



**Indian Liberal Group
and
Project for Economic Education**

Press Summary

November 18, 2005

LIBERAL BUDGET 2006-07 – RIGHT CHOICES TOUGH DECISIONS

Entitled “Right Choices Tough Decisions”, the Liberal Budget 2006-07 was released today at a press conference in Mumbai. A joint effort of the Indian Liberal Group and the Project for Economic Education, this is the third such budget in as many years.

The five chapter-40 page document or LB3, as its sponsors call it, provides an assessment of economic reforms in the last fifteen years; a retrospect on the Central Budget 2005-06; the strategy of LB3; an analysis of the Central Government’s expenditure; and the need for reforms in Tax Policy and Tax Administration.

Assessment of Economic Reforms

LB3 describes the outcome of the economic reforms so far as “a mixed bag”. While the economy has become “drought proofed”, the farm sector has been largely by-passed leading to iniquitous growth. This is neither sustainable nor acceptable in the Indian context. On the other hand, there is the maturing of the Indian manufacturing sector, reflected in its global competitiveness and manufacturing standards.

LB3 draws attention to the extremely weak position of Central Government finances and weaker state government finances; growing regional imbalances - the prosperous South-West *vis a vis* the poor North-Central-East, resulting in an adverse impact on economic growth; the phenomenon of ‘jobless-growth’ that is threatening to become a socio-economic time-bomb.

Among the key areas crying out for reforms are: agricultural reforms; legal reforms; labour reforms; financial sector reforms; reforms in key infrastructure areas – power and transport; ports, airports, water and roads; and fiscal reforms.

LB3 is highly critical of the role played by ‘Left’ parties. It says: “The greatest danger today is the ‘Left’ parties strong resistance to any significant policy reform. It is ironic that while countries swearing by the communist ideology have prospered in recent years by abandoning the basic economic principles of their ideology, the Indian communist parties are bent upon stalling the ongoing economic policy reforms and thereby hampering India’s progress towards economic prosperity.” The Liberal document is equally critical of the UPA government for caving in to communist blandishments. “It is squarely the UPA government’s responsibility to call the bluff of the Left, and forge ahead relentlessly on the path of reforms.”

Retrospect of the Central Budget 2005-06

While broadly agreeing with the Government Economic Survey’s diagnosis of the country’s economic and fiscal health, the LB3 document expresses its disappointment with the fact that “neither the Economic Survey’s prescriptions, nor the frequent declarations by the Prime Minister and his Finance Minister, are really reflected in the strategic framework of the Central Budget 2005-06.” It expresses concern over the estimated huge size of the revenue deficit of Rs.95,312 crores and the fact that “out of every Rs.100 of day-to-day spending, as much as Rs.22 comes from borrowings. Surely, this is a continuation of the deplorable practice over the past many years of an inefficient unsustainable management of the budget.”



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While welcoming some new initiatives particularly for rural development in the Union Budget, LB3 observes "What is missing in the Central Budget is the strategy of implementation of the many existing and new initiatives. The compulsions of coalition politics is taking its toll on the pace and quality of economic reforms and distorting the philosophy and rationale of economic liberalisation" Summing up the Liberal assessment of the Central Budget 2005-06, the LB3 document says: "The Central Budget 2005-06 is good in some respects as it converges with economic perspectives that take forward the process of opening up the economy, but it is retrograde when it departs from the path of economic liberalisation. Surely, it has failed in becoming a 'watershed budget' in the true spirit of the Liberal Budget."

Central Government Expenditure

LB3 draws pointed attention to some alarming facts about the expenditure of the Central Government:

- The percentage of Revenue Expenditure to Total Expenditure is at an alarming level and needs to be curtailed if India's public finances are to be restored to health.
- The problems with revenue expenditures also manifest themselves in the burgeoning and debilitating revenue deficits.
- The major cause of India's fiscal problems is the inability to control revenue deficits. These deficits have to be hammered down to zero.
- Revenue deficits have been funded for the last couple of decades by generating surpluses on the capital account. India has been borrowing to pay for the annual cost of running the government: The "grocery bill" is being paid for by borrowing ever more.
- The most significant drag on the finances of the government is interest payments and subsidies.
- The current position of public finances has so constrained central and state government that they are unable to meet their social obligations. Ideally, the Liberal position would advocate a reorientation of subsidies from the undeserving to the deserving.

The two solutions to deal with the problem recommended by LB3 are: One: an increase in the efficiency of government expenditures directed towards the social sector so that the country 'gets more bang for its bucks'. And two: there should be aggressive privatisation so that the revenues so generated could be deployed for welfare improvements.

Reforms in Tax Policy and Tax Administration

In the area of tax reforms LB3 has made general and specific recommendations. Among the general recommendations are:

- Tax laws should be amended bearing in mind the convenience of the large number of tax payers (and not with a view to punish a few defaulters).
- There should stability in tax rates for a period of least five years. Therefore frequent changes in tax rates should be avoided
- For purposes of raising tax revenues, it is necessary to widen the tax base rather than increase the tax burden on existing taxpayers. For this purposes some permanent statutory provisions should be made whereby small assesseees can be asked to pay a fixed amount of tax in absolute terms up to a certain level of income with the assurance that their declaration of income will be accepted at face value
- No retrospective amendment should be made in the tax laws .All amendments to the tax laws should be made prospective



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- Genuine reforms in tax administration are paramount to provide humane, fair, efficient transparent tax administration with accountability.
 - With the Right to Information Act having become operative appropriate steps should be taken to see that the tax administration strictly complies with the provisions of the Act.

Liberal Budget's Recommended Strategy for Growth

Finally, since Liberal Budgets are not only critiques but also meant to provide solutions, LB3 provides a seven point 'Strategy for Growth'. These are:

- First: Setting up an 'Economic Reforms Implementation Authority' (ERIA) for facilitating cohesive, participative and speedy implementation of critical economic reforms in a time bound manner.
- Second: Accelerating investments in infrastructure, core manufacturing and agriculture sectors
- Third: Widening considerably public-private partnership in key sectors through the mechanism of Special Purpose Vehicles (SPVs)
- Fourth: Further rationalisation of the tax structure with a focussed thrust on a radical reform of indirect taxation.
- Fifth: Significant streamlining and simplification of the tax administration
- Sixth: Substantive shift in expenditure management with a view to freezing the growth of revenue expenditure and releasing more resources for employment generating social sector spending; and
- Seventh: Aggressive disinvestment and privatization, and the use of funds so generated for social sector investments.

Along with this press release is a copy of the 40 page Liberal Budget 2006-07 "Right Choices Tough Decisions". Please refer to it for details including the names of the members of the Drafting Group which crafted this document.

This press release is issued by the National Headquarters of the Indian Liberal Group. Address and other details given below.