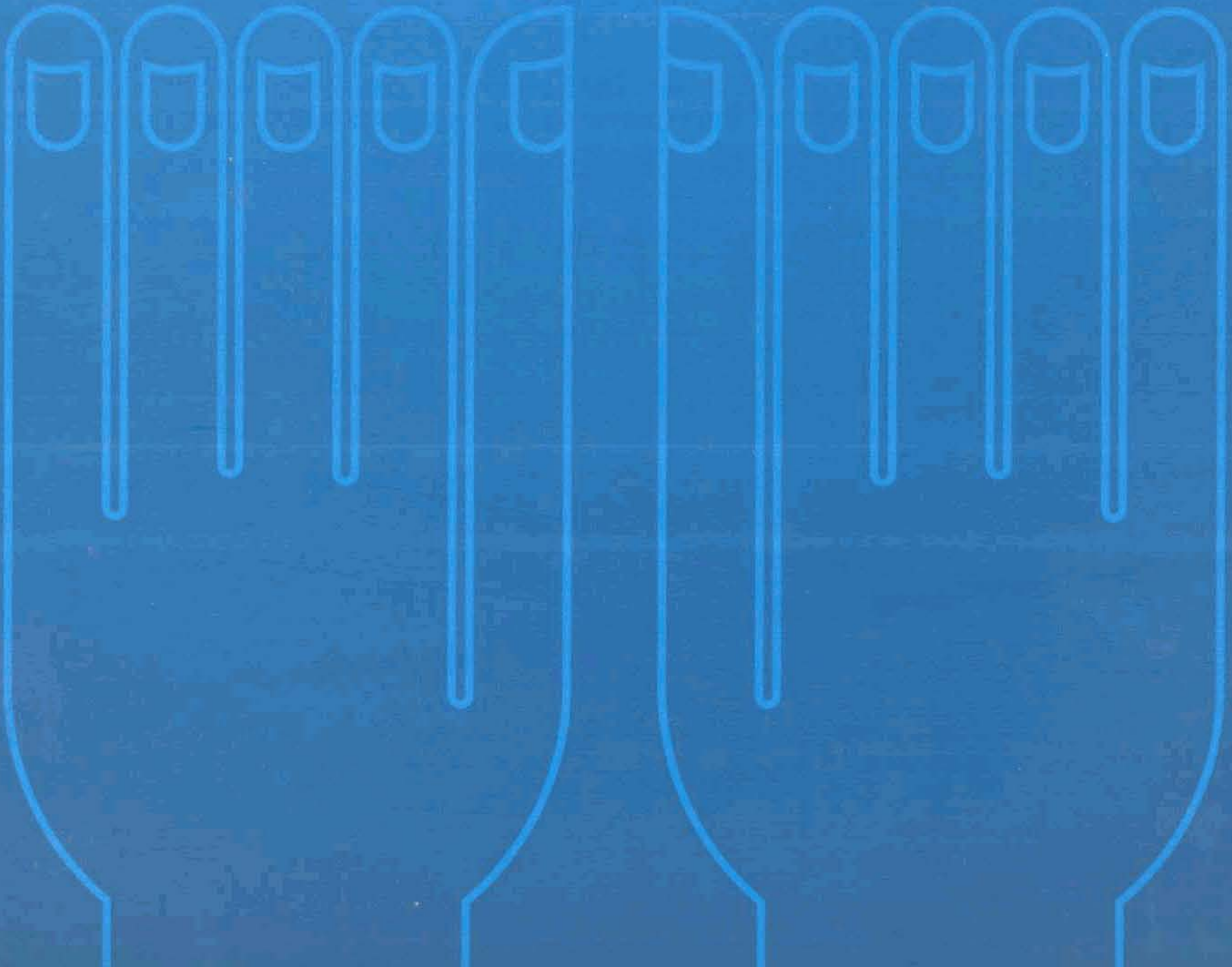
THE LIBERAL BUDGET

BUILDING AN EQUITABLE SOCIETY.



THE LIBERAL BUDGET

BUILDING AN EQUITABLE SOCIETY.

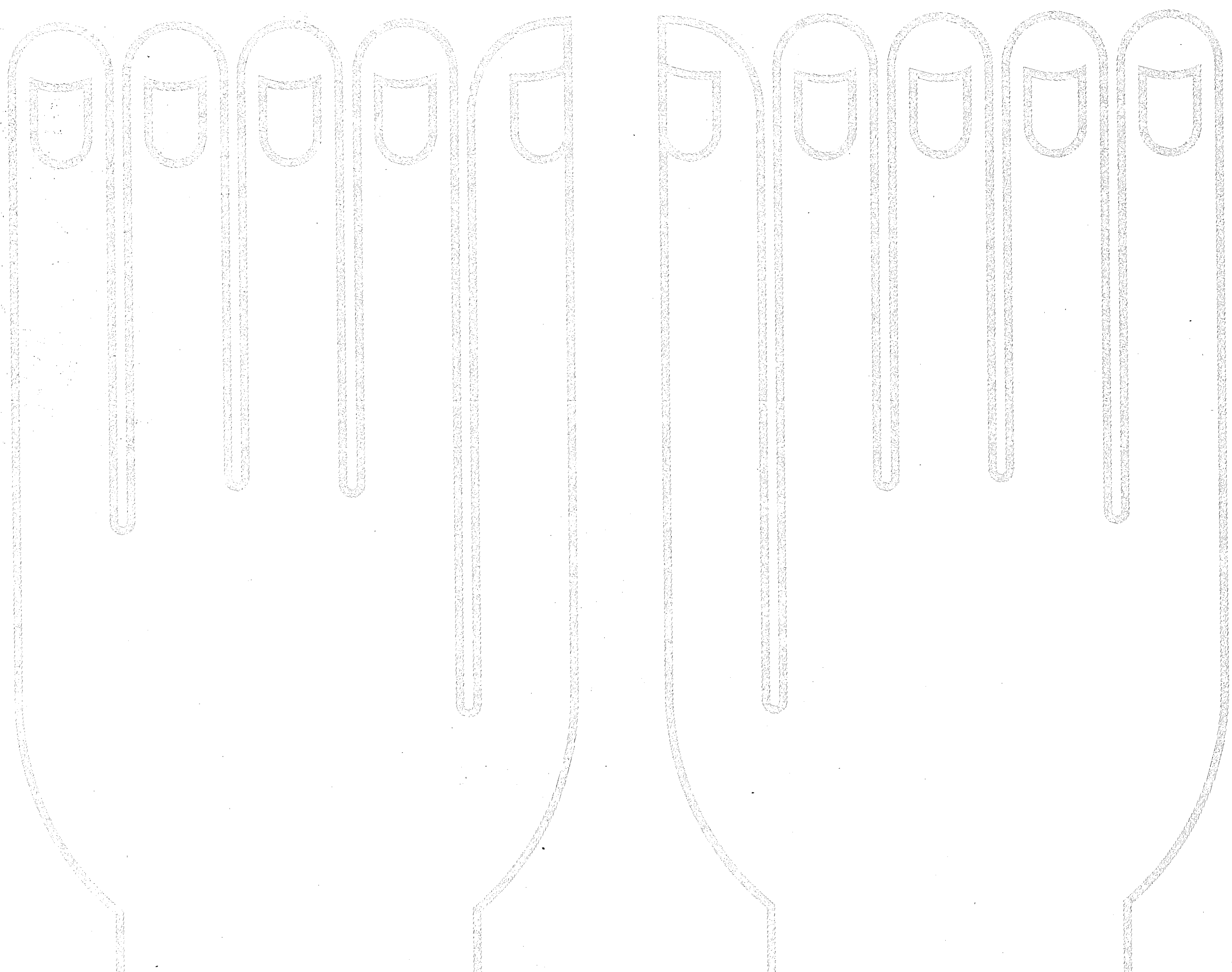
FREEDOM WITH RESPONSIBILITY

INDIAN LIBERAL GROUP

PROJECT FOR ECONOMIC EDUCATION

“ *I want an India*
where Dharma once again
rules the hearts of men,
and not greed ”

- C.Rajagopalachari



Cover Design & Layout:
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Published by:
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1000/06/2004

CONTENTS

Preface

Union government Budgets and, to a lesser extent, State government budgets have acquired a larger than life importance. Along with the proliferation of laws, these Budgets too have become increasingly complex, requiring 'experts' to interpret the laws or the various provisions in the Budgets. Indeed it required a genius like the late Mr.Nani Palkhivala to explain the implications of a Budget in terms that people could understand.

Until the early nineties, business, industry and taxpayers generally, waited with bated breath with their eyes and ears glued to the TV or radio to hear what the finance minister had in store for them. With socialist governments perched on the commanding heights of the economy it was natural to fear the worst - and more often than not these fears were justified and the country and the people suffered. And, to make confusion worse confounded, invariably, these Budgets underwent several transformations in the form of "revised estimates" in the course of the financial year. But that is another matter.

Budgets in the first forty years of freedom were designed to serve a statist economy. When the government at the Centre was finally compelled by economic compulsions, in 1991, to take a "U Turn", the Budgeting process did not take a similar turn. It continued to be as complicated and as obtuse as ever. On the other hand with the considerable dilution of the licence-permit-quota-Raj, Union budgets no longer scare the citizen as much as they did in the heydays of the 'socialistic' regime. But this is not enough.

In the evolving liberalisation of the economy there is need to promote better fiscal governance through transparency and accountability, fiscal consolidation, productivity, growth and equity. The Project for Economic Education is convinced that a liberal economy needs a different kind of Budget - a Budget that is de-mystified and made simpler, highly transparent and, above all, brought in tune with reality. The reality is that since 1991 the country has been heading in the direction of a liberalised economy. A liberalising economy needs a truly Liberal Budget.

Work began a year ago when a Drafting Group was appointed with a brief to prepare a Model Liberal Budget - the kind of Budget India's current economic situation needs; a budget that is not only economic-reforms friendly, but which also reflects the Liberal economic philosophy.

The Drafting Group decided, as a first step to ascertain the views of the members of the Indian Liberal Group on the subject. These views were collated and discussed at a Seminar held at the Leslie Sawhny Centre in Devlali, Maharashtra on August 15 and 16, 2003. Thereafter some members of the Drafting Group travelled to Chennai and met with economists and former members of the civil service in the office of the Industrial Economist, to further clear their thinking.

> *“An equitable society is a just and fair society - A society where the state provides opportunities for growth.”*

At these meetings there was, not surprisingly, considerable criticism of the weaknesses and faults in the present system. However when drafting the Liberal Budget, the Drafting Group's critiques of the existing practices have been brief, and that too only to serve as reference points for correctives vis-à-vis the Liberal Budget. The dictum that the Drafting Group kept reminding itself was "Everyone knows what's wrong. The job is to offer the people what is right."

Despite our discomfort with centralised economic planning, we have not hesitated to use the expertise available with the

Planning Commission! The drafting group has drawn upon the Tenth Five Year Plan and working group reports for human development targets, data as well as some ideas. In fact the Tenth Plan document contains useful insights and ideas relating to economic reforms.

The Liberal Budget is not frozen in time. There will be an annual review of the Liberal Budget. Changes will be made if change is justified but always in keeping with the basic Liberal belief - Man is the measure of all things. On this there can be no compromise. And this goes well with the objective of the Liberal Budget - Building an Equitable Society.

What then is this equitable society? It is not to be confused with the egalitarian ideal propounded by socialists. An equitable society is a just and fair society - A society where the state provides opportunities for growth. All human beings are not born equal if economic and social circumstances are the only criteria. It is the task of a Liberal State to provide them opportunities for growth irrespective of their caste, creed or status - economic or social. The State is the enabler, providing the required social and physical infrastructure. These include basic primary education, primary health care, easy availability of safe drinking water or water for irrigation; decent roads for easy connectivity; speedy justice and the maintenance of law and order. In an equitable society the individual matters. The Liberals seek growth with equity. The Liberal Budget is an instrument to make that happen.

Much thought, consultations and effort have gone into the preparation of the Liberal Budget. The result is a Budget not in the conventional sense of the term. What has emerged is a template or a benchmark to evaluate the traditional Budgets of the Union government and to offer constructive suggestions for changes as the situation demands.

We cast our net wide seeking the views of a large number of thinking Indians not necessarily confined to economists. The Project for Economic Education thanks in abundant measure the following for their assistance in the task of producing the Liberal Budget, which to our knowledge is the first effort of its kind in India:

- Members of the Special Interest Teams of the Indian Liberal Group (ILG). These Teams are groupings of ILG members in various disciplines. In this case we targeted the Teams concerned with political economy.

- Participants at the Workshops on the Liberal Budget held at the LSP Centre in Devlali and at the office of the Industrial Economist in Chennai.

- Dr.Bibek Debroy, Dr.Ashok Desai, Mr.K.P.Geethakrishnan (*the Employment Guarantee Scheme, which is detailed in The Liberal Budget is based almost entirely on Mr. Geethakrishnan's note to the Drafting Group on the subject*), Mr.T.N.Ninan, Dr. Pronab Sen, Dr.R.Swaminathan, Professor Suresh Tendulkar, and (late) Mr.T.K.Velayudham who provided useful inputs to the Drafting Group.

- Mr.S.Viswanathan, editor and publisher of the Industrial Economist for his inputs and for the use of his office for the workshop in Chennai.

- Friedrich Naumann Stiftung.

- Mr. Umesh Magar and Mr.Vivek Raju for the cover design and layout.

- Mr.Roger Pereira, CEO and Managing Director and Mr.Allwyn Fernandes, Vice-President and Director, R&P Management Communications Pvt. Ltd.

- Mr. S. Ramadorai, Chief Executive and his team at Tata Consultancy Services.

Finally, we thank the real authors of this Liberal Budget - The Drafting Group comprising Mr.Sunil S.Bhandare - Chairman of the Group; Dr.Ajit Karnik; Dr.C.S.Deshpande; Mr.Sanjay Panse and Ms. Seetha - all members of the Indian Liberal Group. It was their dedicated effort, finding time despite their busy professional schedules, that resulted in the Liberal Budget seeing the light of day. For them it was indeed a labour of love. The Project for Economic Education owes them a deep debt of gratitude.

S.V.Raju
Executive Chairman
Project for Economic Education

Mumbai, May 29, 2004

Introduction

S. S. Bhandare

Given the enormity and complexity of India's socio-economic structure, formulation of a Liberal Budget is not only a challenging task, but one that has to take into account the perils of the unknown involving such external and internal shocks like war, massive oil price hike and natural disasters. Simultaneously, the economic environment is becoming increasingly dynamic thanks to the constellation of forces of globalisation and technological advances. All these impose a powerful influence on budget making and its structure.

Even otherwise, there are veritably innumerable facets of the budgetary framework from taxation to non-tax revenues, from revenue to capital expenditure and from plan to non-plan or from development to non-development expenditure. The Liberal position has to offer its reflections on each of these.

Further, there is a two-way inter-dependence of macro economic factors and each one of these key fiscal parameters. For instance, higher GDP growth and its composition can determine the buoyancy of tax and non-tax revenues. Like-wise, healthy revenues growth, other things remaining the same, can facilitate an environment for liberal reforms in tax policy and also better expenditure management.

In contrast, stagnation or sluggish economic growth adversely affects mobilization of new taxes as well as buoyancy of the existing tax revenues. Other things remaining the same, such a situation can create a major fiscal imbalance, thereby affecting the capacity of the economy to deploy public resources for developmental and capital expenditure. In turn, this can erode the process of productive capacity building, and its consequential growth momentum. Indeed, we have been a witness to this phenomenon for a fairly long time - from mid-nineties till now.

The growth resurgence of the Indian economy in the current year (real GDP growth expected to cross well over 8% in 2003-04) is predominantly a phenomenon of (a) remarkable agricultural recovery; (b) significant growth of manufacturing industries; and (c) steady growth of the services sector, including the external trade. However, there is so far no reflection of any major impetus to investment activity except in the area of road development and telecom.

The essential point is that the fiscal situation continues to be so severely constrained that it scarcely can generate a momentum of public investment driven acceleration of growth. At the same time, further impetus to private initiative, enterprise and investments suffer from want of an appropriate and inspiring liberal economic environment.

It is the position of the Liberal Budget that the Indian tax system must surely become globally compatible and competitive. Already, so much has been accomplished over the last decade, particularly after the launching of economic reforms in July 1991. This process has to be sustained and in particular there has to be simplification of tax provisions, rules and administration.

> *"At the same time, further impetus to private initiative, enterprise and investments suffer from want of an appropriate and inspiring liberal economic environment."*

- First, there can be no going back on the current process of reduction and rationalization of the Indian tax structure. Such tax reforms have, indeed, become an integral and inevitable part of the process of further liberalization, competition and globalisation;

- Second, the scope for further scaling down of direct tax rates may be quite limited, although there is considerable scope for fine-tuning both personal and corporate tax rate structure and slabs; eliminating and simplifying many of the existing tax concessions and exemptions; and improving the tax administration in conformity with the recommendations of the Kelkar Committee Report. Also, the two key areas of indirect taxes, namely, excises and customs, must reflect the imperatives of competition and WTO considerations.

- Third, the realization of key objectives of tax reforms - revenue buoyancy, simplification and transparency of tax systems and administrative competitiveness, among others - is inextricably dependent on further reforms not only of Central taxes, but, more importantly so much needs to be done by the States in their own sphere of taxation. For example, the implementation of the Value Added Tax (VAT) and agricultural income tax by the States. Even the full-fledged coverage of Services Tax requires the coordinated efforts of both the Center and States, preferably moving towards an integrated VAT (i.e. merging Center's CENVAT and the existing Sales Tax by the States).

> *" The major thrust of the Liberal Budget is on the state's increased social sector commitments. We still have to deal with massive problems of poverty, unemployment, very poor primary education and healthcare services. "*

It is our belief that with the implementation of the Liberal Budget and consequent distinctive acceleration of long-term economic growth to, say, about 8% per annum, there will not only be restoration of tax buoyancy, but even substantial increase in the tax revenues to GDP ratio of at least 3 to 4 percentage points to, say, around 17 to 18 percent in the coming years.

The experience of disinvestments of PSUs has so far been quite mixed. The massive success of resource raising through recent public issues of IPCL, Dredging Corporation, CMC, GAIL, IBP and ONGC, seems to have made a favourable impact on the whole process of disinvestments that was initiated way back in 1991-92. Yet, the PSUs disinvestments policy has, by and large, had a chequered career; it has also predominantly been a budgetary exercise, and does not truly reflect a strategic policy of the government, marking a decisive and significant shift in the ownership and management of public sector businesses.

Although the former Disinvestment Minister Mr. Arun Shourie was proclaiming the prospect of raising Rs.100,000 crores per annum, it would have been more realistic to expect such proceeds to rise to about Rs.35,000 to Rs. 40,000 crores immediately, and then progressively to Rs.50,000 crores over the next three to four years.

The Liberal Budget is of the view that even with such realistic targets, there would be significant gains in the budgetary outlook, provided there are pari passu efforts to "ring-fence" at least one third of such revenues largely for incremental investments in critical infrastructure projects. This would help in stimulating economic growth, thereby facilitating the process of widening the tax base.

On the expenditure side, the major thrust of the Liberal Budget is on the state's increased social sector commitments. We still have to deal with massive problems of poverty, unemployment, very poor primary education and healthcare services and various other commitments of security and social safety net. Besides, accelerated process of economic restructuring would continue to be increasingly painful in terms of displacement of jobs and obsolescence of existing skills. The alleviation of this pain would require commitment of adequate expenditure.

Thus, for poverty reduction, employment generation, reskilling and redeployment of labour, education, health, etc. the Government both at the Center and States will be called upon to bear increased burden of social sector expenditure. At present, the aggregate expenditure (Center and States) on social sector comprising education, medical, public health, family welfare, rural development and food subsidy works out to about 8% of GDP and therefore, needs to be raised by at least 4 to 5 percentage points progressively in the next three years.

At the same time, the quality of such expenditure leaves much to be desired. It is only through continuous improvement in the system of governance that we could hope to transmit the true benefits of such expenditure to the intended beneficiaries. This is one of the most formidable challenges highlighted by the Liberal Budget and for which it makes a case not only for budgetary reforms but also for providing far greater transparency and accountability than hitherto. This will ensure a far more enduring impact on the socio-economic profile of the country.

The Liberal Budget strongly recommends that development of the physical infrastructure must have pride of place in our economic strategy for the next five years. Apart from earmarking a portion of disinvestments proceeds for building up a financing mechanism for infrastructure development, we must also consider the urgency of promoting public private partnership and improving further the policy and regulatory framework.

It also needs to be highlighted that demographically, by 2020, India would have the largest proportion of young people with as many as 270 million new entrants into the age group 15-59 years. This is equivalent to the present total population of the USA. And this "Young India" would be capable of generating increased productivity, entrepreneurship and professional skills capable of intensive economic activities. This vibrant demographic structure augurs well for the country, provided, of course, we offer the right liberal economic environment. And this is what the Liberal Budget sets to do.

Finally, given the prospects of increased tax intensity and better fiscal discipline, we expect the virtual phasing out of revenue deficits in the Indian fiscal situation by 2006. By implication, this factor alone would help in raising savings to GDP ratio of the Indian economy by about 3 to 4 percentage points over a period of next three to four years. Consequently, it may be reasonable to envisage the overall investment ratio to move up from the prevailing stagnant level of about 24 to 25 percent of GDP to at least 28 to 30 percent. Moreover, with a sustained improvement in the competitiveness and productivity of the economy together with growing contribution of relatively low-capital intensive, high value added services sector in the economy, the incremental capital output ratio (ICOR) would tend to decline, thereby making the realization of average annual real GDP growth of about 8 per cent increasingly feasible.

In conclusion, let me state that India is on the threshold of achieving an accelerated economic performance in the coming years. Surely, various growth-promoting trends are going to be fortified under the Liberal budgetary framework, leading to sustained higher real GDP growth, and in turn transmitting their beneficial impact not only on the fiscal health, but also on the socio-economic profile of the country in the next few years. We hope that the government and policy-making authorities are listening!

Postscript :

There was a change of government at the Centre, just as we were putting finishing touches to the Liberal Budget. Under the new dispensation, the new coalition government calling itself the United Progressive Alliance or the UPA has unveiled its Common Minimum Programme or CMP.

The Liberal Budget does not reflect on the CMP. It has been cast independently.

The Drafting Group of the Liberal Budget recognises the importance of the CMP in shaping the future course of economic reforms. We no doubt appreciate the emphasis on the "human face" in the proposed development strategy, but we are concerned with the contrary and ambivalent signals being sent in the approaches to disinvestments / privatisation, labour reforms, subsidies, budgetary management, and foreign investment.

We would like to assert that the Liberal Budget is much stronger in its emphasis on a "human face" without diluting the essence of the liberal economic reforms.

“The Liberal Budget strongly recommends that development of the physical infrastructure must have pride of place in our economic strategy for the next five years.”

S. S. Bhandare
Chairman,
Liberal Budget Drafting Committee
Project for Economic Education,
Mumbai.

Executive Summary

Man is the measure of all things. This about sums up the Liberal credo. Liberalism has no dogma except one - the centrality of the human being; what is good for him - or her - is acceptable. What is not, is not. Liberalism like Socialism aims at promoting the welfare of all. As Ludwig von Mises the great Liberal philosopher put it, where the two differ is "not by the goal at which it aims, but by the means that it chooses to attain the goal".

Philosophically speaking the Liberal position is very clear. It is that the business of government is governance and not business. In a Liberal State, the individual is supreme and the State must work to further his or her potential. So it will focus its activities on law and order, defence, physical and social infrastructure (health, education and a social safety net).

> *"The Liberal position is very clear. It is that the business of government is governance and not business."*

When preparing this Liberal Budget from a Liberal perspective, we have kept these fundamentals in mind. The key basic tenets of this Liberal Budget are:

- Effective Fiscal Governance
- Fiscal Consolidation and Stabilisation
- Efficiency and Productivity
- Acceleration of Growth
- Promotion of Equity

The main focus of the Liberal Budget will be issues concerning human development or human capital formation - health, education and a social safety net for those who are not capable of looking after themselves.

At the same time, no budget can be genuinely Liberal in its essence and powerful in its impact, unless the overall economic policy regime becomes genuinely liberal, deregulated and capable of nurturing and fostering private and individual initiative. In other words, an interventionist State cannot be the right setting for a Liberal Budget.

Unfortunately, over the past fifty years, the Indian State has become an interventionist one, appropriating to itself practically every aspect of human life. As a result, it has spread itself too thin and is not able to play an effective role in any area, let alone the areas of its main responsibility. The Liberal Budget will, in a sense, attempt to set this right and attempt to provide resources for the government to effectively carry out its main responsibilities.

What kind of targets relating to human development should the Liberal State set for itself? The Liberal Budget sets out the following **nine-point objectives** of a Liberal State:

1) Reduction of poverty ratio by 5 percentage points by 2007 and by 15 percentage points by 2012.

2) All children in school by 2005; all children to complete five years of schooling by 2009.

3) Increase in the literacy rate to 75 per cent by 2007.

4) Reduction of infant mortality rate (IMR) to 45 per 1000 live births by 2007 and 28 by 2012.

5) Reduction in maternal mortality ratio (MMR) to 2 per 1000 live births by 2007 and to 1 by 2012.

6) Improve infant and child feeding and caring practices to bring down the prevalence of underweight children under

three years from 47 per cent to 40 per cent.

7) Reduce the prevalence of severe under-nutrition in children in the 0-6 years age group by 50 per cent.

8) Provide 100 per cent coverage of rural and urban population with safe drinking water.

9) Provide cost-effective means of safe and sanitary disposal of solid waste and waste water.

While framing the Liberal Budget, we have recognised some distinctive recent changes, especially the tax policy, which reflects what Indian Liberals have been advocating in the preceding several decades. This change has already brought about several remarkable gains in our economic performance, particularly in the sphere of industry and the external sector of the economy. But this exercise is far from complete. Much more remains to be done, and it will be our endeavour to set out a strategy to make India a truly world-class economic power over the next decade even while attending to the basic needs of the population, particularly in rural India.

The Liberal economic philosophy recognizes the importance of expenditure policy as a powerful tool of fiscal policy. The expenditure policy impacts in a variety of ways on key parameters of socio-economic development, employment generation and poverty alleviation. It impacts directly or indirectly the sectoral composition of growth as well as patterns of income distribution. Thus, an efficient expenditure policy is a critical component in the strategy for accelerating growth and improving its quality.

In this context, the effort of the Liberal Budget is not merely to reduce and rationalize expenditure, but to shift radically the focus and direction of expenditure policy. What are the key guideposts for this purpose?

- First, expenditure growth in real terms over the next three years shall not exceed the anticipated real GDP growth.
- Second, the composition of expenditure must change decisively in favour of developmental expenditure over the next three years. Thus, the ratio of development expenditure shall increase from the present average of about 7% of GDP to 9% in stages over next three years and remain at least around this level thereafter.
- Third, the Liberal Budget strongly advocates the case for reducing non-developmental expenditure. The savings from non-developmental expenditure shall be redeployed largely to finance sustainable, well-conceived social sector and welfare programmes such as (i) primary education and healthcare; (ii) employment guarantee scheme; (iii) mid-day meal scheme for deserving school children; (iv) health insurance for the poor; and (v) an effective pension scheme, etc.
- Last, it is imperative to devise certain qualitative benchmarks to evaluate the effectiveness of both development and non-development expenditure.

The Liberal Budget envisages a systematic and rigorous expenditure management process, essentially reflecting the following elements:

> *"An efficient expenditure policy is a critical component in the strategy for accelerating growth and improving its quality."*

- First, each individual Ministry and Department shall formulate inspiring missions, aspirations and targets for its activities for the future. At the same time, there must be a mechanism for mid-course corrections, when found necessary;
- Second, on the pattern of the "profit centre" favoured by corporate enterprises, there shall be "performance cells" in each Ministry and Department;
- Third, there shall be an effective performance management system to monitor the achievements separately of each Ministry and Department together with those of the top officials from the level of Principal Secretary to Deputy Secretary. This must also be accompanied by a suitable "reward - punishment" mechanism;
- Fourth, while there must be tight controls on budgets and performance against targets, there should be operational

autonomy for implementation of various projects/programmes.

- Fifth, in designing the process, there must be participation of the officials concerned so that there is a clear understanding of the missions, aspirations and targets. Also, a quarterly report card would become a useful tool in constantly monitoring of the process.

- Sixth, the process shall be transparent and the aspirations and targets of these missions shall also become part of the public domain.

Expenditure reduction has to be accompanied by steps to raise revenues to fund government spending in essential areas. Both tax and non-tax revenues have to be tapped. The policy prescriptions (both budget and non-budget) set out in this document will result in significant buoyancy in both tax and non-tax revenues. The restoration of high growth levels and increased investment activity will automatically lead to growth of revenues.

> *"Rationalizing and simplifying Direct and Indirect Tax Laws and bringing them in line with the current needs of a liberalising and competitive global economy is an urgent task."*

Rationalizing and simplifying Direct and Indirect Tax Laws and bringing them in line with the current needs of a liberalising and competitive global economy is an urgent task. Accordingly, in the area of tax reforms, the Liberal Budget would be guided by the following two broad principles:

(i) Any increase in tax revenues would not be by increase in the tax rates, but by rationalization and simplification of the tax system.

(ii) Tax reforms would be through the creation of a simplified and rational tax policy and globally competitive tax rates.

It is imperative to stress that the falling tax-GDP ratio is a source of worry, but the Liberal State does not envisage any drastic increase in this, given the need for substantive reduction and rationalisation of taxes, especially indirect taxes. However, the fact remains that the State does need to raise revenue to finance its various functions. This can be done, without increasing the incidence of tax rates, through efficient and innovative tax administration.

The Report of the Task Force on direct/indirect taxes under the chairmanship of Dr. Vijay Kelkar was submitted in November 2002. Though it provides radical changes in tax administration and addresses issues in the tax policies to achieve rationalization and simplification, it has unfortunately not found acceptability with the government. However, the Liberal response to this report has generally been favourable and hence, Liberals will give it their serious consideration.

All this will lead to better tax compliance. However, there will still be a host of defaulters and the State cannot ignore its responsibility of improving tax administration, without giving draconian powers to tax authorities, which they can use to harass tax payers. Even while supporting a government with a will to govern and implement laws necessary to ensure their compliance, the Liberal way does not accept actions that lead to intimidation and the invasion of the privacy of the individual.

Thus, provisions for search and seizure will be abolished, since they have not served their purpose of acting as deterrents, but have been misused to harass taxpayers. Similarly, the 'public interest provisions' (relating to disclosure of information about the assessee, exemption or reduction in rates of taxation for oil companies, etc.), which give the government undue discretionary powers, would also be abolished. Inefficiencies in the tax administration system would be eliminated and powers of the assessing officers will be reviewed. Tax collections can be strict without being brutal.

Tax payers with an income up to Rs.5 lakhs will not be required to maintain books of accounts and assessing officers will not have the right to demand books of accounts from them. Computerisation of all tax operations, including customs clearances, will be given the highest priority in the interest of transparency and efficiency.

The Liberal Budget is concerned over the fact that the ratio of non-tax revenue to GDP has been declining over the years. This is happening exactly at a time when the tax/GDP ratio has also been stagnant, thereby putting considerable pressure on government finances. Therefore, it will be our endeavour to expand resource generation through dividend and interest receipts from PSUs and Departmental Undertakings by improving their efficiency and profitability on a continuing basis.

In recent years, the Union Budget has been looked upon, not only as an Annual Financial Statement, but as a signalling mechanism to the world at large (and the investing community in particular) of the progress in India's economic reforms programme. Hence, it is necessary to .

(a) Identify some of the crucial factors that influence the budget; and

(b) Suggest specific policy reforms to enable the Liberal Budget to become functionally effective.

The process of disinvestment/privatisation of PSUs needs to be speeded up substantially and extended to state-level public sector enterprises as well. The criterion for privatisation must not be whether a PSU is loss-making or profit-making. The test should be whether the State should be in that field of activity in the first place. While deciding on issues of disinvestment/privatisation, the Liberal Budget will not be guided by arbitrary or ad hoc considerations of the strategic reasons for PSUs' businesses and operations.

At the same time, while privatising a PSU, care will be taken to ensure that the process is completely transparent. Also, it is necessary to safeguard against a public sector monopoly being replaced by a private sector monopoly. The best way to do this would be to open up all sectors to competition. Where this is not possible or may take time, privatisation must be preceded by a strong independent regulator.

This privatisation exercise is a temporary one, in the sense that it is correcting a policy (of nationalisation) that was adopted at one point of time and which has resulted in putting a huge strain on the fiscal health of the country. In a genuinely liberal economic environment, there will be no PSUs in areas where the private sector is interested and capable of investing.

Moreover, a whole range of reforms are necessary to improve the investment climate in the country. These include: deregulation and liberating industry from the tyranny of inspectors; ending the practice of reserving sectors for small-scale industry or restricting in any way entry into non-strategic areas; allowing companies the freedom to restructure; faster liquidation of companies; and a more flexible labour law regime, among other things. In the area of labour law, the government must not take upon itself the task of deciding levels of wages, etc. or standing in judgement over whether or not companies should retrench workers. Instead, it should confine itself to enforcing contracts, for example, ensuring that workers get their termination benefits and that companies do not default on social security obligations. Needless to emphasise, an improvement in the domestic investment climate is likely to pull in the much-needed FDI and the government need not do anything more apart from ensuring that there are no restrictions on FDI in any areas or placing ceilings on levels of FDI.

> *"The criterion for privatisation must not be whether a PSU is loss-making or profit-making. The test should be whether the State should be in that field of activity in the first place."*

The Liberal Budget also calls for the following crucial policy initiatives:

- Movement towards a more liberal interest rate and exchange rate regime.
- **Agriculture:** The declining trend in investment in this sector has to be reversed. This has to be accompanied by better targeting of subsidies, increased investment in infrastructure, especially irrigation, power and rural infrastructure. All controls on the domestic movement in and trade of agricultural goods need to be lifted. An atmosphere conducive to attracting private investment in the agriculture sector needs to be created. Land ceilings also discourage investment and inhibit growth. These need to be reviewed. Contract farming and partnerships between the corporate sector and farmers need to be encouraged. These steps will only strengthen the agricultural sector and enable it to not only face up global competition, but exploit fully the global opportunities.

- **Trading Activity:** Reforms are necessary in the legal arena, which should be geared towards creating a transparent system integrating the country into a single market. States should consider a single procedure for granting licences.

- **Physical Infrastructure:** It is necessary to have a phased but definite movement towards promotion of private sector participation and public-private partnerships in the development and/or management of infrastructure, whether it be power, roads, ports, transport or telecom.

- **Reform of Legal/Judicial Apparatus:** A mammoth exercise has to be undertaken to repeal and amend several Central and state-level laws in order to reduce costs of doing business and promote greater economic efficiency. In addition, judicial reforms are necessary to ensure speedy disposal of cases and enforcement of contracts. The judiciary also needs to be sensitised about the effect of its decisions in economic matters.

> *"An atmosphere conducive to attracting private investment in the agriculture sector needs to be created."*

- **Policies of States and Local Bodies:** There is a dire need to ensure the percolation of liberal policies and procedures at the State and decentralised levels of administration.

- **Independent Regulators:** Even in a free economy a certain amount of regulation (more in the nature of coordination, checking negative externalities and ensuring that the rules of the game are observed) is needed. Rather than the government, the task should be carried out by independent regulators. However, these regulators must be genuinely independent. Currently, they are still heavily dependent on the government and their independence depends on the person heading the regulatory body. This is not a desirable state of affairs and will neither promote true competition nor check market failure.

- **Restructuring Government:** The re-orientation of the role of the State will necessitate a restructuring of government as well. Reducing the number of employees of the government is an important measure, which is outside the scope of the budget but has a tremendous impact on it. Government salaries and pensions account for over 25 per cent of total revenue receipts and is one of the committed liabilities that cannot be cut down. The only answer, then, is to reduce the number of people to whom salaries need to be remunerated. Each ministry must be subjected to a performance audit and ministries/departments found inconsistent with the liberal conception of the role of the State should be closed down.

  At the same time, a Liberal Budget does not call for a blind downsizing across the board. What is needed is rightsizing. This means that staff will be retained - and numbers increased - in areas where the government is needed, and this should be accompanied by measures to ensure accountability and increased responsibility.

- **Political Environment:** It will not be possible to create a liberal economic environment unless there is a major change in the political environment and culture in the country. Political parties and politicians must learn to rise above narrow personal and partisan ends and address the needs of the nation.

Besides, there is the phenomenon of legislative work being sacrificed at the altar of political grandstanding in Parliament and state assemblies. All this needs to be checked.

Law and order is another issue that needs to be addressed. Though not an economic issue, it has a far-reaching impact on the country's economy. Neither domestic nor foreign investors would like to put their money in areas where the law and order situation is poor. The government has to make efforts to address the root causes of violence and maintain law and order firmly. In substance, the Liberal economy requires the Liberal Budget of the kind envisioned in this document. ◆

Chapter I

Liberal perspectives and human development

1.1 Philosophical Position

Man is the measure of all things. This about sums up the Liberal credo. Liberalism has no dogma except one - the centrality of the human being; what is good for him - or her - is acceptable. What is not, is not. Since the world consists of billions of human beings, this principle would be applicable to these billions.

Liberalism like Socialism aims at promoting the welfare of all. As Ludwig von Mises the great Liberal philosopher put it, where the two differ is "not by the goal at which it aims, but by the means that it chooses to attain the goal".

The means are dictated by contemporary situations. And herein lies the uniqueness of Liberalism. In feudal times the emperor, the king, the dictator owned all and decided who shall produce what; and even prescribed societal norms. In modern times the socialist state took over this 'right'. Liberalism overthrew feudalism and gave people the opportunity to decide not only their rulers but also how they shall be ruled. Modern liberalism has triumphed over the socialist state - witness the fall of the Soviet Union - and once again provides people the opportunity to decide for themselves how and by whom they shall be ruled.

The winds of change that have blown over Europe and East Asia have not left our own country untouched. We are inching towards a market system and integrating with the global economy. But only inching because the ancient regime won't give up easily.

Philosophically speaking the Liberal position is very clear. It is that the business of government is governance and not business. In a Liberal State, the individual is supreme and the state must work to further his or her potential. So it will focus its activities on law and order, defence, physical and social infrastructure, health, education and a social safety net.

The Union Budget has, over the long statist interregnum, become extremely cumbersome, complicated and incomprehensible. Year after year it required the genius of the late Mr. Nani Palkhivala to explain to the common man the various provisions in the Budget and how they would affect the economy in general and the common people in particular.

This must change. Hence this attempt to present to the Indian people, in concrete terms, the kind of budget which would accelerate development. The great Liberal Gopal Krishna Gokhale spelt out the Liberal dream when he said: "I recognise no limits to my aspiration for my motherland. I want our people to be in their country what other people are in theirs. I want our men and women, without distinction of caste or creed, to have opportunities to grow to the full height of their stature, unhampered by cramping and unnatural restrictions. I want India to take her place among the great nations of the world."

"Year after year it required the genius of the late Mr. Nani Palkhivala to explain to the common man the various provisions in the Budget and how they would affect the economy in general and the common people in particular."

Another great Liberal D. V. Gundappa had this to say: "It has been India's habit all through history to turn to every corner of the globe for the light of truth and blessedness of wisdom. But she must be selective in taking things from others; and her selection must be strictly in relation to the ingredients of her nature."

When preparing this Liberal Budget from a Liberal perspective, we have kept these thoughts in mind.

1.2 Formulation of Basic Objectives

This budget being offered to the citizens of India is not cluttered with too many objectives. While reflecting the hopes and aspirations of the people, it seeks to drive every citizen to rely less and less on the government and exploit his/her own efforts, energy, enterprise and resources for his own and the society's good.

The role of the State is to create an enabling environment; to unshackle the remaining vestiges of control, regulations and 'the inspector raj'; to build the confidence of the nation in the rule of law, the legislative and legal system; and to provide the stability of over-all economic policy, particularly fiscal stability with a long-term commitment to efficient tax policy and tax administration.

The Liberal Budget does not look upon budget-making as an annual ritual. It considers this as a strategic exercise within the framework of a definitive long-term perspective. The central objective is to strategise India as a global economic power in the next ten years. There is a proven capability of Indian entrepreneurs, professionals, farmers, scientific and engineering manpower, skilled and unskilled workers and the budget believes in harnessing and synergising this vast potential.

> *"At the root of the present fiscal malady lies years of fiscal profligacy bordering on irresponsibility and massive failure of governance."*

Having said this, let us dwell on the key basic tenets of this liberal budget. In terms of sequencing and importance, Union and State budgets must have the following basic objectives:

- Effective Fiscal Governance
- Fiscal Consolidation and Stabilisation
- Efficiency and Productivity
- Acceleration of Growth
- Promotion of Equity

There is a deliberate and definitive rationale in the ordering of these objectives in the Liberal Budget. We cannot have equity without sustained high growth; we cannot aspire for a sustained high growth rate without establishing standards of efficiency and productivity; we cannot promote efficiency and productivity given the present structure of fiscal imbalances, wherein massive capital resources have to be diverted for covering revenue deficits; and we cannot achieve fiscal consolidation without basic disciplines of fiscal governance. At the root of the present fiscal malady lies years of fiscal profligacy bordering on irresponsibility and massive failure of governance.

We would like to briefly elaborate on these five basic tenets of the Liberal Budget:

Effective Fiscal Governance

Implicit in the conceptual framework of fiscal governance in the Liberal Budget are the following premises:

- First, the formulation, enactment and implementation of legislative framework for introducing, supervising and monitoring fiscal discipline among all ministries, departments and wings of the government. Obviously, the Fiscal Responsibility Act assumes primacy in this scheme. But the process has to go much beyond this legal format and cover the areas of how to counter slippage in revenues, bribery, corruption and mismanagement of project programmes.

- Second, there is an urgent need to reform the budgetary system in conformity with emerging modern practices. There is clear need for proper functional classification of the budgetary transactions; there is need for introducing the Fund Based Accounting System, wherever possible, in the key functional areas of government; and there is need for effective management of cash flows.

- "Third, the Liberal Budget recognizes the immense potential of e-governance not only in strengthening budgetary controls and management, but more importantly in enhancing revenue generation and efficiency of expenditure programmes. The application of various tools of information and communication will expand and enhance the availability of government information and services to citizens, agriculture and businesses. It will lead to "Seamless Governance" involving the harmonious integration of e-governance of both the Centre and the States cutting across administrative boundaries. The Liberal Budget believes that e-governance is a powerful instrument of public administration bringing in transparency, accountability and a more participatory approach that citizens, the farming and corporate communities of the country justifiably aspire for." Please see Appendix VII for a note on the subject.

Fiscal Consolidation and Stabilisation

By and large, the Liberal Budget endorses the commonly proclaimed parameters of fiscal consolidation and stabilization. Effectively, these are in terms of targeted reduction in fiscal, revenue and primary deficits in relation to gross domestic product at current market prices. Fiscal consolidation is a condition precedent to further a more vigorous pursuit of taxation reforms, financial liberalization, especially the full capital account convertibility, better management of internal debt, softer interest rate regime, phasing out of cross-subsidisation through proper pricing and user charge mechanism.

However, it will be the endeavour of this budget to emphasise more on the qualitative rather than quantitative aspects of fiscal management. The Liberal Budget recognises critical functions of government in the building of physical and social infrastructure and fully supports the relevant capital expenditure for this purpose.

Efficiency & Productivity

The strategy of the Liberal Budget is to promote all-round efficiency and productivity in the economy. The framework of fiscal governance and fiscal stabilization, if accomplished in a time bound manner, per se is a powerful propeller of efficiency and productivity in the economy, if accomplished in a time bound manner.

But more specifically, the budget will seek to release the potential energy, enterprise and investment of the private sector. For this purpose, it is imperative to rationalize and simplify the tax structure and tax administration. To begin with, the Kelkar Committee Report provides an excellent basis for comprehensive reforms in this area.

The other important aspects include a further exploitation of the potential of public sector enterprises (PSEs) as well as of departmental undertakings. The budget will strive for more vigorous disinvestments/privitisation to "crowd in" investment in the existing promising PSEs and eventually place all of them under full-fledged ownership and management in the private sector. This is also the objective of the Vision 2020 Document of the Planning Commission. We are spelling out how this can be accomplished, from the Liberal perspective.

Acceleration of Growth

The Liberal Budget, cast under the medium term perspective, promises to accelerate the growth rate to 8 to 9% per annum on a sustained basis.

However, it is the philosophy of the Liberal Budget not to be overtly obsessed by quantitative targets of growth, but to build up an environment of growth through positive stance, substance, structure and strategy of reforms. The growth rate will be an inevitable outcome of this process.

Promotion of Equity

The goal of the Liberal Budget is to promote the socio-economic welfare of all the citizens of this country. High growth is itself a powerful antidote to an iniquitous economic system. Thus, instead of making only symbolic gestures and populist proclamations of providing a human face to economic reforms, our budget seeks to eliminate poverty and unemployment/underemployment through greater public participation in the development process. Decentralisation of political and economic administration, responsive citizens facing governance mechanism, encouragement of civil society initiatives (NGOs and self-help groups) to undertake development activities and also to serve as a watchdog on public administration, more effective system of tax administration for the prevention of revenue leakage and better control over public expenditure are crucial instruments for achieving the goals of equity.

> *"Our budget seeks to eliminate poverty and unemployment/ underemployment through greater public participation in the development process."*

1.3 Key Parameters of Human Development

The main focus of a liberal budget (apart from defence, law and order, and creating public institutions and public works), therefore, will be issues concerning human development or human capital formation - health, education and a social safety net for those who are not capable of looking after themselves.

At the same time, no budget can be genuinely liberal in its essence and powerful in its impact, unless the overall economic policy regime becomes genuinely liberal, deregulated and capable of nurturing and fostering private and individual initiative. In other words, an interventionist State cannot be the right setting for a liberal budget.

Unfortunately, over the past fifty years, the Indian State has become an interventionist one, appropriating to itself practically every aspect of human life. As a result, it has spread itself too thin and is not able to play an effective role in any

"Putting money in people's hands and letting them spend on building up their capacities is the most desirable way of enhancing human capital."

area, let alone the areas of its main responsibility. The Liberal Budget will, in a sense, attempt to set this right and attempt to provide resources for the government to effectively carry out its main responsibilities.

What kind of targets relating to human development should the liberal state set for itself? The Liberal Budget sets out the following nine-point objectives of a liberal state:

1) Reduction of the poverty ratio by 5 percentage points by 2007 and by 15 percentage points by 2012.

2) All children in school by 2005; all children to complete five years of schooling by 2009.

3) Increase in the literacy rate to 75 per cent by 2007.

4) Reduction of infant mortality rate (IMR) to 45 per 1000 live births by 2007 and 28 by 2012.

5) Reduction in maternal mortality ratio (MMR) to 2 per 1000 live births by 2007 and to 1 by 2012.

6) Improve infant and child feeding and caring practices to bring down the prevalence of underweight children under three years from 47 per cent to 40 per cent;

7) Reduce the prevalence of severe under-nutrition in children in the 0-6 years age group by 50 per cent.

8) Provide 100 per cent coverage of rural and urban population with safe drinking water.

9) Provide cost-effective means of safe and sanitary disposal of solid waste and waste water.

The achievement of the first target is largely dependent on sustained economic growth and the consequent creation of adequate job opportunities. Increased spending on infrastructure projects would not only provide the much needed boost and long-term sustainability to the economy but would also lead to the immediate creation of job opportunities.

The targets relating to education and health as well as the essential functions of the state would require the allocation of adequate resources. But, more importantly, such allocations (increased in some areas and static in others) will have to be accompanied by steps for better governance, transparency in government functioning and improved accounting. All this becomes even more important in a scenario of fiscal stress.

Poverty and Employment

There is no doubt that the market is the most efficient allocator of resources and provider of services. Job generating growth through a free market is the best antidote to poverty and its attendant ills, as shown by the South East Asian countries, and is the best welfare measure. Putting money in people's hands and letting them spend on building up their capacities is the most desirable way of enhancing human capital.

However, given the hangover of fifty years of socialist planning, it will take time for market-based systems to develop to their full potential and for the benefits of the free market to trickle down to those at the bottom of the socio-economic ladder. These sections include not just those who have not benefited from socialist policies (despite the fact that these sections were avowedly the focus of these policies), but also those who will be affected by the process of structural adjustment.

Certain steps need to be taken to ease the pain of transition to the market economy for these sections. Therefore, apart from putting the economy on a high growth trajectory, there will be need for a short-term targeted programme for these groups. The programme should not involve handouts or doles but, instead, provide these sections with employment. Several such programmes are already in existence, but their implementation is marked by corruption and leakages. The challenge, therefore, would be to devise a system where the leakages are kept to a minimum.

The proposed employment generation programme will enable each below poverty line (BPL) family to get around Rs.500 per month of additional, steady income. This is a level at which they can get all their food-related requirements at market prices. The programme would ensure that productive assets are created and that it would lead to increased investments in agriculture. The programme will, therefore, focus entirely on watershed development, soil conservation, repair and maintenance of minor irrigation works and channels, rural roads and village infrastructure.

Such a scheme will require a huge outgo of funds of an estimated expenditure of between Rs.30,000 crores and Rs.35,000 crores annually. A substantial amount will come from the allocations of the rural development ministry (the employment assurance scheme, village roads, etc.), the MP Local Area Development Scheme, as well as savings from the abolition/reduction of various subsidies.

However, this will not be a scheme in perpetuity. The assumption is that the creation of rural infrastructure will lead to increased economic activity, which will bring employment generation in its wake. The scheme will, therefore, be discontinued once the infrastructure is created. The idea is to avoid fostering a dependency syndrome and reducing disincentive to work.

Apart from this specific programme, employment generation will also come from a sharp focus on infrastructure projects, especially in the power and roads sectors, and policies that will give a fillip to non-farm activities in the rural areas and employment-intensive high-potential sectors like tourism, construction, etc. The latter two will not involve any major outgo of revenues (apart from what is spent on infrastructure required for the sectors concerned) but only the creation of an investor-friendly facilitating environment.

Welfare

The Liberal State will not ignore those sections of the population who are not able to work, e.g. the old and the infirm, the disabled, pregnant women and children, as they have been rendered destitute for no fault of theirs. These sections will be provided with a social safety net - a minimum level of income support without which they would not be able to survive. Cash transfers are more efficient since they do not distort prices, though it may be necessary to provide these groups subsidised food and health care. However, it is well-known that corruption and inefficiency in implementation are rampant. Governance systems will be streamlined to minimise leakage and corruption in the implementation of these safety nets. The schemes will be implemented, as far as possible, through local government institutions.

> *"The Liberal State will not ignore those sections of the population who are not able to work, e.g. the old and the infirm, the disabled, pregnant women and children."*

Agriculture

Developments in the agricultural sector have a multiplier effect on the whole economy. Agricultural development, therefore, is central to the country's economic development and to employment generation since it employs 60 per cent of the population. Sadly, this has been the most neglected sector of the economy, both during the socialist era and after liberalisation.

Gross capital formation (GCF) in agriculture has declined from 7.47 per cent of GCF in 1993-94 to 6.02 per cent in 2000-01. Investment in agriculture as percentage of GDP has also declined from 1.6 per cent to 1.3 per cent over the same period. The private sector's share in this (75.8 per cent in 2000-01) is significantly larger than that of the public sector (24.2 per cent). Currently, the bulk of public investment in agriculture is in the form of subsidies of various kinds while the majority of private investment is in low capital intensive, short gestation investments like tube wells. Both are unsustainable. The first is unsustainable and the latter is not productive.

In the Liberal Budget, public sector investment will supplement private initiatives, focussing on agricultural infrastructure (including irrigation, rural roads and warehousing) and extension research. At the same time, policy hurdles that discourage private initiatives in the area will be removed. The private sector will largely be involved in warehousing/storage, infrastructure, logistics management, grain and seed banks, agro-processing and food parks, etc. In keeping with this focus, public expenditure on agriculture and related sectors will be stepped up to 2 per cent of GDP over the next five years. This, in turn, will "crowd in" private investment to at least 3 per cent of GDP.

Education

Education is an important area for human development. The Indian state has played a major role in all levels of education.

> *"The government's role in higher education will be limited to regulation and monitoring to prevent unscrupulous practices."*

At the same time, the private sector has also made an immense and important contribution to the sector.

Elementary education can be considered a 'merit good' since the social benefit from its acquisition exceeds its private benefit. Public financing of elementary education is, therefore, necessary. The challenge before the Indian state is immense. As of January 2003, there were 238 million children in the 6-14 age group who were not in school and there will be additions to these numbers in the future. The cost of ensuring that all these children are enrolled in and attend school by 2010 has been estimated at Rs.98,000 crore. According to official documents, the private unaided sector accounts for 15 per cent of coverage, which will amount to nearly Rs.15,000 crore. This will mean that an investment of Rs.83,300 crore will still be required. The expenditure incurred by diverse ministries like social justice and empowerment, labour, tribal welfare and the department of women and child welfare on education of groups they target under various schemes account for between 10 and 15 per cent of total investment by the Department of Elementary Education. This duplication of effort is a waste of scarce resources. Therefore, if these schemes were brought under the aegis of the Department of Elementary Education, that would provide substantial additional resources.

The Liberal Budget will allocate six per cent of GDP for education, which will be shared equally for elementary, secondary education and vocational training. Higher education is best left to private initiative. Such initiative will be forthcoming abundantly, since the private benefit in this case is larger than the social benefit and the sector is not likely to suffer from a lack of investment. The government's role in higher education will be limited to regulation and monitoring to prevent unscrupulous practices. In fact, in the sphere of higher education, it is possible to devise economically viable system of loan facilities, given the strength of our banking and financial institutions.

While taking the responsibility of funding - and not necessariiy providing - elementary education, the Liberal State will not in any way block or impede private initiative in this field. Methods of making the delivery of educational subsidies more efficient will be explored.

Health, Family Welfare, Nutrition

The country has, no doubt, made tremendous strides in the area of health and family welfare. However, a lot more still remains to be done and there are new challenges that are emerging. Current public expenditure on health is estimated to be only 0.9 per cent of GDP, while private spending is estimated at 4 per cent.

The first priority in financing the health sector, however, is not merely stepping up expenditure. Instead the health system in government, private and voluntary sectors should be subjected to a performance audit. The system requires to be reorganised and restructured so that it functions efficiently and in a cost-effective manner. Once this is done, areas requiring financial support can be identified and fully funded. Pouring funds into a dysfunctional system only results in the money draining away. Putting funds into a streamlined, efficient system will improve coverage, quality of services and ensure equitable distribution of the services based on needs. At the same time, the deficiencies in the system must be identified and there must be an assessment of how much of the savings can go into those areas.

In order to achieve the health indicators detailed above by 2007 and to ensure access to affordable health care to all, the Liberal Budget will allocate 2.5 per cent of GDP to public health expenditure, of which two-thirds will be devoted to primary health care, public health and disease control, and family welfare, and the balance to secondary health care.

Water Supply and Sanitation

Health issues cannot be looked at in isolation. Health achievements not only influence developmental outcomes but are also, in turn, influenced by levels of development. All the money spent on the health sector would be wasted if people continue to live in unsanitary conditions and do not have access to safe drinking water. Water-borne diseases like diarrhoea, cholera, dysentry, typhoid and hepatitis still affect people in large numbers, causing a yet-to-be estimated economic burden on the country.

It becomes necessary, therefore, for focussed action to improve water supply and sanitation in both rural and urban areas. While the private sector will be interested in catering to the urban areas, the same may not be true of the rural areas. The liberal budget will focus the bulk of expenditure on water supply and sanitation in the rural areas, though the urban sector will not be entirely starved of funds. Rural water supply and sanitation are estimated to require about Rs.50,000 crores between 2002 and 2009. The spending will be routed through local bodies who will meet the bulk of the expenditure through local taxes and the allocations from the Central or state budget will only meet any shortfalls that may arise.

At the same time, it is necessary to start treating water as an economic asset rather than a free commodity. The supply of water to consumers should normally be based on the principle of effective demand, which should broadly correspond to the standard of service that users are willing to maintain, operate and finance. User charges should at least cover the cost of operation and maintenance costs of water supply systems. Funds for water supply and sanitation will be linked to reforms in the sector, including the levying of user charges.

Infrastructure

Rapid economic growth will not be possible in the absence of an efficient physical infrastructure. Erratic power supply and poor road connectivity hamper the smooth operations of industrial units and trade. Infrastructure covers a wide gamut of services - power, roads, telecommunications, irrigation, ports, airports. It would be unrealistic to rely entirely on the private sector for these. There will be some areas where the private sector is willing to take on the dominant role while in other areas it could share the burden more or less equally with the State (power, roads with high density traffic, airports and ports, for example).

But there will be many areas where the State will necessarily have to play a major role (rural roads and connectivity, highways, irrigation). The first two sectors require the government to create a policy environment conducive to private sector participation. However, a large amount of public expenditure will be required in the areas where the government will have to be the major player. Given the constraint on resources, however, efforts must be made to work out innovative financing arrangements to ease the burden on the exchequer and to make for more focussed spending.

> *"The Liberal Budget will focus the bulk of expenditure on water supply and sanitation in the rural areas, though the urban sector will not be entirely starved of funds."*

Power

To support a rate of growth of GDP of around 8 to 9 per cent per annum, the annual rate of growth of power supply needs to be over 10 pei cent. In order to meet the demand-supply gap in power, the Sixteenth Electric Power Survey estimated an additional generation capacity of 100,000 MW by 2012. This will require Rs.800,000 crores over ten years. The Tenth Plan Working Group on Power had envisaged a capacity addition 46,939 MW during the Tenth Plan period. Though the Tenth Plan had scaled this down to a more realistic target of 41,110 MW, the increased generation is necessary if the economy has to grow. This will require funds to the extent of nearly Rs.380,000 crores. Of this, nearly 80 per cent is to come from the public sector and 20 per cent from the private sector.

In order to do this, the Liberal Budget will not only provide public investment, but also create an environment that is conducive to private sector initiatives in power generation, transmission and distribution and make the power sector a financially viable and attractive one. This will include prevention of theft in transmission, distribution, levying and rationalizing power tariffs wherever necessary.

Roads

The total cost of construction and repair of national highways has been estimated at around Rs. 165,000 crores. This includes widening and improvement of existing roads, construction of expressways (the Golden Quadrilateral and North-South East-West corridors) and bypasses and construction and rehabilitation of bridges and other miscellaneous costs. The cost of linking all unconnected villages with a population of 500 and more by 2007 has been estimated at Rs.60,000 crores.

Clearly, the government does not have the resources required for such a gigantic task. Different financing patterns will,

> *" The debt market can be tapped with innovative instruments like a Highway Infrastructure Savings Scheme. "*

therefore, need to be adopted. Apart from the Re.1 cess on petrol and diesel, which will continue, the debt market can be tapped with innovative instruments like a Highway Infrastructure Savings Scheme. Money coming in to the Central and state governments through various taxes on road-related activities will be earmarked exclusively for the development of roads. There will be an increasing resort to toll roads, wherever possible. Though roads are a public good[1], it is not unreasonable to expect them to pay for the use of certain facilities. Those benefiting from roads linking ports, industrial areas, power plants etc. will be asked to shoulder part of the financial burden of developing these roads, if they or any other private party is not willing to undertake the task. Private sector participation will be encouraged in the form of build-operate-transfer projects in high traffic density stretches, rail over-bridges and flyovers.

Irrigation

Any improvement in agricultural productivity will be dependent on adequate availability of water. Unfortunately, currently only 40 per cent of agricultural land benefits from irrigation. However, lack of funds is not the main problem facing the irrigation sector. Far more can be achieved with the existing resources, most of which is spread thin, thanks to a proliferation of projects, without proper planning or cost-benefit analysis. Besides, implementation of these projects is tardy, with some of them having been initiated in the 1960s, and maintenance is extremely poor. The resource crunch also arises because of the practice of providing irrigation facilities either free or at highly subsidised rates to farmers.

As in the case of drinking water, irrigation water also needs to be treated as an economic asset and the pricing must not only cover the operation and maintenance of irrigation projects but must also contribute towards recovery of the capital cost.

The Liberal State will, therefore, undertake a thorough review of all pending irrigation projects with a cost-benefit analysis of each. Projects on which work is still at an early stage and whose utility value is very low, will be scrapped. Projects which are still found to be viable will be taken up, with systems being set in place to ensure timely completion. Funds for the Accelerated Irrigation Benefit Programme will be increased if it is considered necessary in the light of the findings of the review. However, the programme will, as far as possible, be limited to pending projects and the release of funds will be linked to milestones in the completion of projects as well as reforms in the management of irrigation services, including the levying/rationalising of user charges.

To sum up, the Liberal Budget has formulated a strategy for human development based on the best that the private sector can perform, with the public sector participating only in those areas of social and physical infrastructure where private initiative is not forthcoming. ◆

[1] *A non-congested road has one quality of a public good, namely, non-rivalness in consumption, even though it is possible to price its use.*

Chapter 2

The current budget scenario

Before setting out the Liberal budgetary strategy in terms of expenditure reforms and tax reforms, it is imperative to evaluate objectively the current budgetary scenario.

2.1 Composition and Structure

- First, in the total expenditure of the Central Government of Rs.438,795 crores, the share of revenue expenditure is very high (83.5%) in 2003-04 and has been rising disproportionately. It used to be less than 70% not so long ago in 1990-91. This uncontrolled growth in revenue expenditure has undermined the developmental role of the State in building up physical and social infrastructure in the last decade or more.

- Second, non-plan expenditure is equally very high at about 72.4%, though this may not have been rising in recent years. Effectively, this reflects the limited flexibility available to any Finance Minister to formulate relevant public investment strategy. In particular, the most worrisome part is the slackening or even contraction of public investment in agriculture and critical infrastructure like railways, ports, airports and power wherein private sector's positive response is either found wanting or not even genuinely sought after.

- Third, despite such limitations of the fiscal system, every Finance Minister invariably wants to leave his imprint on the formulation of new expenditure initiatives and programmes, which are often not fully thought through or are inadequately provided for. This distorts long-term development strategy.

- Fourth, the budgetary arithmetic still continues to have a strong bias towards mobilization of resources through tax efforts. Witness, in 2003-04, tax receipts (net) account for nearly three-fourths of total revenues. Yet, these support only about 50% of total revenue expenditure. Hence, there is a constant obsession with further tax mobilization. Consequently, tinkering with the Finance Bill (or Income Tax Act) with numerous changes has become an annual ritual. This destroys the principle of stability and consistency in the tax policy. It creates perpetual uncertainty in business planning; it unnerves the investment sentiments.

- Fifth, the growing gaps between revenue expenditure and revenue receipts are per force required to be covered by capital receipts. While the growth of capital receipts has been impressive, this has not been guided by considerations of promoting appropriate capital expenditure. Thus, in 1990-91, over 80% of capital receipts could be utilised for capital disbursements, but by 2003-04, this ratio has come down to just about 45%, implying thereby that the balance amount is being deployed to cover the day to day gaps in revenue expenditure.

> *"The most worrisome part is the slackening or even contraction of public investment in agriculture and critical infrastructure like railways, ports, airports and power."*

- Last, the pattern of fiscal deficit management reflects this disturbing phenomenon regarding capital receipts. One of the key objectives of fiscal reforms in the early nineties was not only to reduce fiscal deficit to GDP ratio substantially, but also to achieve fiscal consolidation and healthy fiscal management. This envisages qualitative transformation involving phasing out of revenue deficit completely and better value for the money spent on plan and capital expenditure.

Unfortunately, this goal has proved to be ever elusive.

2.2 Drawbacks and Failures

The functioning of the fiscal system so far has revealed several weaknesses. Unless these are remedied comprehensively, it will be almost impossible to usher in a truly liberal economic environment.

- **Complex tax structure and administration:** Despite substantial rationalization and reduction of both direct and indirect taxes, the incidence of tax still remains very high by international standards. Of course, the ground to be covered in respect of the rate structure of income and corporate taxation being aligned with global benchmarks may not be much, but there are considerable gaps in the simplification of procedures and administration of these direct taxes. More importantly, in the area of indirect taxes so much still needs to be achieved - both in terms of rates structure and simplification of tax administration.

> *"Also, on the expenditure side, many of the social welfare programmes are redrawn by changing only their names without any sincere efforts to make them more efficient and effective."*

- **Absence of proper functional classification of budgetary transactions:** It is imperative to introduce a modern system of accounting to map out and monitor activity-specific budgetary provisions. Fund Based Accounting System (FBAS) is currently being recommended for this purpose.

- **Lack of effective budgetary management:** This is evident from the fact that there are always considerable variations in the budgetary arithmetic. We have one set of 'budget estimates' for the given year, say, 2003-04, when the budget is presented on February 28. These undergo substantial revision as the year progresses and are presented as 'revised estimates' in the subsequent budget to be presented in the following year and again these 'revised estimates' undergo final revision and are presented as 'accounts' (actuals) a year later. A moderate variation of 3 to 5% is inevitable in any budgetary system, but 'underestimating' expenditure and 'overestimating' revenues by substantial magnitudes practically year after year is a reflection of poor budgetary management.

Yet another very disturbing aspect of our budgetary policy is the constant tinkering not only with the tax system - rates as well as provisions of incentives and exemptions - but also making some of these changes applicable retrospectively. This creates enormous business uncertainty and unsettles business planning and investment programmes. Also, on the expenditure side, many of the social welfare programmes are redrawn by changing only their names without any sincere efforts to make them more efficient and effective. Indeed, the leakages in such programmes have become a disturbingly regular feature of India's development strategy.

2.3 Lessons from a Liberal Perspective

Admittedly there has been a distinctive change in the framework of budgets, especially the tax policy of the Government of India in the post-reforms period, which reflects what Indian Liberals have been advocating for several decades now. This change has already brought about remarkable gains in our economic performance, particularly in the sphere of industry and the external sector of the economy. But much more remains to be done, and it will be our endeavour to set out what the Liberal Budget aspires to offer towards making India a truly world-class economic power over the period of the next decade even while attending to the basic needs of the population, particularly in rural India. ◆

Chapter 3

Policy framework and structure of the Liberal Budget

3.1 Expenditure Management

Transforming the Stance

Liberal economic philosophy recognizes the importance of expenditure policy as a powerful tool of fiscal policy. The expenditure policy impacts in a variety of ways on key parameters of socio-economic development, employment generation and poverty alleviation. It impacts directly or indirectly the sectoral composition of growth as well as patterns of income distribution. Thus, efficient expenditure policy is a critical component in the strategy for accelerating growth and improving its quality.

In India, the emphasis hitherto has been on expanding public expenditure as an integral part of the State's domination in economic activities. This goal has been pursued relentlessly for the past five decades and more. This has been done irrespective of the capacity of the economy to provide a sustainable fiscal framework to mobilise revenues (through tax and non-tax sources) and raise capital resources through borrowings.

Consequently, the mismatch and distortions caused both in the mechanism of resource mobilization and resource deployment have been consistently ignored. It is only in recent years, particularly after the launching of economic reforms in July 1991 that at least the distortions in the tax system have been significantly minimized, though much still remains to be done.

While presenting the structure and strategy of the expenditure policy of the Liberal Budget, it is imperative to reiterate the five basic principles of (i) fiscal governance, (ii) fiscal stabilization, (iii) efficiency and productivity, (iv) growth, and (v) equity. All these form the core of the underlying strategy of expenditure policy reforms. Fortunately, thanks to the painstaking efforts of various Expert Committees as well as of the Expenditure Reforms Commission, we now have sufficient expert inputs and advice on the complex issues of reducing and rationalizing the overall expenditure, phasing out subsidies, rightsizing of bureaucracy and restraining growth of administrative expenditure. But the critical missing links are found in the 'implementable' action plans and the cohesive political will to progress with such plans.

Emphasis on Accountability and Transparency

The objective of expenditure reforms is to move away from the mindset of "control" over funds and its allocations to a system of "accountability and transparency" of transactions. The crux of the issue is how to ensure effective fiscal governance.

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First, it is imperative that every Ministry and/or respective Department shall be entitled to its requirements of funds based purely on economic or commercial considerations. Therefore, all the activities, schemes and projects will need to be carefully evaluated before granting approval for allocations. For this purpose, the entire budgetary process will require rationalization and streamlining.

Second, the Finance Ministry should not merely aggregate demands of various Ministries and then ration funds based on their availability, and its willingness and capacity to raise tax and non-tax resources. What is vital is enhancing the efficiency and productivity of expenditure so that the nation and its citizens get better value for the money spent.

Defining Quantitative Guideposts

In this context, the effort of the Liberal Budget is not merely to reduce and rationalize expenditure, but to shift radically the focus and direction of expenditure policy. What are the key guideposts for this purpose?

- First, expenditure growth in real terms over the next three years shall not exceed anticipated real GDP growth. By implication the ratio of the Central Government's total expenditure to GDP at current market prices (hitherto described as expenditure ratio) will be frozen at the average of the past five years. This ratio works out to about 16.5% for the period 1998-99 to 2003-04.

- Second, over the last decade, the ratio of development expenditure in the total expenditure has dropped sharply from about 53% (average of the three-year period ending 1992-93) to a little over 40% (average of the three year period ending 2002-03). As a consequence, in relation to the size of the national economy, the central government's development spending has declined precipitously. Therefore, the composition of expenditure must change decisively in favour of developmental expenditure over the next three years. Thus, the ratio of development expenditure should increase from the present average of about 7% of GDP to 9% in stages over the next three years and remain at least around this level thereafter.

> *"The framework of the Liberal Budget depends not just on quantitative guideposts, but also on qualitative benchmarks."*

- Third, as a consequence, non-developmental expenditure calls for intensive rationalization and reduction. The Liberal Budget strongly believes that the scope for reducing non-developmental expenditure is quite substantive. Indeed, the ratio of non-development expenditure to total expenditure should be brought down from the present average of over 56% to 45% in the next three years.

- Fourth, the savings from non-developmental expenditure shall be redeployed largely to finance sustainable well-conceived social sector and welfare programmes such as (i) primary education and health; (ii) employment guarantee scheme; (iii) mid-day meal scheme for deserving school going children; (iv) health insurance for the poor; (v) effective pension scheme, etc. Such schemes promise a social safety net and form an integral part of the objective mechanism of equity in the Liberal Budget.

- Finally, it is not only necessary to raise resources in an efficient way, but also ensure their allocations in an efficient manner. For this purpose, it is imperative to devise certain qualitative benchmarks to evaluate the effectiveness of both development and non-development expenditure.

The Qualitative Dimension

The framework of the Liberal Budget depends not just on quantitative guideposts, but also on qualitative benchmarks. In fact, purely on the basis of the ratio of government expenditure to GDP, India's current position by no means assumes an area of concern by international standards. What is, however, a cause for extreme distress are two principal factors, namely, (i) the huge reliance on fiscal deficits to fund total expenditure - indeed, the diversion of capital resources to meet the gaps in the revenue expenditure; and (ii) failure to realize the real value of money spent across the whole spectrum of expenditure.

Needless to emphasise, the thrust of the Liberal Budget is to correct such inadequacies and distortions through well-designed qualitative changes in the expenditure policy. The objective is not to reduce the overall ratio of government expenditure to GDP, but to secure a meaningful shift in its composition towards developmental programmes as well as to realize full value for the money to be spent. How to achieve these goals?

The Liberal Budget envisages a systematic and rigorous expenditure management process, incorporating the following elements:

- First, each individual Ministry and Department shall formulate inspiring missions, aspirations and targets for its activities for the future. At the same time, there must be a mechanism of mid-course corrections, when found necessary.

- Second, on the pattern "profit centers" approach, as in the case of corporate enterprises, there shall be "performance cells" in each Ministry and Department.

- Third, there shall be an effective performance management system to monitor the achievements separately of each Ministry and Department together with those of the top officials from the level of Principal Secretary to Deputy Secretary. This must also be accompanied by a suitable "reward - punishment" mechanism.

- Fourth, while there must be tight controls on budgets and performance against targets, there shall be operational autonomy for implementation of various projects/programmes.

- Fifth, in designing the process, there must be participation of the officials concerned so that there is a clear understanding of the missions, aspirations and targets. Also, a Quarterly Report Card shall become a useful tool in a constant monitoring of the process.

- Sixth, the process shall be transparent and missions, aspirations and targets shall also become part of the public domain.

- Last, there shall be the adoption of modern techniques in budgetary management. In this context, the initiative of the Finance Minister in the last budget to introduce cash management, on a pilot basis, in some major spending ministries is a step in the right direction. Under this, based on the actual requirement, monthly or quarterly cash limits for various ministries will be prescribed. This is expected to avoid the mismatches between receipts and expenditure, and also avoid a rush of expenditure and the associated possible waste of resources in the last quarter of the fiscal year. Surely, this effort must be pursued vigorously and made applicable to all the ministries.

Like-wise, the Fund Based Accounting System (FBAS) invites careful consideration. This innovative tool has been put in place in a couple of Municipal Corporations (Bangalore is a classic example). The existing "single entry " or "cash basis" of accounting is inadequate; and there are "gaps" in the system. The FBAS system reveals clearly assets and liabilities; makes distinction between capital and revenue; generates Management Information System, which is critical for ensuring effective use of resources.

In substance, expenditure policy and management shall be accorded the highest priority in the Liberal Budget, as it is essential for sustainable high growth. Accordingly, the expenditure policy measures proposed in this model underscores the commitment to eliminate budgetary drags through rationalization of expenditure management and curbing uncontrolled growth of non-development expenditure. Our focus is on restructuring of expenditure in favour of developmental activities; effective asset management, including cash management; transparent processes and reporting systems; accountability and performance evaluation.

Specifically, the Liberal Budget will seek to achieve a substantial reduction in the ratio of revenue expenditure to GDP at current market prices over the next three years. Such a strong brake is of critical urgency in order to phase out the revenue deficit over a two to three year time period.

> *"Specifically, the Liberal Budget will seek to achieve a substantial reduction in the ratio of revenue expenditure to GDP at current market prices over the next three years."*

Acknowledging the fact that not all revenue or current expenditure is necessarily unproductive, this will be accompanied by a close study of various expenditure heads and elimination of wasteful expenditure (either immediately or in a phased manner, as the case may be). At the same time, the Liberal Budget will step up capital expenditure in relation to GDP at current market prices from the present level of 2.5% to 5% in the next 3 years with a view to closing the gaps in critical physical and social expenditure. [Please see Appendices I & II].

Interest payments are the biggest charge on government expenditure, accounting for 48 per cent of revenue receipts, and are the result of mismatch between revenue and expenditure. Needless to say, the best way to deal with this intractable problem is to reduce government borrowings by a combination of increasing revenues and decreasing expenditure, as will be spelt out later. Both will have to be done judiciously in keeping with the liberal economic philosophy.

Defence expenditure constitutes nearly 25 per cent of total revenues. The evolving reduction of tensions in the Sub-Continent augurs well for a reduction in defence spending. At the same time, there is a certain opaqueness around defence expenditure and this veil needs to be lifted, without compromising on the security concerns of the State. There are certain heads of defence expenditure which do lend themselves to public scrutiny and reduction. These will be identified and pruned, to the extent possible.

Government salaries and pensions, which account for 19 per cent of revenues, do lend themselves to drastic reduction over time. This will be achieved with the re-orientation of the role of the state in line with Liberal principles, which will necessitate a restructuring of government as well. Reducing the number of employees of the government is an important measure, which is outside the scope of the budget but has a tremendous impact on it. However, this is not to call for a blind downsizing across the board. What is needed is rightsizing. This means that staff will be retained - and numbers increased - in certain areas where the government has a crucial role to play. At the same time, this should be accompanied by measures to ensure accountability and increased responsibility.

> *"Fertiliser subsidies, the second major subsidy head, are found to be helping inefficient fertiliser companies more than they do the farmers."*

The Liberal State will be guided by and implement the recommendations of the Fifth Pay Commission (which suggested a 3 per cent reduction in the workforce each year in order to achieve a 30 per cent reduction in 10 years) and the various reports of the Expenditure Reforms Commission. Each ministry will be subjected to a performance audit and ministries/departments found inconsistent with the Liberal philosophy will be closed down.

In addition, the Liberal State will hasten the closure of government ministries/departments which are not in keeping with our conception of minimal State. Prime targets would be the ministries of information and broadcasting, culture, sports and youth affairs, tourism, steel, coal and mines, consumer affairs, heavy industry and public enterprises. This is only an indicative, and not an exhaustive list.

Subsidies

A special word about subsidies, since they constitute the third biggest head of expenditure after interest payments and defence. Explicit subsidies alone account for about 20 per cent of revenue receipts. This head of expenditure needs to be pruned not only because of fiscal stress but equally because they are an inefficient and ineffective method of helping the poor, while distorting prices. Besides, they foster a culture of dependency. Since the Liberal Budget aims at promoting employment and putting cash in the hands of people, the rationale for many of these subsidies will no longer exist. Some of these will be phased out, while others will be eliminated straight away.

Food subsidies, which account for half the subsidy bill, will be phased out gradually over a period of five years. Some of the savings on this account will be diverted into the proposed Employment Guarantee Scheme detailed earlier. Besides, programmes in other sectors - like the Mid-day Meals Scheme to promote elementary education, the Integrated Child Development Scheme for pregnant and lactating mothers and children below six years of age - will take care of the food requirements of these sections of the below poverty line population. Some form of food subsidies will, however, continue for other vulnerable sections that are not able to participate in the job market.

Fertiliser subsidies, the second major subsidy head, are found to be helping inefficient fertiliser companies more than they do the farmers. There is little rationale for continuing with this subsidy. However, the immediate elimination of this subsidy might prove harmful to the interests of farmers. The Liberal Budget is, therefore, committed to implementing the recommendations of the Expenditure Reforms Commission, which has proposed a phased elimination of these subsidies over a five-year period.

The subsidy on petroleum products was to be phased out over a five-year period, beginning April 2002. The subsidy was also to be reflected clearly in the budget and while this process has begun, the oil companies are still being forced to bear a substantial part of the subsidy by under-pricing liquified petroleum gas (LPG) and kerosene for the public distribution system. Such hidden subsidies are inconsistent with a liberal economic environment. The Liberal Budget will, therefore, accelerate the phasing out of subsidies and withdraw them over a period of three years.

3.2 Direct and Indirect Tax Reforms

Expenditure reduction has to be accompanied by steps to raise revenues to fund government spending in essential areas. Both tax and non-tax revenues have to be tapped. The policy prescriptions (both budget and non-budget) set out in this document will result in significant buoyancy in both tax and non-tax revenues. The restoration of high growth levels and increased investment activity will automatically lead to growth of revenues.

Principles and Objective

Rationalizing and simplifying Direct and Indirect Tax Laws and bringing them in line with the current needs of a liberalising and a competitive global economy is an urgent task. Accordingly, in the area of tax reforms, the Liberal Budget would be guided by the following two broad principles:

(i) Any increase in tax revenues would not be by way of an increase in the tax rates, but by rationalization and simplification of the tax system.

(ii) Tax reforms would be through the creation of a simplified tax policy and rational and globally competitive tax rates.

At this stage, it is also imperative to stress that the falling tax-GDP ratio is a source of worry, but the Liberal State does not envisage any drastic increase in this, given the need for substantive reduction and rationalisation of taxes, especially indirect taxes. However, the fact remains that the State does need to raise revenue to finance its various functions. This can be done without increasing the incidence of tax rates through efficient and innovative tax administration.

The Report of the Task Force on direct/indirect taxes under the chairmanship of Dr. Vijay Kelkar was submitted in November 2002. Though it provides radical changes in the tax administration and addresses issues in the tax policies to achieve rationalization and simplification, it has unfortunately not found acceptability with the government. However, the Liberal response to this report has generally been favourable and hence, the Liberals will give it its serious consideration.

In spite of the lowering of rates in both direct and indirect taxes, there is enormous scope for reforming the tax system and its administration. There are a large number of exemptions for particular groups and different rates for similar industrial sectors. With some rare exceptions, these exemptions have little economic logic. The process of reforming the tax system will, therefore, continue. Rates once set will not be disturbed for three years at least.

In the case of direct taxes too, exemptions for various groups will be removed. Besides, the exemptions for various savings schemes, though motivated by welfarist objectives, have proved to be counter-productive. These exemptions, meant to help those in the lower income bracket, actually benefit those in the higher income bracket and deprive the State of revenue.

> *" Any increase in tax revenues would not be by way of an increase in the tax rates, but by rationalization and simplification of the tax system. "*

These exemptions will be reviewed and removed, where necessary.

All this will lead to better tax compliance. However there will still be a host of defaulters and the State must fulfil its responsibility of improving tax administration, making sure at the same time that this does not mean giving draconian powers to tax authorities, which they can use to harass tax payers. Even while supporting a government with a will to govern and implement laws necessary to ensure their compliance, the Liberal way does not accept actions that lead to the invasion of the privacy of the individual.

Thus, provisions for search and seizure will be abolished, since they have not served their purpose of acting as deterrents, but have been misused to harass taxpayers. Similarly, the 'public interest provisions' (relating to disclosure of information about the assessee, exemption or reduction in rates of taxation for oil companies etc.), which give the government undue discretionary powers, would also be abolished. Inefficiencies in the tax administration system would be eliminated and powers of the assessing officers will be reviewed. Tax collections can be strict without being brutal.

Tax payers with an income up to Rs.5 lakhs will not be required to maintain books of accounts and assessing officers will not have the right to demand books of accounts from them. Computerisation of all tax operations, including customs clearances, will be given topmost priority in the interest of transparency and efficiency.

Reforms in Indirect Tax Administration and Structure

(a) Indirect Tax Incentives

It is observed that indirect tax incentives, such as, concessional duties on qualified purchases are prone to abuse. Qualified purchases are usually diverted towards unqualified purchases and hence, the effectiveness of the incentives is lost. It is suggested that such indirect tax incentives need to be eliminated.

> *"It is, therefore, suggested that extensive use of internet and online filing would ensure transparency and efficiency."*

(b) Importance of Transaction Costs for the Trader

Inefficiencies in the indirect tax administration result in increased transaction costs and affect the efficiency of the trader. It is essential to eliminate needless administrative burden through modernization and automation. It is observed that neither the infrastructure nor the administration is elastic to the flow of transactions. It is, therefore, suggested that the extensive use of internet and online filing of documents be made acceptable as this would greatly reduce transaction costs and increase efficiency.

(c) Rate Structure

At present, customs duty/cess has 7 different categories and 20 rates, the medium rate being 25%. It is suggested that a complete rationalization of the categories and the rates needs to be carried out and a maximum of three categories and three rates are made applicable separately for raw materials, intermediates and finished products.

(d) Customs Clearance Procedure

As custom clearance is based on transactions, every document passes through many checks, signatures and counter-signatures. Excessive documentation and complete lack of transparency of the procedure breeds corruption. Secondly, it slows down the pace of trade flows. It is, therefore, suggested that extensive use of internet and online filing would ensure transparency and efficiency.

(e) Permanent Green Channel

The present policy of the green channel is restricted to specific importers and involves limitation on the disposal of goods thereby reducing its effectiveness. The role of tax administration in the case of customs, in addition to being a regulator, is also that of a facilitator. With the use of internet and availability of the history of transactions of a trader with the push of a button, it would be easy to verify documents selected by certain computer based parameters. It is, therefore, necessary that for all transactions other than those selected for verification, there should be a permanent green channel, thereby facilitating speedy clearances.

3.3 Non-Tax Revenues

Non-tax revenues will also need to be tapped. Non-tax revenues of the Union Government consist mainly of returns on past investment including loans and advances and recovery of user charges from the services provided. Non-tax revenues constituted a little over one fourth of the current revenues of the Union Government. A detailed examination of non-tax revenues of the government is important since, inadequate revenues from this source are usually indicative of implicit subsidies to certain groups. This will, of course, become apparent only when combined with expenditures on similar budget heads and, in fact, this has been done in a Government of India White Paper on Subsidies (based on an NIPFP study). It must be remembered that the subsidies that emerge from user charges which are inadequate to cover the cost of providing government services are not explicitly stated in the budget papers. Such subsidies are implicit and require to be estimated. The Government of India White Paper estimated these implicit subsidies to be higher than 10% of GDP.

The distribution of non-tax revenues over approximately a 17-year (1986-2003) span shows a sharp increase in interest receipts. This is mainly on account of loans that have been given to states. In a sense the obverse of this increase in interest receipts is the heavy burden of debt servicing that states must face. Further, because states have contracted some of these loans from the central government many years ago they have been locked into very high interest rates, even though the market rates of interest rates have been moving downwards. In contrast, the profits of railways and the telecom sector have shown a significant decrease. At the same time, revenues from dividends and profits recorded a healthy long-term trend growth of 26.92 per cent. Non-tax revenue from other sources also recorded a trend growth of 14.28 per cent.

It must be pointed out that the ratio of non-tax revenue to GDP has been declining over the years. This, at a time when the tax/GDP ratio has also been stagnant, has put a lot of pressure on government finances. Along with total non-tax revenues, the components have also shown a declining trend. As already stated, the problem with non-tax revenues can be appreciated by looking at the number of PSUs earning profits and the even fewer number of PSUs declaring dividends. It is evident that the overwhelming contribution to net profits earned by PSUs comes from only 26 units: these units contribute 82% of the total profits earned by PSUs. It will also be seen that the most dominant PSUs are in the petroleum sector which is a government monopoly. This has enabled the government to exploit its monopoly position and extract profits from consumers.

The ills facing the public sector can be exemplified further by looking at the situation prevailing among the State Electricity Boards (SEBs). The inefficiency in the public sector can be seen by the increase in the cost of supply, which has risen by 62% over the last 5 years. Average tariffs have not kept pace with the cost escalation: these have risen by 45% over the same period. It must of course be stated that merely increasing tariffs to keep pace with increasing costs is not to be seen as a way of improving public sector profitability. Cost reduction along with tariff rationalisation is the way forward. However, given that most profit making PSUs are monopolies, the incentives for cost reduction do not exist.

For many of the PSUs, the only way to impart efficiency is for them to be privatised. The beneficial effects of privatisation will be become available, only if privatisation is not equated with disinvestments. Disinvestment has become a mere revenue raising tool for the government as its budgets have spiralled out of control. Parenthetically, it may be noted that even this limited task is not being performed too well. From a Liberal economic point of view, it makes little sense to replace a public monopoly with a private monopoly. If privatisation has to yield benefits it must increase the competition that PSUs face. Numerous studies have shown that benefits of privatisation/disinvestment are likely to be greater where the market is competitive.

3.4 Privatisation - The Way Out

Dividends paid by public sector undertakings (PSUs) form part of the non-tax accruals to the exchequer. However, of the 139 profit-earning central PSUs, only 86 have declared dividends. Only 26 PSUs account for 82 per cent of profits earned by PSUs and of these 12 are from the oil sector, which is a government monopoly.

> *"In a genuinely Liberal economic environment, there will be no PSUs in areas where the private sector is interested and capable of investing."*

Government investment in PSUs has proven to be a huge drain on resources. Over the years, a total of Rs.3,24,632 crores has been sunk into 240 central PSUs. However, the net profit to capital employed ratio has rarely been more than 5 per cent. Privatisation seems to be the only way of imparting efficiency to these PSUs. Since the liberal credo is that the business of government is governance, not business, the Liberal Budget will signal the exit of government investment in PSUs. In doing this, the test is not whether a PSU is making profits or losses, but, it should be whether the State is required to provide those goods/services.

Currently, only 35 PSUs have been identified for privatisation.

However, the Liberal State will put up all PSUs in the non-strategic sectors for privatisation within the next three years. Apart from ensuring that the tax payers' money is no longer wasted on these PSUs, the sale of government equity will also bring in much needed revenues into the exchequer.

The process will be speeded up substantially and extended to state-level public sector enterprises as well. While privatising a PSU, care will be taken to ensure that the process is completely transparent and free from political interference and corporate lobbying. Also, safeguards will be taken to ensure that a public sector monopoly is not replaced by a private sector monopoly. The best way to do this would be to open up all sectors to competition. Where this is not possible or may take time, privatisation will be preceded by a strong independent regulator.

This privatisation exercise is a temporary one till all PSUs are privatised or wound up. In a genuinely Liberal economic environment, there will be no PSUs in areas where the private sector is interested and capable of investing.

> *"Deregulation at the state-level has still not happened. Each industrial unit is visited by nearly 60 inspectors every month."*

3.5 Other Policy Initiatives

A strong economy is a necessary condition of a balanced budget. It is only then that the state exchequer will have enough resources to bankroll its various developmental functions and the private sector will be able to take on the tasks that should not be in the government domain. For this, it is necessary to ensure that the domestic investment climate is conducive to economic activity and that free and fair competition prevails in the market place. A whole range of issues need to be addressed for this.

- While delicensing has ended the permit-licence-quota raj, deregulation at the state-level has still not happened. Each industrial unit is visited by nearly 60 inspectors every month. Small-scale industry is particularly affected by this, as it pushes up transaction costs enormously.

- Rigid labour laws are a major factor in making Indian industry uncompetitive and deny companies operational flexibility. The Liberal State will amend existing labour laws to provide more operational flexibility to industry. The government will not take upon itself the task of deciding levels of wages of particular industries or standing in judgement over whether or not companies should retrench workers. Instead, it should confine itself to enforcing contracts, for example, ensuring that workers get their termination benefits and that companies do not default on social security obligations.

- Reservation of items for small-scale industry prevents companies in those particular sectors tapping the benefits of economies of scale. This ultimately harms the sector as a whole. Some steps have been taken towards de-reserving items from the SSI list. The Liberal State will carry the process further.

- The trading sector faces huge impediments in the form of controls exercised by multifarious government agencies, restrictions on movement of goods and varying taxes. This has made it difficult to integrate the whole of India into a common market and has prevented industry and agriculture from benefiting from economies of scale. There are some 400 laws (including the Essential Commodities Act and the Weights and Measures Act) that govern trade, many of which have outlived their utility. There are also a large number of licences that trading activity has to comply with, which provides scope for a lot of corruption. The Liberal State will take stock of these barriers and lift all such restrictive rules and regulations except those that foster trade.

- While agriculture will benefit enormously from increased investment in infrastructure and extension research, the sector will not prosper unless various restrictions on agricultural trade and marketing are removed. The Liberal State will lift all controls on the domestic movement and trade of agricultural goods. Land ceilings will be reviewed for their negative effects on investment and growth. Contract farming and partnerships between the corporate sector and farmers will be encouraged.

- An improvement in the domestic investment climate with these measures is likely to pull in the much-needed foreign direct investment (FDI) and the government need not do anything more, apart from ensuring that there are no arbitrary restrictions or ceilings on FDI investment.

One factor that is obstructing these much-needed reforms is the existence on the statute book of nearly 1500 laws, many of which have far outlived their utility. A mammoth exercise will, therefore, be undertaken to repeal and amend several Central and state-level laws in order to reduce costs of doing business and promote greater economic efficiency. In addition, judicial reforms necessary to ensure speedy disposal of cases and enforcement of contracts will be undertaken.

Summing Up

While any Budget is supposed to be a mere statement of accounts, government budgets in India reflect the hard realities of economic life. Therefore, conceptualising a Liberal Budget is a challenging task which needs to take into consideration the larger context in which budgets are framed. The political environment and economic policies have a significant amount of influence on any budget. **No budget can be genuinely liberal in its essence and powerful in its impact, unless the overall economic policy regime becomes genuinely liberal, deregulated and capable of nurturing and fostering private and individual initiative.** In other words, an interventionist State cannot be the right setting for a Liberal Budget. At the same time, a minimal state is not an absentee state or an ineffective one.

And finally, based on our philosophical and strategic formulations, we have set out the structure and composition of the Liberal Budget in a set of statements forming Appendix I to VI. The budgetary figures are presented both in absolute terms as well as in relation to GDP at current market prices. At this stage, we must stress that budgetary figures need to be treated essentially as guideposts, and not as rigid targets or budget estimates. We also strongly believe that this new strategic orientation must also have a perspective of at least two years in continuum. Hence, the budget figures are cast for years 2004-05 and 2005-06 against the backdrop of official data available for the previous three years.

While various salient features of the Liberal Budget will be self-evident from the budgetary statistics, we wish to conclude our presentation by highlighting only the following most significant features:

- First, growth of total expenditure is determined on the basis of developmental needs, and is in conformity with the envisaged revenue growth. Thus, share of developmental expenditure is projected to increase from 43.6% in 2003-04 to 47.8% in 2004-05 and further to 52% in 2005-06. More importantly, there will be doubling of allocations for the social services sector (Appendix V and VI).
- Second, growth of revenue receipts and in particular, tax revenues are estimated to be faster than in the previous two years. This is necessary to reduce the dependence on capital receipts and make substantive reduction in revenue and fiscal deficits. This directional change is imperative for a long-term sustainability and stability of the fiscal health of India.
- Last, the overall tax efforts are projected to improve consistently across the board, and the contribution of direct taxes (income and corporation taxes) will also rise further in conformity with the recent trends. The Liberal Budget also aims at generating increased contribution from non-tax revenues (Appendix III and IV).

“ An interventionist State cannot be the right setting for a Liberal Budget. At the same time, a minimal state is not an absentee state or an ineffective one. ”

In the ultimate analysis, the Liberal Budget will truly redefine and limit the role of the State as a facilitator, enabler and regulator, ushering a host of opportunities for citizens at large and turn India into a global economic power! ◆

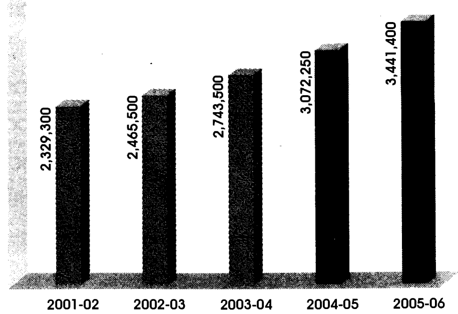
The Liberal Budget at a Glance

(Rs. Crores)

Appendix I

	2001-02 (Actuals)	2002-03 (Revised Estimates)	2003-04 (Budget Estimate)	2004-05 (Liberal Budget Estimate)	2005-06 (Liberal Budget Estimate)
1. Revenue Receipts (2+3)	**201,449**	**236,936**	**253,935**	**315,500**	**360,500**
(2) Tax Revenue (Net to Centre)	133,662	164,177	184,169	229,460	264,500
(3) Non-Tax Revenue	67,787	72,759	69,766	86,040	96,000
4. Capital Receipts (5+6)	**161,004**	**167,077**	**184,860**	**191,500**	**183,000**
(5) Loan Recoveries & Other Receipts	20,049	21,611	31,223	68,000	80,000
(6) Borrowings and Other Liabilities*	140,955	145,466	153,637	123,500	103,500
7. Total Receipts (1+4)	**362,453**	**404,013**	**438,795**	**507,000**	**543,500**
8. Total Expenditure (9+10)	**362,453**	**404,013**	**438,795**	**507,000**	**543,500**
(9) Revenue Expenditure	301,611	341,648	366,227	392,300	394,500
(10) Capital Expenditure	60,842	62,365	72,568	114,700	149,000
11. Revenue Deficit (9-1)	**100,162**	**104,712**	**112,292**	**76,800**	**34,000**
12. Fiscal Deficit [8-(1+5)]	**140,955**	**145,466**	**153,637**	**123,500**	**103,500**
13. Primary Deficit @	**33,495**	**29,803**	**30,414**	**(-) 5,500**	**(-) 31,500**
Deficit Ratios (%) :					
a) Revenue Deficit to GDP	4.3	4.3	4.1	2.5	1.0
b) Fiscal Deficit to GDP	6.1	5.9	5.6	4.0	3.0
c) Primary Deficit to GDP	1.5	1.2	1.1	(-) 0.2	(-) 0.9
14. Derived GDP at Current Market Prices	**2,329,300**	**2,465,500**	**2,743,500**	**3,072,250**	**3,441,400**

GDP (Rs. Crs)



@ Fiscal Deficit less Interest Expenditure
(-) Denotes generation of surplus position.
* Includes PSEs' Disinvestment Proceeds

Notes:
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2. Figures for 2004-05 and 2005-06 are Liberal Budget Estimates, based on various proposals set out in the text. GDP growth at current market prices are projected in nominal terms at 12 percent per annum for these two years. The implicit real GDP growth is assumed at 7% to 7.5% with inflation of 4.5% to 5% factored in.

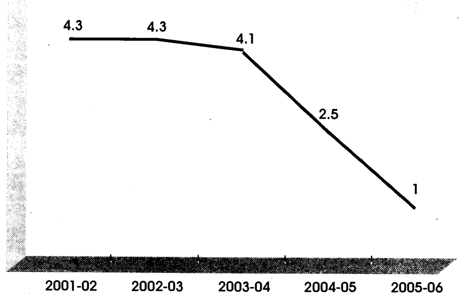
The Liberal Budget at a Glance

(% of GDP)

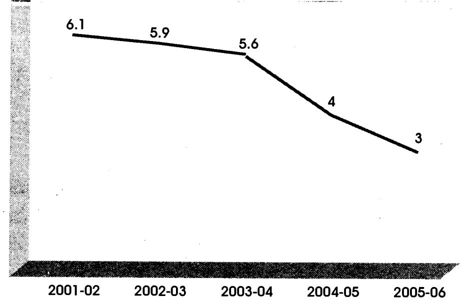
Appendix II

	2001-02 (Actuals)	2002-03 (Revised Estimates)	2003-04 (Budget Estimate)	2004-05 (Liberal Budget Estimate)	2005-06
1. Revenue Receipts (2+3)	**8.6**	**9.6**	**9.3**	**10.3**	**10.5**
(2) Tax Revenue (Net to Centre)	5.7	6.7	6.7	7.5	7.7
(3) Non-Tax Revenue	2.9	3.0	2.5	2.8	2.8
4. Capital Receipts (5+6)	**6.9**	**6.8**	**6.7**	**6.2**	**6.3**
(5) Loan Recoveries & Other Receipts	0.9	0.9	1.1	2.2	2.3
(6) Borrowings and Other Liabilities*	6.1	5.9	5.6	4.0	3.0
7. Total Receipts (1+4)	**15.6**	**16.4**	**16.0**	**16.5**	**15.8**
8. Total Expenditure (9+10)	**15.6**	**16.4**	**16.0**	**16.5**	**15.8**
(9) Revenue Expenditure	13.0	13.9	13.3	12.8	11.5
(10) Capital Expenditure	2.6	2.5	2.6	3.7	4.3
11. Revenue Deficit Ratio (% of GDP)	**4.3**	**4.2**	**4.1**	**2.5**	**1.0**
12. Fiscal Deficit Ratio (% of GDP)	**6.1**	**5.9**	**5.6**	**4.0**	**3.0**
13. Primary Deficit Ratio (% of GDP)	**1.5**	**1.2**	**1.1**	**(-) 0.2**	**(-) 0.9**

Revenue Deficit (% of GDP)



Fiscal Deficit (% of GDP)



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* Includes PSEs' Disinvestment Proceeds

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Appendix III

The Liberal Budget - Revenue Receipts

(Rs. Crores)

	2001-02 (Actuals)	2002-03 (Revised Estimates)	2003-04 (Budget Estimate)	2004-05 (Liberal Budget Estimate)	2005-06
Gross Tax Revenue	**187,060**	**221,918**	**251,527**	**315,000**	**362,800**
Union Excise duties	72,555	87,383	96,791	112,000 1	29,000
Customs	40,268	45,500	49,350	59,500	67,000
Corporation tax	36,609	44,700	51,499	67,000	76,300
Income tax	32,004	37,300	44,070	57,500	67,500
Service tax	3,302	5,000	8,000	16,500	20,000
Others	1,738	2,035	1,817	2,500	3,000
Less States' Share and Transfer to National Calamity Contingency Fund	**53,398**	**57,741**	**67,358**	**85,540**	**98,300**
1. Net Tax Revenue	**133,662**	**164,177**	**184,169**	**229,460**	**264,50**
Non-Tax Revenue					
Interest receipts	35,515	40,571	39,160	43,500	45,500
Dividend and profits	17,289	20,194	17,861	23,500	26,500
Others	14,983	11,994	12,745	19,040	24,000
2. Total Non-Tax Revenue	**67,787**	**72,759**	**69,766**	**86,040**	**96,000**
Total Revenue Receipts (1 + 2)	**201,449**	**236,936**	**253,935**	**315,500**	**360,500**

Notes:
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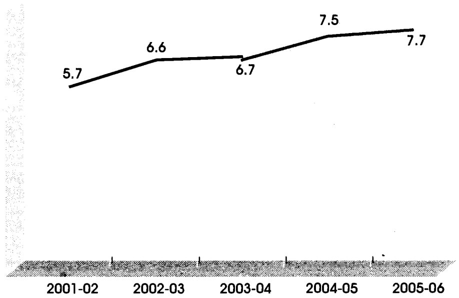
2. Figures for 2004-05 and 2005-06 are Liberal Budget Estimates, based on various proposals set out in the text. GDP growth at current market prices are projected in nominal terms at 12 percent per annum for these two years.

The Liberal Budget - Revenue Receipts (% of GDP)

Appendix IV

	2001-02 (Actuals)	2002-03 (Revised Estimates)	2003-04 (Budget Estimate)	2004-05 (Liberal Budget Estimate)	2005-06
Gross Tax Revenue	**8.0**	**9.0**	**9.2**	**10.2**	**10.6**
Union Excise duties	3.1	3.5	3.5	3.6	3.7
Customs	1.7	1.8	1.8	1.9	1.9
Corporation tax	1.6	1.8	1.9	2.2	2.2
Income tax	1.4	1.5	1.6	1.9	2.0
Service tax	0.1	0.2	0.3	0.5	0.6
Others	0.1	0.1	0.1	0.1	0.1
Less States' Share and Transfer to National Calamity Contingency Fund	**2.3**	**2.3**	**2.5**	**2.8**	**2.9**
1. Net Tax Revenue	**5.7**	**6.6**	**6.7**	**7.5**	**7.7**
Non-Tax Revenue					
Interest receipts	1.5	1.6	1.4	1.4	1.3
Dividend and profits	0.7	0.8	0.7	0.8	0.8
Others	0.6	0.5	0.5	0.6	0.7
2. Total Non-Tax Revenue	**2.9**	**3.0**	**2.6**	**2.8**	**2.8**
Total Revenue Receipts (1 + 2)	**8.6**	**9.6**	**9.3**	**10.3**	**10.4**
GDP at current market prices (Rs. Crores)	**2,329,300**	**2,465,500**	**2,743,500**	**3,072,250**	**3,441,400**

Net Tax Revenue (% of GDP)



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Appendix V

The Liberal Budget - Expenditure Pattern

(Rs. Crores)

	2001-02 (Actuals)	2002-03 (Revised Estimates)	2003-04 (Budget Estimate)	2004-05 (Liberal Budget Estimate)	2005-06
I. Non-Development Expenditure of which :	**215,456**	**237,008**	**255,572**	**260,000**	**263,000**
1. Defence	54,266	55,700	65,300	68,000	72,000
2. Interest Payments	107,460	115,663	123,223	129,000	135,000
3. Subsidies	31,207	44,618	49,907	50,000	50,000
2. Development Expenditure of which :	**159,364**	**190,630**	**197,174**	**238,000**	**285,000**
1. Economic Services	80,868	106,625	106,392	130,000	155,000
2. Social Services	15,130	18,973	21,351	32,000	43.000
Total Expenditure (I+II)	**374,820**	**427,638**	**452,746**	**498,000**	**548,000**
Ratio of Development Expenditure to Total Expenditure(%)	42.5	44.6	43.6	47.8	52.0

Notes:

1. Data for 2001-02, 2002-03 and 2003-04 are compiled from the Reserve Bank of India's Handbook of Statistics on Indian Economy, 2002-03 (Page No. 147)
2. Date for 2004-05 and 2005-06 are estimates for the Liberal Budget based on various assumptions set out in the text.
3. Total expenditure in this table is inclusive of transaction of Commercial Departments in the Revenue Account,. Hence, these figures do not tally with figures in Appendix I & II.

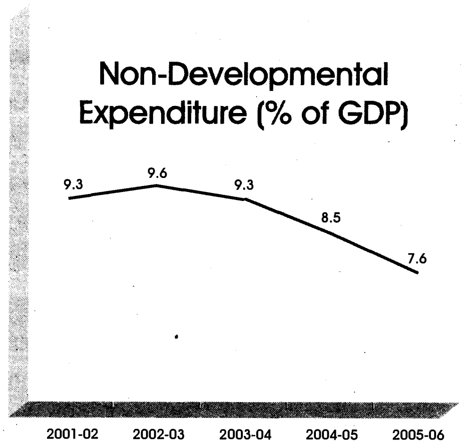
The Liberal Budget - Expenditure Pattern

(% of GDP)

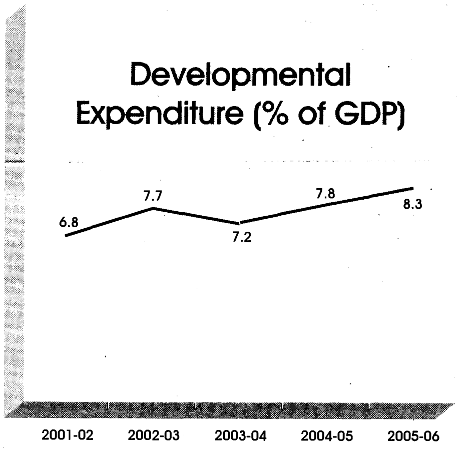
	2001-02 (Actuals)	2002-03 (Revised Estimates)	2003-04 (Budget Estimate)	2004-05 (Liberal Budget Estimate)	2005-06
I. Non-Development Expenditure of which :	**9.3**	**9.6**	**9.3**	**8.5**	**7.6**
1. Defence	2.3	2.3	2.4	2.2	2.0
2. Interest Payments	4.6	4.7	4.5	4.2	3.9
3. Subsidies	1.3	1.8	1.8	1.6	1.5
2. Development Expenditure of which :	**6.8**	**7.7**	**7.2**	**7.8**	**8.3**
1. Economic Services	3.5	4.3	3.9	4.2	4.5
2. Social Services	0.7	0.8	0.8	1.0	1.2
Total Expenditure (I+II)	**16.1**	**17.3**	**16.5**	**16.2**	**15.9**
GDP at current market prices (Rs. Crores)	**2,329,300**	**2,465,500**	**2,743,500**	**3,072,250**	**3,441,400**

Appendix VI

Non-Developmental Expenditure (% of GDP)



Developmental Expenditure (% of GDP)



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A Note on Exploiting the Potential of e-Governance

Appendix VII

The Liberal Budget recognizes the immense potential of e-governance not only in strengthening budgetary controls and management, but more importantly, in enhancing overall efficiency, leading to improved expenditure and revenue collection. It will also improve the efficiency and effectiveness of various programmes. Already, India's Information and Communication Technology (ICT sector) is seen as demonstrating the opportunity that globalization offers to a low income developed country. The success of Indian tech-entrepreneurs within and outside the country and the rapid growth of the Indian software and IT-enabled services industries, especially their export segment, have buoyed expectations of the potential for growth and human development that ICT holds out. However, the potential of ICT as an enabler of development, in particular, for poverty alleviation and decentralized governance has not yet been fully harnessed.

The United Nations Development Programme's Human Development Report 2001 states that "People all over the world have high hopes that new technologies will lead to healthier lives, greater social freedoms, increased knowledge and more productive livelihoods".

Unfortunately, despite there being much talk about our leading the Information Age, India is still not placed amongst the top twenty countries in e-governance and e-readiness, as revealed by rankings done by various international bodies, including the UN.

What does e-governance entail? In simple terms, the UN documents define e-governance as "Utilizing the ICT tools and the World Wide Web for delivering government information and services to citizens and businesses". Further, e-governance goes through an extensive maturity cycle and in its ultimate format brings out "seamless governance", involving full integration of e-services across administrative boundaries.

The objectives of e-governance are two fold: (a) improving internal efficiencies; and (b) enhancing citizen service delivery. The Liberal Budget believes that improving internal efficiencies can be brought about by focussing on (a) IT infrastructure (i.e. provision of necessary hardware across various levels from state Secretariat to gram panchayat); (b) investing in human ware (i.e. ensuring minimum IT literacy across sections of governmental bodies); and (c) critical areas of digital workflow, document management and knowledge management solutions.

Likewise, enhancing citizen service delivery can be achieved by (a) concentrating on services that are commonly used by the masses (e.g. digitization of land records, utility bill payments, and registration for various government services); and (b) opening "one stop shop" for all government offices, kiosks or individual state and national portals. While there have already been some significant initiatives taken by some of our state governments (Karnataka, Andhra Pradesh, Madhya Pradesh, for instance), much more needs to be achieved with a view to realizing the goal of a seamlessly integrated framework, wherein all the e-governance efforts of the state and the centre are harmoniously integrated.

There is an urgency for prioritization of various Mission Mode Projects of the Ministry of Communications and Information Technology at the level of Central Government, state governments and other integral services (please see the attached table).

The Liberal Budget emphasizes the critical role of e-readiness and the budgetary cost required for implementing e-governance initiatives. Of course, there are some important approaches to progress in the implementation strategy, some of which are already in vogue. For example, Andhra Pradesh has gone ahead with sharing the cost of e-governance projects with private players, thereby ensuring that more can be achieved with lesser budgetary provision from the government.

It is however imperative to stress that investment in e-governance should not be considered as an unwanted, avoidable budgetary burden. Indeed, there are significant positive gains of e-governance. These gains manifest directly in employment generation through setting up of kiosks and such other mechanisms. But more importantly e-governance initiatives need to be looked upon as (a) cost saving effort;

A Note on Exploiting the Potential of e-Governance

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It is however imperative to stress that investment in e-governance should not be considered as an unwanted, avoidable budgetary burden. Indeed, there are significant positive gains of e-governance. These gains manifest directly in employment generation through setting up of kiosks and such other mechanisms. But more importantly e-governance initiatives need to be looked upon as (a) cost saving effort;

and (b) productivity improvement effort. Unless we recognize e-governance as an initiative involving a participatory approach that takes into account all the stakeholders, the ultimate objective of improving the convenience and life style of the common citizens cannot be accomplished.

Apart from what is stated above, in the area of agricultural marketing e-governance should lead to improvements in the marketing of agriculture produce. Currently every state has multiple market yards run by agricultural produce marketing committees (APMCs). These APMCs are engaged in trading every kind of agricultural product and function in an environment where transparency is totally absent. For an efficient price discovery mechanism it is essential to have the support of the technology that e-governance offers.

Furthermore, the Central and state governments have a number of poverty alleviation schemes and programmes. A major criticism of these schemes and programmes is that they hardly reach the intended target group. Just 20 per cent of the funds reach the masses. The Liberal State would ensure that all such programmes are implemented in an efficient and transparent manner with the help of technology.

Keeping these aspects in view, the Liberal Budget, after carefully examining the existing inadequate allocations for e-governance initiatives in our budgets, strongly advocates that the combined spending (Centre and states) must be raised to at least 3 per cent of their total budgetary provision, as against less than 2 per cent being spent in recent years.

To sum up, the Liberal Budget believes that e-governance is a powerful instrument of public administration bringing in transparency, efficiency, accountability and a more participatory approach that the citizens of the country justifiably aspire for. We would like this to happen through a process of planning and budgeting for, at the very least the IT department, which could serve as an example to be emulated by other departments. Further, it is imperative that working groups on plan formulations are made all encompassing with members representing industry, Government, academia and NGOs. The proceedings of their meetings need to be widely shared on websites and portals to make it a real participatory exercise.

Prioritization : Mission Mode Projects of MIT

Central Government

1. Income Tax
2. Passport
3. DCA (Department of Company Affairs)
4. Citizen database
5. Excise
6. Pension
7. Banking
8. Insurance

State Government

1. Land Records
2. Road Transport
3. Property Register
4. Agriculture
5. Treasuries
6. Municipalities
7. Gram Panchayats
8. Police

Integral Services

1. E-Commerce
2. E-Business
3. Common Service Centers
4. India Portal
5. Development Gateway

Appendix VIII

Members of the Special Interest Teams of the Indian Liberal Group on the economy and related themes and a few others who wrote in with their suggestions:

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"Today's Liberal has to be close to the common man. He has got to be close to the peasant and to the middle class. He cannot afford to live in an ivory tower, because today Indian Liberalism speaks for the great majority of the people"

- Minoo Masani