Indian government hands down a budget to please big business

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16 March 2001

India's Finance Minister Yashwant Sinha brought down a national budget on February 28 containing a raft of economic “reforms” that will significantly intensify the social crisis confronting millions of people throughout the country. The budget will cut public spending, slash agricultural subsidies, implement further privatisations and introduce changes to India's labour laws that will lead to a fresh round of sackings. At the same time, it will offer a raft of new financial incentives to foreign investors.

Big business and financial commentators—inside and outside India—have welcomed the budget as a sign that the Bharatiya Janatha Party (BJP)-led coalition government is prepared to take the “tough” measures demanded by international finance capital. In response, the Bombay stock market rose 178 points or over 4 percent from 4,069 to 4,247 points.

The Indian *Telegraph* newspaper commented: “In his fourth budget, Yashwant Sinha has played the reformer's role with unexpected zeal, unleashed stimulants to turn around a faltering economy, shown fiscal rectitude of a level surpassing his predecessors and, best of all, done all this without touching the taxpayer for more...

“Businessmen would have liked to give him 10 out of 10, but miserliness got the better of them and most settled for nine. ‘On all counts, the budget does not have a negative aspect,' said industrialist Kumarmanglam Birla.” The article praised Sinha for promising “some blood-letting in two holy cows—the size of the government and labour laws.”

The Confederation of Indian Industries (CII) president Arun Bharat Ram praised the finance minister for taking “a new direction after many, many years of waiting.” He said he was optimistic that the budget would help bring down the budget deficit and stimulate growth. Others insisted that more had to be done. The India-American Chamber of Commerce commented that the budget was directionally right but complained that not enough steps had been taken to make the industry competitive and kick start the economy.

An editorial in the British *Economist* magazine commented: “The lip-service so long paid to economic reform by India's government now starts to sound more genuine... Most heartening was Mr Sinha's willingness to hack away at some of India's most gnarled policies, such as those that limit employment and hamstring small business under the illusion of protecting them. It is where he is being most ambitious, though, that the government will have the hardest time delivering.”

The newspaper concluded: “The budget sent share prices soaring and prompted economists to raise their growth forecasts for the next fiscal year. Lower tax and interest rates and an array of sops are a big part of the reason. The enthusiasm must also reflect the hope that, in its upper reaches, India's government is no longer a half-hearted defender of economic reforms but their champion.”

Big business has long demanded changes to India's labour laws to allow it to hire and fire workers at will. Sinha announced in the budget that firms with less than 1,000 employees would no longer require prior government approval before laying off staff. The change will have drastic consequences for workers as around 80 percent of companies in India fall within this category.

Conscious of the potential for protests over layoffs, Sinha also indicated that retrenchment compensation would be lifted from 15 days pay to 45 days pay for every year of service. Addressing a meeting of the Federation of Indian Chambers of Commerce and Industry (FICCI) on the day after the budget, he appealed for them to support the measure. “In a country where job opportunities are limited, labour sector reforms are a serious issue on which protests will definitely crop up. So show your magnanimity so that labour does not become suspicious of the government or industry.”

The budget contained measures to slash the number of jobs in the public sector by 10 percent over the next five years. The level of new recruitment will be capped at just 1 percent each year. Given that about 3 percent of government staff retire every year, the measure amounts to an annual reduction of 2 percent. In addition, Sinha announced that “non-viable” public sector firms will be closed down adding to the job losses. According to the National Sample Survey's for 1999-2000, average annual employment growth since 1994-95 in India has fallen to 0.7 percent—the lowest level since India's independence in 1947.

Further layoffs can be expected as the government prepares to speed up privatisation to meet a target for sales of 120 billion rupees for the next financial year. Having failed to meet last year's projections, Sinha has included a number of state-owned companies that are likely to attract buyers, including two airlines—Air India and Indian Airlines, the country's biggest car manufacturer Maruthi Udayog and the telecom company Videsh Sanchar Nigam Limited (VSNL), which has a monopoly on international calls.

The budget will also hit small farmers. Sinha has shifted responsibility for buying food grain at set prices from the national government to the state governments—a measure that will inevitably leave poor farmers at the mercy of private dealers and loan sharks. He also announced the phased removal of controls on the price of urea and made proposals for the "commercialisation" of power distribution, which are likely to result in a cut to power subsidies for farmers.

Other government price controls are slated to go. Sinha stated that the government would adhere to the deadline of March 2002 for the dismantling of administered prices in the petroleum sector. If fuel prices in India rise to international levels, prices will also rapidly increase for transport and other essential goods. Price controls on sugar and medicines have also been modified. Cheaper sugar will now only be available to those living below the official poverty line and even then the price will be lifted from 13 to 13.25 rupees a kilogram.

Cutbacks to price controls on basic items will be a serious blow to the country's poor. A recent World Bank report, *Fighting Poverty in South Asia*, commented: "India's poverty situation remains a serious concern. The poor still number over 300 million". Those who defend the restructuring policies advocated by World Bank and International Monetary Fund often claim that these measures will ultimately benefit broad layers of the population. Citing a recent National Sample Survey, the World Bank report pointed out, however, that poverty levels in India have declined only marginally since the beginning of economic reforms in the early 1990s "despite the period of high growth in the mid-1990s."

One of the few areas where there was any increase in the budget was defence. Military spending will increase by 13.8 percent on top of the unprecedented 28 percent hike in last year's budget thus maintaining the defence allocation at 2.6 percent of Gross Domestic Product (GDP). The increased defence budget, which will be used to modernise and boost the firepower of the armed forces, is in line with the ambitions of the rightwing BJP for a greater strategic role for India in the region.

As well as boosting defence spending, the government has cut price subsidies for farmers and the poor and slashed public sector jobs to pay for more lucrative incentives for investors. A 10-year tax holiday has been granted for core sector infrastructure and projects such as airports, ports, industrial parks and power generation and distribution. A five-year tax holiday available for the telecom sector until March 31, 2000 has been offered to companies commencing operation on or before March 31, 2003 and extended to Internet service providers and broadband networks.

Sinha has dropped tax surcharges of 15 percent on individuals and 10 percent on companies leaving only a temporary 2 percent surcharge imposed to help reconstruction in Gujarat following the January earthquake. Big business has bitterly opposed the surcharges ever since they were introduced in 1999. A tax on company dividends has been halved to 10 percent and taxes on long-term capital gains from new equity issues have been eliminated.

The finance minister has removed protection for small businesses in three areas—leather, shoes and toys. Previously 14 percent of output in these industries was reserved for small firms. Other budget measures designed to help big business include the relaxation of restrictions on foreign investment in India and Indian investment outside the country;

The budget is clearly aimed at encouraging foreign investment and bolstering the fortunes of Indian corporations amid growing concerns over a slowing Indian economy. The official economic survey released prior to the budget warned: "The economy is currently at a difficult stage. Some problems of growth are likely to be faced in the coming year." It pointed out that growth for the financial year to March is estimated at 6 percent, well below last year's budget target of 7 percent. Goals for foreign direct investment and privatisation as well as cutbacks to subsidies and government spending were also not met.

But, as the government is well aware, the current budget carries political risks. The BJP is an amalgam of different layers brought together around the party's program of Hindu chauvinism. As well as those who openly support the restructuring agenda demanded by the IMF and big business are others who, under the banner of defending the Indian heritage, demand protection for weaker local industry.

Moreover, the budget measures threaten to trigger broader protests by workers, small farmers and others who will be severely affected. Farmers have already been holding rallies in several parts of the country over falling prices for their products. The fact that the government has decided to plough ahead with its restructuring plans, even as a round of state elections is due, indicates that there are real fears in government circles over prospects for the Indian economy as signs of recession continue to accumulate in the US, Japan and elsewhere.