India’s government rushes to address business criticisms of budget

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India’s Congress Party-led United Progressive Alliance (UPA) government has rushed to address big business criticism of the 2009-10 national budget.

Tabled in India's parliament Monday, the budget proclaimed the government's first goal to be “to revert the economy back to the high GDP growth rate of 9 percent per annum at the earliest.”

The budget significantly hikes spending on infrastructure, especially highways and energy generation and transmission, gives a further boost to “public private partnerships” in infrastructure construction and management, and increases investment in India’s long-depressed farming sector.

The budget also enhances funding for the UPA's “flagship” development and anti-poverty programs.

The budget for the National Rural Employment Guarantee Program, which provides a minimum of 100 days of menial labour to one member of every poor rural household will be boosted to 391 billion rupees (about US $8 billion) so the program can be extended to all India’s rural districts and participants given a daily wage of 100 rupees (about US $2.) The budget also provided increased or new allocations for housing, farm credit, the urban poor, rural health, and a National Food Security program that will fulfil a Congress election pledge to provide 25 kilograms of wheat or rice per month to every poor family at a cost of 75 rupees (US $1.50).

The Congress leadership touts these programs as proof of its commitment to *aam admi* (common man) and “inclusive growth.” In fact they have barely scratched the surface of Indian poverty as attested by the fact that nearly half of all infants in India are malnourished.

Moreover, the UPA’s modest social spending increases need to be set aside the billions it has lavished on big business in the form of tax cuts in three recent government economic stimulus packages and on the military.

As previously announced in last March's interim (electoral period) budget, the UPA is increasing defence spending in the coming year by a massive 34 percent, to almost $30 billion or roughly 15 percent of India's total budget.

The budget provides business and high-income earners a series of targeted tax concessions, including the abolition of a fringe benefit (business expenses) tax, a personal income tax surcharge, and a commodity transaction tax. It pledges that in the 2010-11 fiscal year the government will introduce a new broad-based consumption tax and extends till March 2010 credit-guarantee and interest-subsidy programs for exporters.

The immediate reaction of investors, especially foreign investors, to the budget was strongly negative. The Bombay Stock Exchange’s Sensex index fell by 870 points or 5.8 percent Monday.

Meeting with leaders of India’s major business lobby groups (Assocham, CII, and FICII) the next day, Finance Minister Pranab Mukherjee announced that the billions of dollars in corporate tax breaks made in the three economic stimulus packages the UPA introduced between December 2008 and March 2009 will be made permanent. “I have no intention of rolling back” the tax cuts, declared Mukherjee.

The finance minister also reiterated the government’s intention to partially privatise the many large and profitable government-owned enterprises (Public Sector Units or PSUs). In answer to business complaints that the budget hadn’t outlined a “road map” for PSU disinvestment or given a “big bang” to further pro-investor market reform, Mukherjee said that the budget was not the only, or necessarily the best means by which the government can implement major economic policy changes. “I have made our intentions clear,” insisted Mukherjee, “to encourage people’s participation in our disinvestment programs while retaining at least 51 percent equity in our enterprises.”

India’s finance minister conceded that he has “taken a risk” in allowing India’s budget deficit for the 2009-10 fiscal year to rise to 6.8 percent of GNP. But he argued such an increase is needed to return India to “high growth” and that projected central government borrowing of 4 lakh crore rupees (approximately US $80 billion) will not “crowd out” private sector borrowing.

Going beyond his budget speech’s pledge to achieve medium-term “fiscal consolidation,” Mukherjee told the business lobbyists that the UPA government will pare the deficit back to 5.5 percent of GDP next year and to 4 percent in the 2011-12 fiscal year.

According to one estimate to achieve the 4 percent deficit to GDP target, the government will have to slash spending and/or raise additional revenue to the tune of 1.8 lakh crore rupees (about US $36 billion.)

The London-based *Financial Times* acknowledged that the budget's increases in both infrastructure and social spending were an attempt "to undo the damage inflicted on the economy by the financial crisis," but complained that the UPA government "has stepped back from translating the Congress party's emphatic victory at the polls two months ago into structural reform."

The verdict of Indian business leaders and the corporate media was much less harsh, especially after Mukherjee had delivered his post-budget "clarifications."

The CEO of JP Morgan India, Kalpana Morparia, called the budget "a calibrated balance between providing measured short-term stimulus to a recovering economy and medium-term (fiscal) consolidation."

In a *Hindustan Times* op-ed column titled "Reform measures do lurk in the budget," the CEO for financial services for the Aditya Birla Group, Ajay Srinivasan, argued, "[W]hile at the outset, the budget does not read like a reform agenda, it has outlined some key policy areas such as oil price deregulation, rationalisation and gradual reduction of fertiliser subsidy and disinvestment.... The external investment community looks for signals on reform, and in a world where external capital flows are important to fund growth, perhaps the budget could have spelt out the government's intentions on reform in a bit more detail."

In a July 8 editorial the *Economic Times*, praised the budget for doing "a good job of dealing with a Great Recession." But it chastised Mukherjee for not outlining "some reform measures that his government is contemplating. He could have said that coal and nuclear power will be opened up to the private sector, but chose to remain silent. His own ministry has a bill in the works to raise foreign direct investment in insurance from 26 percent to 49 percent, yet he kept silent on this. This silence created the impression that the government is at best a reluctant, low-key reformer."

India's *Business Standard* in an editorial Tuesday argued that the only justification for the government's willingness to incur "deficit spending on this scale" and risk an "international [bond] rating review with consequences for the rupee's external value, potential inflation down the road, and higher interest rates" is "that the government is more nervous about the state of the economy than it lets on."

Some press commentators and business analysts observed that the *Annual Economic Survey* the Finance Ministry had published just days before the budget was tabled had inadvertently contributed to Indian business' initial disappointment with the budget.

The *Survey*'s policy recommendations were a veritable big business wish-list. They included: auctioning off of all "unviable," i.e., unprofitable, state enterprises; partial disinvestment of all PSUs, including those not yet listed on the stock exchange; decontrol of sugar, fertilizer, pharmaceutical, and petroleum-based fuel prices; opening up of the defence, retail trade, and insurance sectors to foreign investment; ending the government railway, coal, and nuclear-power monopoly; and extending the legal workweek from 48 to 60 hours.

Indian big business supports the UPA government's emphasis on high growth, although this is tempered by concerns over the implications of the burgeoning budget deficit.

While India is not officially in recession, it has been badly battered by the world economic crisis, with millions of workers, the overwhelming majority of them without any right to severance pay or jobless benefits, losing their jobs.

The more advanced sections of Indian capital, those involved in exports or outsourced IT and business processing services, have been especially hard hit. In recent months India's exports have fallen by 30 percent or more when compared with the same period last year. In the fiscal year that ended March 31, the Indian economy grew at its slowest pace since 2003, 6.7 per cent.

India's corporate elite shares the government's view that if they are to realize their ambition to transform India into a major player in the world economy and geo-politics India will need to return to 9 percent plus annual growth. Failure to do so, Prime Minister Manmohan Singh has repeatedly warned, would gravely undermine popular support for the Indian bourgeoisie's drive to enrich itself by transforming India into a cheap labour producer for world capitalism. According to the government, India needs to create about 12 million new jobs per year just to prevent the influx of young people into the labour force from driving up unemployment.

But while there is support for the government's readiness to incur a substantial deficit so as to help exporters, address the massive infrastructure deficit, and promote internal demand, there is also growing apprehension in India's elite about the viability of the government's fiscal position beyond 2010.

The 2008-9 budget forecast a deficit to GDP ratio of 2.7 percent. On Monday, Mukherjee put the final ratio for last year at 6.2 percent. In February, he forecast a deficit for the 2009-10 fiscal year equal to 5.5 percent of GDP. Now he is predicting a deficit of 6.7 percent. If the deficits of state governments and government agencies are included the deficit to GDP ratio is well in excess of 11 percent.

"India's precarious fiscal situation," declared a *Times of India* editorial, "perhaps warranted more than [the budget's] cursory mention of the need for fiscal prudence.... The calculation that growth will generate revenue is spot. But with growth hit by the downturn, India needs more than wagers. It needs well-targeted public spending and the reform route to resource mobilisation. That means it needs policymakers who can take tough decisions, starting now."

The Congress-led UPA is banking very heavily on a rapid overcoming of the world economic crisis—a crisis that the bourgeoisie itself concedes is the worst since the Great Depression—and a rapid return to high economic growth.

Absent that unlikely outcome, it will come under unrelenting pressure from the ruling class to savage the meagre social programs it established, under conditions of an unprecedented economic expansion, to contain the social catastrophe that is Indian capitalism.