India: Fuel price hikes deepen political crisis of Congress Party-led government

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The United Progressive Alliance (UPA) government's June 4 announcement of gasoline, diesel oil, and cooking-gas price increases of between 11 and 16 percent has sparked angry protests across India and been the occasion for much posturing on the part of the political establishment.

As they ripple through the economy, the fuel price hikes will further drive up the cost of food and other essentials—and this at a time when the wholesale inflation rate is already at a four-year high of 8.24 percent and soaring food prices are depriving ever-wider sections of the population of adequate nourishment. More than 70 percent of India's population of 1.1 billion lives on some 20 rupees (or less than 50 cents US) per day.

The Left Front, which is led by the Stalinist Communist Party of India (Marxist) or CPM, called a weeklong campaign of protests, beginning with a *bandh* (or general strike) on Thursday, June 5, to press the UPA government to reverse the price hikes. The strike succeeded in paralyzing most normal business in the three states where the Left Front forms the government, West Bengal, Kerala, and Tripura, but otherwise was only sparsely supported.

The Congress Party-led UPA is dependent on the Left Front's support in parliament to survive. But CPM leaders, their angry denunciations of the government notwithstanding, were quick to dismiss any suggestion they might bring down the government.

Five days before the government officially announced the fuel price increases, CPM General Secretary Prakash Karat, told *rediff.com*: "We have just completed our central committee meeting. We have discussed the price rise—and the proposed petrol price—but in our discussions no demand of withdrawal of support [for the government] was raised by anyone in our party. That question didn't come up."

Although the Stalinists have in the past insisted that the Congress Party, the Indian bourgeoisie's traditional governing party, can be pressured into pursuing pro-people's policies or at least into slowing the pace of neo-liberal reform, Karat insisted, "Our support to the UPA Government is mainly to keep the Bharatiya Janata Party (BJP) out." The Hindu supremacist BJP forms the official opposition in India's parliament.

A.B. Bardhan, the General-Secretary of the Communist Party of India, the second largest component of the Left Front, was no less emphatic in insisting on the need to continue supporting the UPA. "Withdrawal of support," he said, "will not help in bringing down prices."

Many other parties, including the BJP, the caste-based Bahujan Samaj Party (BSP), which forms the government in India's largest state (Uttar Pradesh), and the Trinamul Congress, a right-wing West Bengal-based formation, called their own protests and in some cases *bandhs* against the price hikes.

These parties are all seeking to exploit the discontent of the people with an eye to upcoming state and national elections. As the Congress noted in its rejoinder to the BJP, the BJP-led National Democratic Alliance government, which ruled India from March 1998 to May 2004, raised oil prices on 17 occasions. That did not stop the BJP from denouncing the UPA's price hikes as "economic terror," in a crude attempt to associate the popular anger over falling living standards with the BJP's right-wing, communalist claims that the current government is "soft" on terrorism and "appeases" India's Muslim minority.

Challenged by Congress Party leaders to explain how the BJP would deal with the energy pricing issue, BJP leader M. Venkaiah Naidu said it wasn't for the BJP to say: "Is the government listening to our suggestions on terrorism and POTA [the Prevention of Terrorism Act]?"

Several state governments, including some governed by the Congress or its UPA allies, responded to the central government's price increases by reducing the taxes they charge on gasoline, diesel and natural gas. These cuts are less than meets the eye, as in most cases the levies are percentages of the retail price and would therefore have increased automatically with the central government-ordered price increases.

Last week's increases are the largest-ever fuel price increases in India. The price of petrol was raised by 5 Rupees (US 12 cents) a litre, the price of diesel by 3 rupees a litre, and the cost of a cylinder of Liquid Purified Gas by 50 rupees or about US $1.20 cents.

Fearing the popular reaction and weakened by a string of electoral defeats, the UPA nervously deliberated for weeks on when and by how much to raise fuel prices.

In a nationwide televised address June 4, Prime Minster Manmohan Singh argued the government's hand had been forced by the skyrocketing price of oil, now priced at more than $130 a barrel, on the world market. He described the increases as "inevitable" and demanded people "learn to adjust" to international economic conditions, while conceding that the price increases "will not be popular."

Big business has long been demanding that the government reduce the subsidies it pays for imported energy. *Business Week* proclaimed "India [is] soaked by oil subsidies," while *Business Standard* said oil companies are "bleeding to death." In a May 29 editorial, the *Times of India* urged the government "not [to] be scared at the prospect of the opposition taking to the streets on the issue. Worse can happen if the government fails to act now."

The state-owned or partially-state owned Indian Oil, Bharat Petroleum, and Hindustan Petroleum joined the clamor, claiming that the government's refusal to raise fuel prices in accordance with the increase in world market prices was causing them unsustainable losses.

Some 70 percent of India's oil and a large percentage of its natural gas comes from imports. In April, the first month of the current fiscal year, India's oil import bill rose to $8 billion, a 46 percent increase over April 2007.

Speaking before the Associated Chambers of Commerce and Industry (Assocham) on June 2, Manmohan Singh signaled that the government had gotten big business' message. "We cannot," he declared, "allow the subsidy bill to rise any further. Nor do we have the margin to fully insulate the consumer from the impact of world commodity price and oil price inflation."

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Washington has also been pushing for oil subsidy cuts, arguing that "artificially-low prices" drive up demand and thereby raise the world market price. At a meeting in Tokyo last week, Asia's four major energy consuming countries, Japan, South Korea, India, and China, agreed to "gradually" reduce oil subsidies.

Although the energy price increases will impact on industry, Indian big business has applauded the government's move. President of Confederation of Indian Industries (CII), K.V. Kamath said price increases are "unavoidable."

Four years ago last month, the Congress-led UPA was, to its own surprise, swept into office, on a groundswell of opposition to the BJP/NDA, which had proclaimed that a boom in profits, foreign investment, and high-end consumer imports meant India was "shining."

The Congress had made a calibrated appeal to popular discontent with the BJP/NDA government's neo-liberal policies, promising to pursue "reform, but with a human face." Both before and after the elections, the Stalinists came to the Congress' support. First they declared the key issue was to defeat the BJP at the polls, then they assisted the Congress in drafting a Common Minimum Programme for the UPA that incarnated the Congress' aim of pressing forward with capitalist economic restructuring, while providing saccharine phrases and a few sops to India's toiling masses.

Four years on, most of the social spending promises made in the Common Minimum Programme, particularly to substantially increasing spending on health care and education, have not been realized. Meanwhile, the social distress gripping much of rural India, and which has led to tens of thousands of peasant-suicides, continues unabated.

Just as it has implemented essentially the same economic policies as the BJP government that preceded it, so the Congress-led UPA government has continued the BJP's foreign policy, pressing forward with the development of a "global, strategic partnership" with US imperialism.

But the international economic crisis and the erosion of popular support is making it increasingly difficult for the UPA government to continue the political balancing act of the past four years—a balancing act that has seen it pursue the neo-liberal agenda of big business, while modestly increasing social spending and relying on the Left Front for its parliamentary majority and to keep in check mounting popular opposition to increasing economic insecurity and social inequality.

In last February's budget, the UPA government announced a scheme to write off the debts of the poorest farmers to financial institutions, in the hopes that it would boost the government's prospects in the national elections slated for the first half of 2009. This measure is at best a stopgap. It ignores the fundamental fact that much of the debt that is suffocating small farmers is owed to private moneylenders. Banks and cooperatives stand to benefit handsomely as the debt-relief program will allow them to substitute government debt for what are often uncollectible debts. Yet the debt-relief scheme rankled much of corporate India, which believes the UPA government has become too concerned about popular discontent and the Left Front's pleas.

Nor, from the evidence to date, has the debt-relief program given the UPA and the Congress the much hoped for election boost. The Congress finished a poor second to the BJP in last month's Karnataka state assembly elections, the latest in a string of state election setbacks.

Mounting inflation is placing the government in an economic and political bind.

Rising prices threaten the government with electoral defeat, if not serious social unrest. Speaking at a World Bank meeting in April, Finance Minister P. Chidambaram declared, "Unless we act fast for a global consensus on the price spiral, the social unrest induced by food prices in several countries will conflagrate into a global contagion, leaving no country, developed or otherwise, unscathed."

But vigorous government action to contain inflation threatens to choke India's economic expansion—an expansion that has showered riches on India's elite, but even at a growth rate of well over 8 percent has failed to stem the growth in joblessness.

C. Rangawarjan, the chief of the Prime Minster's Economic Advisory Council, announced last week that due to oil, food and commodity price increases the government has cut back its projection of economic growth this year to 8 percent. On Tuesday, the World Bank issued a report saying, "GDP growth in India eased to a still strong 8.7 per cent in 2007, from 9.7 per cent in 2006, and is projected to slow further to 7 per cent in 2008."

Big business is pressing for the government to respond to the economic turbulence by moving to contain the state's burgeoning fiscal deficit and to otherwise defy its Left Front allies. Corporate India is especially anxious to see the government move to implement the Indo-US civilian nuclear treaty, which it believes will give India a privileged relationship with Washington. The Left Front has vowed to block the treaty, arguing, rightly, that it is a key element in US imperialism's attempt to harness India to its predatory global ambitions.

While welcoming the fuel price hikes, the *New Indian Express*, mouthpiece for the most voracious sections of India's corporate elite, said much more aggressive steps needed to be taken to curb government spending. "As we have noted in these columns," declared a *New Indian Express* editorial, "state spending is way out of line with state income and no finance minister can afford to present a true picture ... Raising taxes and revenues high enough to keep pace is not only no solution but impossible. How to address this and sell it to voters is the political challenge, one that few are prepared to acknowledge."

The *Hindustan Times* headlined its editorial marking the UPA's fourth anniversary, "UPA's anniversary blues." It read in part, "Admittedly the crisis-ridden global situation is partly responsible for the UPA government's current economic woes. But its total dependence on the Left for its political survival has sapped its will to push through reforms to sustain the robust growth momentum. The Left's antipathy to neo-liberal reform has halted the government's drive to privatize profitable public sector undertaking, raise limits for foreign investments in insurance and retail trade, pension and labour reforms. The big question naturally is, for how long will the good times last on India's growth story?"

By labour reform, the *Hindustan Times* means the gutting of restrictions on layoffs, plant closures and contracting work that apply to medium-sized and large factories.

As it begins its fifth year in office, the UPA is a government increasingly caught in the headwinds of economic crisis and intensifying class conflict.

More than ever, it is dependent on the Left Front to divert the opposition of the working class and India's toilers into protests and parliamentary politics.

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