India's "pro-poor" budget boosts military spending and market reforms

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The Indian budget for 2006-07, brought down last Tuesday, was a cynical exercise in dressing up a program of further market reforms and increased military spending. The thin veneer of "pro-poor" handouts will do nothing to reverse the deepening social gulf between the wealthy few and hundreds of millions of Indians who struggle to survive from day to day.

Finance Minister P. Chidambaram claimed that he had brought down "a common man's budget" to fight poverty and unemployment. In the same breath, however, he declared that "growth is the best antidote to poverty" as the justification for a raft of measures to bolster the profits of Indian business. The aim of the budget was not to help "the common man" but to further the economic and strategic ambitions of the ruling class to transform India into "a world power".

The United Progressive Alliance (UPA) government has set itself the target of attracting $10 billion a year in foreign direct investment over the next 15 years to maintain India's high growth rate—predicted to be 8.1 percent for the coming financial year. Prior to the budget, New Delhi announced the further easing of restrictions on foreign investment, most significantly in the country's retail sector which currently employs tens of millions as small traders, hawkers and stallholders.

The ruling Congress-led alliance led by Prime Minister Manmohan Singh is acutely aware that there is widespread popular hostility to the government's restructuring policies. Congress came to power after the shock defeat of the previous Bharatiya Janata Party (BJP)-led coalition in May 2004 amid a wave of disgust with the economic impact of its policies. As a result, Chidambaram went to great efforts to disguise the regressive thrust of the budget, while at the same time stressing the government's commitment to "fiscal prudence, liberalisation, reforms and opening up."

The budget measures aimed at boosting profit and foreign investment included:

* Sweeping reductions to excise duties for a range of materials, parts and products required for manufacturing and service industries. In some cases, the cuts were 50 percent or more.

* Investment restrictions were eased. The limit on the purchase of government bonds by foreign investors was lifted from $US1.75 billion to $US2 billion. Foreign institutional investors will now be able to accumulate up to $1.5 billion in corporate debt, up from $500 million. Qualified Indian mutual funds will be able to invest up to $1 billion in overseas-exchange traded funds.

* Following an outcry by big business last year, the Fringe Benefit Tax imposed on employer payments to employees for items such as entertainment and tours has been abolished. Chidambaram also announced the "good news" that there would be no increases in corporate taxes or personal income taxes—taxes that mainly affect the wealthier social layers.

* The securities transaction tax was increased from 0.015 to 0.02 percent, provoking some criticism from the stockmarket. But the main tax measure—an increase in the services tax from 10 to 12 percent—will impact most heavily on ordinary working people who can least afford the additional burden.

The main spending increase was on defence—a huge 7 percent or 890-billion rupee ($US20 billion) rise. This comes on top of a 7.8 percent increase last year and a huge 17.9 percent rise in 2004. This year 374 billion rupees or over 40 percent of the increased outlay is on new military hardware to expand and "modernise" the Indian armed forces.

At the same time, in line with International Monetary Fund demands, Chidambaram promised to cut the fiscal deficit to 3.8 percent of Gross Domestic Product from 4.1 percent for the current financial years. This would be lowest budget deficit since the beginning of the economic reform program in 1991. The government plans to generate 38.4 billion rupees by selling off state-owned enterprises—a process that will lead to a further round of cutbacks to jobs and working conditions. But to meet the forecast deficit will inevitably require further inroads into the social position of working people.

The business elite has reacted very positively to the budget. The Bombay share index rose to 10,422.65, a new record high. Share prices for small carmaker Maruti Udyog, which will benefit from excise duty reductions, rose sharply. Only 8 out of every 1,000 people in India can afford to buy and operate a car.

Housing Development Finance Corporation chairman Deepak Parekh enthused: "The economy is on a roll and Mr Chidambaram maintained a vision for double-digit growth which we all want." Confederation of Indian Industries chief Yogesh Deveshwar praised the budget for "making India a

global manufacturing hub and at the same time targetting growth in the rural sector to enable the effect of growth trickle down to the 'aam admi' [common man]."

Abhijit Chakraborti, a trader with the BRCS Securities, said: "The macro indicators presented in the budget have boosted foreign investors' confidence". However, he warned, "our success should not tempt us to stray from this path and we shall not do so."

Compared to the planned increase in defence spending, the government's "pro-poor" initiatives pale into insignificance. The combined rise for education and health spending amounts to less than half the defence increase.

The centrepiece was the National Rural Employment Guarantee Scheme (NREGS), which includes the National Food for Work program, under which the rural poor will be compelled to labour in return for a pitiful handout. Chidambaram announced that 117 billion rupees will be spent on NREGS in the current year, far less than the initial estimate of 400 billion rupees a year.

Chidambaram also promised to expand irrigated land by ten million hectares, to provide a road to all villages of more than 1,000 people (500 in hilly or tribal areas) and to construct an additional 6 million houses for the poor. He pledged to provide drinking water to 74,000 habitations, electricity to 125,000 villages and electricity connection to 23 million households, and telephone connectivity to 66,822 villages.

The fact that such basic services have not been provided by previous governments—Congress and BJP—is an indictment of the entire ruling elite. Chidambaram declared that while these measures "require huge resources", it was an "achievable project". He did not, however, indicate where the money would come from. These promises are just as empty as previous ones and are pitched at voters in upcoming state elections, including in the significant states of Tamil Nadu and West Bengal.

The budget will do nothing to end India's staggering social crisis. As Chidambaram noted, two thirds of the population lives in countryside, but agriculture, because of the primitive methods employed, accounts for only 21 percent of GDP. The treasurer's answer was a vague promise to assist in the diversification of cash crops and products. At the same time, however, he is seeking to open up rural areas to agribusinesses, further undermining the livelihood of many farmers.

The *International Herald Tribune* commented on February 28: "Despite the growing optimism about economic prospects in India, and the rise of Indian stock market indexes to unprecedented highs, life for many beyond the thriving Indian cities remains bleak. India has more people living below the poverty line than any other country in the world, and some 330 million survive on less than $1 a day. The World Bank estimates that 45 percent of children under 5 suffer from malnutrition."

The *Economic Survey* published on February 27 as a supplement to budget reported that the unemployment rate in rural areas reached 9 percent for males and 9.3 percent for females in 2004. In urban areas, it was 8.1 percent for males and 11.7 percent for females. On the UN Human Development Index, India placed 127 out of 177 countries for the third consecutive year due to poor education and health standards.

A statement by the Communist Party of India-Marxist (CPI-M) political bureau declared that the government "has failed to address many of the vital problems of the common people" and "this reflects the government's refusal to make a break from the neo-liberal policy frame work." While appealing to the government to implement the common minimum program with the Left Front, the CPI-M has no intention of breaking its alliance with the Congress-led government.

The CPI-M along with the other Left Front parties function as nothing more than a political safety valve for the mounting anger among broad layers of working people against the UPA government and its policies. The CPI-M's expressions of concern about the "common people" are just as worthless as those of Chidambaram and the other ministers. In West Bengal, where the CPI-M holds power, the state government is aggressively pursuing a program of market reform to attract foreign investment at the expense of rival states.

The budget will undoubtedly provoke opposition from working people as the impact of its measures is felt. No faith, however, should be placed in the CPI-M and other "left" parties to wage any consistent struggle against the Singh government. Insofar as the Left Front organises protests, it will be to let off steam and boost its electoral chances in the upcoming West Bengal election.