions and tariffs affecting exports
- Geopolitical tensions disrupting supply chains
- Energy price volatility increasing inflation
- Climate change requiring adaptation spending
- Budget reallocations toward defensive measures

These factors force changes in budget priorities. More budget goes to domestic manufacturing such as semiconductors, clean energy investments increase inter alia & inflation reduces actual spending capacity (Carbon Brief, 2026). External shocks reduce fiscal space. This makes it harder to support both welfare and innovation at the same time.

Measurement Issues

As we try to measure policy outcomes, it creates another set of challenges. Equity outcomes are easier to track in comparison. Poverty rates, income inequality and welfare coverage provides clear data whether there is progress or not. Innovation outcomes are harder to measure: -

- Benefits appear over long periods
- Results spread across sectors
- Direct links to policies remain unclear

These are not easily calculated (Aghion et al., 2014). India's low R&D spending adds to this issue. Indicators like patents and technology adaption remains limited. This creates a bias in policymaking. Governments prefer programmes with visible short-term results. Ergo innovation remains less of a priority. Better measurement systems are needed like outcome-based evaluation methods or long-term tracking of innovation impact or improved data

systems. Current limitations reduce the effectiveness of evidence-based budgeting.

These challenges show limits in current fiscal strategy. Policymakers must manage trade-offs between stability, growth, and inclusion. Stronger planning, better data, and long-term commitment will improve balance across reform, equity, and innovation (Organisation for Economic Co-operation and Development, 2017).

11. Global Parallels: Comparative Perspectives on Fiscal Policy Balancing Reform, Equity, and Innovation

Policy Balancing Reform, Equity, and Innovation
India's Union Budget reflects challenges seen across emerging economies and BRICS nations. Governments try to balance economic reform, equity, and innovation under tight fiscal conditions. Similar trade-offs appear in different countries, shaped by political systems, institutions, and external pressures.

Brazil has shown how fiscal policy often has conflicts with social equity. Balancing structural reforms among such pressures is not easy. After 2010, Brazil implemented spending caps and pension reforms to control deficits which is similar to India's deficit reduction targets. These steps improved fiscal stability. At the same time,

- Cuts in subsidies reduced support for vulnerable groups
- Inequality remained high with a Gini coefficient of around 0.53
- Social spending pressures continued

Innovation funding through programs like BNDES support research in agriculture and renewable. It remains limited by fiscal pressures. It restricts expansions. Brazil's experience highlights the risks by political cycles. They favour short-term welfare expansions over long-term innovation investments. It leads to cyclical fiscal imbalances (World Bank, 2023).

China follows a different model. The state plays a central role in coordinating reform, equity, and innovation.

Key features include:

- High R&D spending above 2.5 percent of GDP
- Strong support for high-tech industries
- Large scale infrastructure investment

Programs like Made in China 2025 promote domestic technology growth. Tax incentives and subsidies also support firms in strategic sectors. Equity policies focus on poverty reduction and rural development. These programs reduced extreme poverty at a large scale. China reduces trade-offs through strong coordination. Their central policies are in alignment with policy goals. Fiscal tools like VAT supports both growth and innovation. Market makes it's reforms under state guidance. Challenges still exist. Rising debt and inequality create pressure on the system. This demonstrates strong institutional alignment amplifies synergies between reform, equity, and innovation (International Monetary Fund, 2016).

South Africa faces severe inequality as the Gini ratio stands around 0.63. Fiscal policy focuses on social protection through social grants and public employment programmes. These programs address historical inequality. They also limit funds for reform and innovation. Key constraints include high public debt over 70 percent of GDP, limited fiscal space for new investments & political resistance for structural reforms. Innovation policy remains weak. Tax incentives for research exist but produce limited impact. Measurement issues also affect policies. Equity outcomes like grant coverage is easy to track while innovation outcomes remain unclear causing underinvestment in technology (Organisation for Economic Co-operation and Development, 2017). Similar market patterns are seen across emerging economies, as analysed by the IMF. Government use tax incentives and infrastructure spending to support innovation while equity relies on transfers and welfare programmes and fiscal limits force trade-offs between these goals. They intensify during shocks (International Monetary Fund, 2016). OECD insights highlight that emerging economies often prioritise short-term growth over long-term innovation. Ergo lagging behind integrating innovation with equity (Neubig et al., 2017).

These parallels affirm India's approach who follows a balanced but constrained approach.

- Fiscal consolidation supports stability
- Infrastructure spending drives growth
- Welfare programmes target inclusion

Common risks like political pressures, external shocks, and biases against innovation remain. Lessons from other countries are clear: -

- Strong coordination improves results, as seen in China
- Weak fiscal planning increases inequality, as seen in Brazil or South Africa

For better outcomes, policymakers need clear long-term priorities, Institutional alignment across sectors, strong public private partnerships & better systems to measure innovation outcomes. This approach will improve balance between reform, equity, and innovation in developing economies.

12. Policy Recommendations

India needs to balance economic reform, equity, and innovation properly through the Union Budget. This needs forward-looking and adaptive strategies that is capable of addressing the problem of continuous trade-offs.

Strategies for Balance

Integrated budgeting frameworks help balance economic reform, equity, and innovation. The budget should move from input-based planning to outcome-based allocation and the spending must link to clear and measurable results.

Outcome based budgeting needs stronger use across ministries. This requires expansion of the Output Outcome Monitoring Framework. Key improvements include: -

- Use of cross-pillar indicators
- Measurement of productivity gains from innovation
- Tracking reduction in poverty through tech-driven jobs

This approach connects innovation with equity in a measurable way (Development Monitoring and Evaluation Office, 2024). Public private

partnerships improve coordination across goals. PPPs bring private capital into public policy areas. Key sectors include:

- R&D clusters
- Digital infrastructure
- Green technologies

These partnerships increase investment and improve access. This model should expand into innovation-focused programmes like Biopharma SHAKTI or IndiaAI Mission. It could accelerate commercialization and incorporate equity safeguards like inclusive skill development (Government of India, 2026). These strategies bring together innovation and equity while supporting strategic reforms. They solve conflicts through risk-sharing and performance-linked funding.

Institutional Reforms

Strong institutions improve coordination across policy areas. NITI Aayog should play a central role in this process. It is the nodal body for long-term planning. It should lead inter-ministerial working groups on budget integration which is similar to Net Zero scenarios and manufacturing missions. This includes developing unified metrics for reform (e.g., competitiveness indices), equity (e.g., multidimensional poverty reduction), and innovation (e.g., R&D output-to-GDP ratios) (NITI Aayog, 2026). NITI Aayog should also strengthen monitoring system through regular reviews and data dashboards. It would ensure alignment with Viksit Bharat goals. It should also support cooperation between central and state governments. This ensures policies match local needs while maintaining national priorities.

Future Directions

Tech-driven budgets have proven to improve budget planning and execution. Artificial intelligence (AI) offers tools for better decision making. Key uses include predictive analytics for expenditure forecasting, scenario modelling for trade-offs, and automated outcome tracking. The 2026-27 Budget's emphasis on AI as a "force multiplier" for governance, including tools like Bharat-VISTAAR for agriculture where it provides a foundation. It is further expanded to budget processes like AI-assisted capex prioritization or inequality simulations

that would improve responsiveness (Government of India, 2026b). Public participation is of equal importance. It involves civil society, industry, academia, and marginalized groups. Budget should take input from all these groups to ensure equity considerations inform reform and innovation priorities. Structured consultation platforms will improve policy quality. Digital tools can make this process more inclusive and transparent. It also ensures it aligns with global fiscal policy.

These recommendations are rooted in outcome focus, institutional synergy, and technological integration. They can help the Union Budget evolve into a more adaptive instrument capable of reconciling short-term constraints with long-term aspirations for innovative growth.

13. Conclusion

The Union Budget in India has become a sophisticated policy instrument that understands the complex triad of economic reform, equity, and innovation. These changes were particularly seen in the post-1991 liberalisation era. Budgets have begun to enhance competitiveness and macroeconomic stability. This was done through budgetary disciplines, tax rationalisation, and infrastructure-led capex surges. The main goal was equity, which has been pursued through progressive taxation, expanded social welfare, and direct benefit transfers that reached millions. Innovation has been achieved with investments in R&D ecosystems, Startup India, Atal Innovation Mission, digital infrastructure, and various frontier sectors that include semiconductors, biopharma, and green technologies (Government of India, 2026b; Press Information Bureau, 2026).

Evidence from recent budgets (2019–2026) shows notable progress. These progress reports include fiscal deficit reduction to 4.3% of GDP in 2026-27 BE, capex at ₹12.2 lakh crore (3.1% of GDP), and targeted innovation leading to self-reliance (EY, 2026; PRS India, 2026). Proper coordination is seen where reform-focused infrastructure supports innovation and equity. These lead to job creation and

inclusive access. Still, the gaps remain. Trends are seen in inequality, like Gini coefficient fluctuations and top 10% income capture. These indicate that equity is behind reform momentum. The distance increases due to severe measures and subsidy rationalisation (World Inequality Lab, 2025). Innovation funding is increasing but remains below GDP needs, and trade-offs are also seen arising from fiscal constraints limiting expansive welfare amid external shocks.

These findings highlight the tensions that reform and innovation give importance to efficiency and long-term productivity. This often clashes with immediate equity demands under political and fiscal pressures. The adaptive strategies like outcome-based allocations, PPPs, and tech integration seem like the middle ground.

The implications are not limited to India. Fiscal policy is a powerful tool for sustainable growth. It can balance structural adjustments with innovative investments. Through prioritising capex for multiplier effects, integrating equity safeguards in reforms to control inequality, and fostering innovation to escape middle-income traps (Brookings Institution, 2025). The public spending's positive impact is seen in emerging markets. This happened due to strong institutional frameworks that impacted sustainable development and emphasised policy importance over isolated interventions (ScienceDirect, 2025). India's experience highlighted that disciplined economic planning with targeted social and technological spending sustains high growth. It also addresses disparities and offers a model for resource-constrained nations that face global challenges.

There are many areas left for future research that highlight AI's role in budgeting. It can do predictive analytics for expenditure forecasting, inequality simulations, and automated outcome tracking. These enhance efficiency and evidence-based decisions (KPMG, 2025; OECD, 2024). Comparative studies with BRICS nations examine future fiscal strategies for innovation-equity balances. There are many institutional innovations, like the New Development Bank and responses to de-dollarisation.

These reveal shared lessons with ongoing economic heterogeneity (Carnegie Endowment, 2024; BCG, 2024).

In conclusion, we see that the Union Budget demonstrates resilience in advancing reform and innovation in addressing the equity challenges. Sustained adaptive reforms are essential for realising Viksit Bharat and overall development.

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