

Indian budget: a balancing act that cannot long be sustained

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The budget that India's Congress-led coalition government presented February 28 shrouded neo-liberal measures in populist rhetoric and gestures.

Finance Minister Palaniappan Chidambaram claimed the budget—the second he has delivered since the United Progressive Alliance (UPA) coalition came to office last May—constitutes an “assault on poverty and unemployment.” But the UPA's much-trumpeted emphasis on alleviating hunger and economic distress was belied by the budget's meagre social spending increases and its pursuit of the Indian bourgeoisie's export-led growth strategy, which aims to make India a cheap labour haven for international capital.

Indian big business applauded the budget, with the Bombay Stock Exchange's benchmark index reaching a record high on budget day. B. Muthuraman, managing director of Tata Steel, declared it “a good budget with a long-range focus which is likely to stimulate demand as well as investment.” Tarun Das of the Confederation of Indian Industry said the budget meant economic “reforms are on track. There are so many positives that it is difficult to find negatives.”

The reaction of foreign money managers was more circumspect, with several warning that the flow of foreign direct investment (FDI) into India could slow if the government doesn't both increase spending on transport, telecommunications and energy infrastructure and aggressively reduce the budget deficit.

Key budget measures included:

- * An almost 15 percent reduction in corporate taxes. Henceforth, the tax rate on corporate profits will be 30 rather than 35 percent.

- * A reduction in personal income tax rates for the more privileged sections of the middle class.

- * Removal of many financial sector regulations so as to enable private banks to attract more capital. Complained Chidambaram, “There are many banks in India but none among the top twenty in the world.”

- * Lifting of a ban on foreign investment in the mining industry and private pension plans.

- * Significant cuts in customs duties on a large range of goods, including capital goods and parts in the textiles, leather and footwear, pharmaceutical, and biotechnology industries. “I intend,” said Chidambaram in his budget speech, “to advance the Government's declared policy of making the customs duty structure closer to that of our East Asian neighbors.”

- * The scrapping of regulations that gave the small-scale (largely artisanal) sector a monopoly over the production of 108 items.

- * Increased reliance on consumption taxes—the Value Added Tax will now be imposed at the state as well as the Union level—rather than seeking to raise revenue by taxing the incomes of the rich, including

forcing compliance with existing personal income tax laws. (Last year, only 80,000 Indians declared an assessable income in excess of Rs. 1 million or \$23,000.)

- * A further substantial increase in military spending. The budget raises the defence budget by 7.8 percent to Rs. 830 billion (\$19.1 billion). This is on top of the 17.92 percent increase that Chidambaram announced in last summer's budget, meaning that in the space of little more than seven months India has increased its military expenditure by more than a quarter.

While India's elite claims to be pursuing a peace dialogue with Pakistan, it is also pressing ahead with plans to make India one of the world's principal military powers. More than 40 percent of the military budget is allocated to the purchase of new weapons and weapon-systems. This will “enable us to go ahead with some vital hi-tech weapons systems,” boasted Defence Minister Pranab Mukherjee.

To its own surprise, the UPA was propelled into office last May on a wave of popular anger over the increased poverty, economic insecurity, and social inequality that have resulted from the dismantling of India's nationally regulated economy. During last year's election campaign, the Congress, the traditional ruling party of the Indian bourgeoisie, boasted that it had initiated India's 1991 turn to export-led growth. At the same time, the Congress made a carefully calibrated appeal to popular discontent, claiming that it would pursue economic reforms with a ‘human face.’

Having formed the government with the parliamentary support of the Stalinist-led Left Front, the Congress-led UPA has pressed forward with neo-liberal reforms, while posturing as a government “concerned with doing the greatest good for the greatest number.”

The budget did raise social spending, but many of the increases were token, and overall they constitute a band-aid under conditions in which much of India is haemorrhaging.

According to the World Bank, 35 percent of Indians live on less than \$1 a day. Forty-seven percent of Indian children who are three or under are undernourished, and 51 percent suffer from severe to moderate anaemia. India's mortality rate for children five and under is amongst the highest in the world. Adult literacy is generously said to be 57 percent.

During last spring's election campaign, the Congress promised to address the unemployment crisis that stalks rural India and the urban slums by guaranteeing at least 100 days' paid employment per year on public works projects for at least one member of every needy family. This promise was subsequently included in the Common Minimum Programme that is supposed to constitute the UPA's governmental agenda. But even this minimal guarantee has been abandoned, with the government limiting the program to only the

country's 150 most impoverished districts and giving itself the right to cancel it at any time and to pay wages below the minimum wage.

The budget allocated just Rs. 110 billion or about \$2.5 billion for the employment guarantee and the current food-for-work programme, much of it taken from other poverty relief programs.

UPA leaders made much of the fact that the government increased funding for health care—together, all levels of the Indian government currently spend less than 1 percent of GDP per annum on health care—to Rs. 71.56 billion (\$1.6 billion) and for primary education to Rs. 102.8 billion (\$2.35 billion). Under India's constitution, the states have much of the responsibility for funding health care and education, but given that the most important fiscal levers are in the hand of the Union government, these figures are nothing short of appalling. The Union government's combined expenditure on health care and primary education totals little more than a fifth of what it spends on the military.

The Left Front, which is led by the Communist Party of India (Marxist) or CPM, has justified its support for the Congress-led UPA government on the grounds that it is the only means of keeping the Hindu-supremacist Bharatiya Janata Party (BJP), which dominates the rival National Democratic Alliance (NDA), from office and that the UPA can be pressured into tempering its neo-liberal agenda.

In the run-up to the budget, the Left Front repeatedly issued appeals to the Congress to pursue pro-people policies and not take its parliamentary support for granted. The resolution the CPM leadership has prepared for its coming 18th Congress even concedes that "the UPA government is pursuing the same policies of liberalisation and privatisation" that the BJP-led NDA regime did.

Yet predictably, the CPM Politbureau hailed the budget as "a welcome shift towards emphasising employment generation, development of infrastructure especially in rural areas and investment in social sectors," before going on to complain that the "the actual expenditures visualised...fall far short of our expectations."

The CPM statement goes on to raise concerns that the UPA government has made unwarrantedly optimistic revenue projections and that the failure to raise the budgeted funds could well result in the scaling back of social spending.

The truth is the UPA budget is a precarious balancing act that can't long be maintained under conditions of a mounting social crisis in India, an increasingly unstable global economy, and the fiscal constraints under which the Indian government is operating.

The budget's revenue projections are predicated on India continuing to experience annual growth of at least 7 percent. Such a growth rate is in turn dependent on large foreign investment inflows and continued double-digit export growth.

Both are potentially at risk. The annual economic survey the finance minister tabled as a prelude to his budget warned that if India does not significantly increase its FDI from the \$5 billion recorded in 2004, the current growth rate is likely unsustainable.

A worldwide economic slowdown or a crisis in the world monetary system provoked by the gargantuan US trade, budget and current accounts deficits would severely affect foreign investment and India's exports.

These threats aside, foreign investors are demanding that the UPA accelerate the pace of the economic reform programme. In particular, they want the government to curb expenses, channel more state expenditure into the development of "economically productive" infrastructure, and gut labour laws that raise the cost of laying off and firing workers. Such changes will adversely affect hundreds of

millions of Indians, including the poorest.

In presenting his budget, Chidambaram was at pains to explain that while the government had violated an NDA law that calls for the budget deficit to be cut by at least 0.3 percent in GDP terms per year, this would not happen again. "I was left," said Chidambaram "with no option [but] to press the pause button vis-à-vis the [deficit] reduction act. I may add that we are perilously close to the limits of fiscal prudence and there is no more room for spending beyond our means."

Representatives of international capital have expressed their displeasure over Chidambaram's failure to comply with the "fiscal responsibility" law. Standard & Poor's credit analyst Ping Chew, complained "The 2005/2006 budget does not provide for any significant reduction in the fiscal deficit, following a rather modest reduction in the previous year." For his part, Stephen Roach, chief economist at Morgan Stanley, said that the budget had not done enough to boost infrastructure and FDI. "If these trends turn out to be harbingers of more backtracking ahead," Roach warned, "all bets could be off on the Indian growth miracle."

Chidambaram and the UPA government are well aware of the demands of foreign capital and Indian big business. The anti-poverty rhetoric and Stalinist parliamentary support serve as a cover behind which the Congress-led UPA is pushing forward with neo-liberal reforms, including preparing the terrain for major cuts to subsidies and labour law "reform."

In his budget speech, Chidambaram vowed to "take up the task of restructuring the subsidy regime" and said a working group has been constituted to consider a "new pricing scheme for fertiliser"—i.e. cutting the fertiliser subsidy.

The Finance Ministry's *Economic Survey* delivered a far blunter message, tying the dismantling of subsidies to a push to "build a productive and internationally competitive agriculture structure." The *Survey* advocates cutting subsidies that support higher crop prices and lower the cost of fertiliser, irrigation and power for farmers.

In the industrial sector, the *Economic Survey* demanded relaxing rules on the closing down of units and linked the far greater FDI attracted by China to its much more business-friendly labour regime.



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