The Function of Neoliberal Budgets*

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With the short-term, frenzied interest that accompanies annual budget presentations in India having ended, it is time to raise issues that were largely ignored in the debate. Prime among them is the question as to how much or how little new taxes were raised to finance the many pressing demands that face the government, from investments in essential infrastructure to building much needed human capital, promoting employment and ensuring universal access to necessities.

In an accounting sense budgets reveal where each average rupee the government spends came from and to which areas each average rupee spent was allocated. But in a developmental sense what matters is how much by way of additional resources the government has been able to garner to support and spur a growing economy and deliver benefits to citizens. It also matters from whom those resources (if any) were raised. From whom the government raises its past and new resources and to whom it delivers the budget's benefits reveals its distributional consequences.

However, neoliberalism's transformation of the objectives of budget-making has changed the lens through which budgets are viewed. One consequence of neoliberalism on the fiscal front has been that budgets underplay the resource mobilization aspect of the budget. While taxes (especially cesses and surcharges not shared with the states) are occasionally imposed or raised, the focus is on 'rationalisation' of the tax structure and reducing the burden of taxation. The net result is that even while the nation's tax-GDP ratio is low, little effort is made to raise it.

This is surprising in the current global context where there is increasing recognition that the demands set by the expenditures needed to pursue the UN's sustainable development goals and address the climate change challenge make it imperative to raise significantly the resources mobilized by governments. In fact, around the time when Busget 2024-25 was presented, G20 finance ministers meeting in Rio had agreed on jointly pursuing a proposal to impose a 2 per cent wealth tax on the super-rich to mobilise around $250 billion each year to help address the climate crisis and reduce poverty and social deprivation.

There was no such intent visible in the Indian government's budget. That should surprise for many reasons. India's corporate sector according to the government's Economic Survey 2023-24 released just before the Budget is "swimming in profits". It is also buried in wealth. A much-publicized marriage of one scion of a leading Indian business family was celebrated with unashamed ostentation that is reported to have cost thousands of crores of rupees. India has its super-rich and they are prone to blowing their money on wasteful expenditure. But there is virtually no wealth tax imposed on them.

What is surprising in the current context is that, despite all this, the claim is that India's rich is not undertaxed and that the country's tax levels are at some 'optimum'. Following the budget presentation, the Revenue Secretary argued that India's "tax to GDP, given (its) level of development is actually not so low". Noting that the ratio is around "12% for the Government of India, and another 6% in States, so it is about

18%," he reportedlywent on to maintain that: "if you plot it with per capita income of various countries, then we are slightly above what that per capita income should actually indicate."

The evidence does not warrant that judgement, because what matters is not just per capita income but the distribution of India's large absolute GDP. The country is characterized by extreme inequality. Yet, India's tax-GDP ratio in 2022 while equal to that in Kenya and Burkina Faso, was lower than that in El Salvador, Nepal and Chile, significantly lower than in Turkey, Bolivia and Nicaragua, and substantially lower than in Brazil, Uruguay and Namibia.

A second feature of neoliberal budget-making is to establish that the government is fiscally prudent, to signal which it must keep the deficit under control. However, since ensuring that when increased taxation is sought to be abjured is difficult, the government seeks to dig into its own vaults to scoop out some money. Public sector equity is divested, some units are privatized or sold, assets are monetized and profitable units and even the Reserve Bank of India are forced to pay large sums as special dividends into the government's coffers. However, it has become clear such exceptional financing is not enough to meet even restrained expenses. So, there is now less emphasis on traversing to a low deficit to GDP ratio, such as 3 per cent, and more on keeping the deficit within a flexible 'target' range. In fact, following this year's budget Finance Secretary T. V Somanathan went to the extent of admitting that the 3 per cent of GDP target "has no scientific basis", and declaring that from 2026-27, the government's "endeavour will be to keep the fiscal deficit each year" (at a level) "such that the Central Government debt will be on a declining path as percentage of GDP." But that demands reduction of the fiscal deficit to GDP ratio or the current year's borrowing relative to GDP, even if not to some irrational 3 per cent target.

Following from these two aspects of neoliberal budget-making, a third feature of recent budgets is a focus on limiting or reducing inflation-adjusted expenditure side. But that is not easy. Since now it is the private sector rather than the state that should lead the developmental thrust, it has to be incentivized. Tax concessions and straightforward transfers, through initiatives such as the 'production-linked incentive schemes', or subsidies labeled as "tax expenditures", are doled out to the corporate sector. That fattens profits but doesn't really stimulate much new private investment.

In an effort to divert attention from this engineered redistribution of income, each budget claims that it spurs growth, through enhanced capital spending by the government, as well as delivers transfers and benefits to one or more needy section. Such claims dominate the lengthy and tiring Part A of the budget speech. But, given the self-imposed constraints on additional resource mobilization, allocations for 'expansionary' spending and 'largesse' fall far short of the expenditure actually needed. Deflation and austerity become the new normal. For example, while track renovation and allocations for safety equipment for the railways languish, much is made of new lines and new fast trains. Measly sums are promised as employment-linked subsidies either to underpaid workers or over subsidized corporates and provisions for 'skilling'. These are presented as a solution for an employment problem that comes from inadequate demand and inappropriate growth. Meanwhile other 'flagship' schemes from the past, such as the employment guarantee programme

or the subsidy on food for beneficiaries of the National Food Security Act stagnate or decline.

The result is that both from the resource mobilization and expenditure allocation perspective, the budget is no more an annual plan and instrument to spur growth and improve distribution. It has become an exercise in manipulated accounting and a poor attempt at propaganda.

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