Indian budget: pro-business agenda dressed up in a pro-poor disguise

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24 July 2004

The first budget of India's new Congress-led government, brought down on July 8, amounts to a confidence trick aimed at duping the rural and urban poor, many of whom voted for the coalition in May as a means of expressing their hostility to the economic policies of the previous administration.

Finance Minister Palaniappan Chidambaram presented a budget designed above all to reassure big business and foreign investors that the basic economic framework of the former Bharatiya Janatha Party (BJP)-led government would remain intact. Chidambaram and Prime Minister Manmohan Singh were well aware that failure to do so would result in an immediate adverse reaction by the markets.

Both Chidambaram and Singh are former finance ministers who, in the 1990s, championed the program of economic restructuring that has deepened the country's immense social divide between rich and poor. Singh was only installed as prime minister after share prices plunged in the aftermath of the election, forcing Congress leader Sonia Gandhi to step aside in favour of a figure who would bolster business confidence.

At the same time, Chidambaram had to dress up his budget as being "pro-poor" and "pro-rural" in order to placate voters. He did this with a series of largely empty gestures, which failed to meet Congress's limited election promises or the common minimum program agreed with its coalition partners in the United Progressive Alliance (UPA) and with the Left Front. The minority government relies on the Left , led by the Communist Party of India-Marxist (CPI-M), to ensure a parliamentary majority on key issues.

A central feature of the budget was its acceptance of the constraints imposed by the previous government's Fiscal Responsibility and Budget Management Act. These include a limit of 4.4 percent on the budget deficit—down from 4.6 percent last year. Having reduced the deficit and included a huge hike in defence spending, the budget leaves little room for increased spending on desperately needed social programs.

New programs and measures were announced to help farmers, the unemployed and the rural poor and to boost education and health. However, much of this is illusory. For instance, the budget called for a doubling of agricultural credit in the next three years, but there are serious doubts that the regional rural banks have the capacity to do so.

The budget proposed increased funding for agriculture, irrigation and water schemes. It also included an enhanced subsidy for health insurance schemes and "an accelerated AIDS control program". However, funding is heavily reliant on enhanced tax revenue collection, which commentators regard as completely unrealistic. If the projected tax revenues are not collected, the government will have to breach the fiscal responsibility legislation and risk the wrath of the markets, impose new taxes or axe programs.

The government has effectively shelved its election promise to provide 100 days of employment at minimum wage for one member of every needy family in India—estimated to number between 30 to 40 percent of the total. The pledge, along with others, has been sent to the Planning Commission for assessment. While an additional 100 billion rupees ($US2 billion) has been allocated to the commission, the amount is completely inadequate to meet the government's promises.

The budget announced "food-for-work" programs for 150 backward districts, but did not increase the allocations for the program overall. What is spent in those districts will have to come from "food-for-work" measures in other areas. The overall amount of money assigned for rural development and employment has in fact declined.

The only significant new social measure is a 2 percent special tax on top of a range of existing taxes, which is calculated to raise 40-50 billion rupees annually. The money has been earmarked to improve basic public education, including the provision of "a nutritious cooked midday meal" for all school children.

Even if these programs are actually implemented they will have a limited impact on the huge social problems confronting the majority of the population. According to the latest government figures in 2001, the literacy rate in India is just 65.4 percent. Official statistics put the number of rural people living below the poverty line at 193.2 million. Some 30 million people live in urban slums without access to basic facilities. Life expectancy is 64 and 67 years for males and females respectively.

The government did not hesitate, however, in boosting military spending by 17.9 percent from 653 to 770 billion rupees. The bulk of the increase will go toward capital expenditure on sophisticated new weapons, including combat trainer jets, airborne strategic radar and an aircraft carrier to enhance India's strategic ambitions for regional dominance. The sharp rise in defence spending highlights the rather uncertain character of talks currently underway to ease tensions with India's regional rival Pakistan.

Chidambaram was cautious about immediately pressing ahead with further economic restructuring. But he declared in his speech that his goal was "to make the environment in India attractive to investors" and announced the establishment of an investment commission for that purpose. In addition to his pledge of fiscal responsibility, he announced several new measures designed to benefit business and boost foreign investment.

The budget lifts the upper limits on foreign direct investment in key economic sectors, including telecommunications from 49 to 74 percent, civil aviation from 40 to 49 percent and insurance from 26 to 49 percent. Global corporations have been demanding greater access to these highly profitable activities for some time. The ceiling for foreign institutional investors in debt funds has been raised from $1 billion to $1.75 billion.

The budget slashed the short-term capital gain tax from 33 percent to 10 percent and exempted long-term capital gains completely from tax. The only new business tax was a 0.15 percent tax on share transactions on stock exchanges. Chidambaram hinted that big business would benefit from a major tax overhaul that he foreshadowed in the next budget.

The government has been compelled, at least temporarily, to slow the privatisation program, which has provoked widespread opposition from workers. Rather than outright privatisation, Chidambaram is emphasising "selective disinvestment" in profit making state enterprises—that is, selling off shares to private investors. While still publicly owned, these enterprises will nevertheless be compelled to axe jobs and restructure in order to maintain profits.

The revenue target from disinvestment is 40 billion rupees—down from 145 billion last year. "Disinvestments and privatisation are useful economic tools. We will selectively employ these tools, consistent with the declared policy," the finance minister emphasised in his budget speech.

Business leaders generally commended the budget. An article in the Singapore-based *Business Times* reported that "industrialists and businessmen—who were out in force at the India conference [in Singapore] last week—were satisfied with what India's finance minister has dished out". A CEO with a prominent Indian finance company aptly described the budget as "talk left, act right"—in other words, for all its talk of helping the poor, the budget was in reality assisting business.

Lord Raj Bagri, former head of the London Metal Exchange, expressed his satisfaction: "The process of reform continues, the Indian government is on the growth path. That's the message I get and so does the City (London's financial hub) and people who watch India with warmth."

The reaction on the Bombay Stock Exchange was mixed. After an initial rise, the share index fell by 100 points to 4,855 points on news of the share transaction tax. Kirit Somaiya, president of the "Investors Grievances Forum," grimly warned: "The turnover tax will ruin the capital market and along with it the small investors and small traders will perish." In response to the pressure of the markets, Chidambaram quickly promised to "re-look" at the proposal.

As far as the corporate elite is concerned, the budget is simply a first step. The Singh government will inevitably come under mounting pressure to slash government spending and subsidies, sell state assets and amend labour legislation to allow companies to hire and fire at will.

Significantly the Left Front has raised no major objections to the budget. A statement issued by the CPI-M Political Bureau criticised the decision to allow greater foreign investment in the telecom, insurance and airline sectors. Their criticism, however, was not on the basis that the decision would effect workers but rather that it would impact on Indian companies.

The CPI-M leaders have been at pains to reassure big business. Political Bureau member Sitaram Yechury declared that the party had no plans to oppose or amend the budget in parliament. When in power at the state level in Kerala and West Bengal, the CPI-M and its "left" allies have openly touted for investment and imposed their own economic restructuring plans.

As Congress proceeds to implement its budget agenda, it will, like the previous BJP-led administration, encounter growing hostility. The lack of any principled opposition to the budget from the CPI-M is a signal to the Singh government and business leaders that they can count on the Left Front to help defuse and suppress the opposition that will inevitably emerge to its socially regressive measures.