India

India is not introducing ‘austerity’ cuts in public spending. It introduced a stimulus package in 2009, which increased the government deficit to 6.8% of GDP, to boost the economy; and committed to continued public ownership of banks and financial institutions. The government was confident it could borrow enough to finance this deficit: half of India’s savings in the banking system “is channeled to the government through mandatory lending or through treasury bill sales”.

The budget included long term plans for taxes. Central government revenue is now 12% of GDP, with over 50% coming from direct taxes, which is more progressive. The government plans to continue increasing the proportion of direct taxes, including corporate taxes. It is also continuing to improve tax administration, the importance of which was recognised by the finance minister: “Our tax collectors are like honey bees collecting nectar from the flowers without disturbing them, but spreading their pollen so that all flowers can thrive and bear fruit.”

Spending on urban infrastructure is being rapidly increased, including a policy for replacing slums, and investment in infrastructure is intended to reach more than 9% of GDP per year by 2014.

The 2009 budget aimed for growth of 9% in 2010, and actually achieved growth of 10.1% in that year. This growth generates higher tax revenues which automatically reduce government deficits, which is expected to fall to 5.1% of GDP in 2011, and government debt is expected to fall gradually to about 68% of GDP in 2015.

The 2011 budget stated that:
- In 2010 tax revenues grew by 25% as a result of economic growth and stronger tax collection
- Public spending on education would rise by 24% in 2011
- Public spending on healthcare would rise by 20% in 2011

Sources:
- IMF  Fiscal Monitor April 2011
- Livemint/WSJ  India Budget 2011
- Government of India: Union Budget of 2011
- UN ESCAP 2011 The Promise of Protection
- PSIRU 2010 Why we need public spending