# India's budget: Concessions to business, new burdens for workers

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India's national budget, which was presented to parliament by Finance Minister Pranab Mukherjee Feb. 26, boasted a raft of tax concessions and "reform" measures demanded by native and foreign big business. It also imposed new burdens on India's workers and rural toilers in the form of punishing increases in the price of petroleum products and fertilizer and a real reduction in social spending.

The business and investor "friendly" measures included a cut in the corporate surcharge tax from 10 to 7.5 percent, the raising of Foreign Direct Investments (FDI) limits in several key sectors, the establishment of a Financial Sector Reforms Commission, and increased "disinvestment"—that is the privatization of public sector enterprises or PSUs.

Big business has welcomed the budget for signaling the government's commitment to neo-liberal "reform"—even amidst the greatest crisis of world capitalism since the Great Depression—and to sharply reducing the state's annual budget deficit. Even before Mukherjee had completed his budget speech, the country's benchmark stock index, the Bombay Stock Exchange's Sensex, had shot up 350 points.

The President of the Federation of Indian Chambers of Commerce and Industry (FICCI), Harshpati Singhania, lauded Mukherjee for doing "a good balancing job," while Confederation of Indian Industry (CII) President Venu Sirinivasan termed it a "very balanced and responsible budget" that will ensure "growth will continue."

Big business' only complaint was that the budget increased the minimum alternative tax (MAT) from 15 percent to 18 percent. "The only dark spot is [the] increase in MAT," said the CII president.

India's industrialists are particularly pleased that the Congress Party-led United Progressive Alliance government (UPA) has chosen to only gradually withdraw the huge temporary tax concessions made to big business, and especially exporters, under the economic "stimulus" packages it introduced in late 2008 and early 2009.

There has been much discussion within Indian and international financial circles about the need for India to drastically curtail the deficit to GDP ratio in coming years. But the UPA government, reflecting the consensus view of Indian big business, has declared its first goal to be to return India to "high" economic growth. Towards that end, it has decided to roll back the stimulus measures in stages, rather than withdraw them abruptly.

Thus the government has hiked the excise duty (a production tax) on all non-oil products by 2 percentage points to 10 percent. Prior to December 2008 the excise duty was 14 percent. And the service tax, which was 12 percent prior to the Dec. 2008 stimulus package, remains unchanged at 10 percent.

Mukherjee and the UPA are claiming that India has weathered the global economic crisis and is poised to return to 9 percent plus growth within two years.

Admittedly, India did not tumble into recession. But its rate of expansion fell sharply and well below the level that Prime Minister Manmohan Singh has said is necessary to absorb a rapidly expanding youth population into the labor force and maintain support for the bourgeoisie's economic "reform" program.

The government's decision to wind down the stimulus measures gradually amounts to an acknowledgment of the fragility of the current "recovery."

And while the India economy continued to expand throughout the world recession, even as the country's imports fell by 30 percent, India's workers and rural toilers have been hard bit by a surge in inflation, especially food price inflation. Wholesale prices are currently increasing at a rate of 8.5 percent, the most in a decade, and wholesale food prices are rising at a rate of almost 20 percent.

It is universally conceded that retail food prices are advancing even more quickly and this in a country where hundred of millions of people already live in extreme poverty.

While tending to big business' needs, the government has announced tax hikes and subsidy cuts that will further fuel inflation.

The budget increased the customs duty on petrol and diesel to 7.5 percent from 2.5 percent—India imports some 70 percent of its petroleum—and increased the excise duty on both by a rupee per litre. These measures will led to a hike in fuel prices that will cascade through the economy, as transport costs and ultimately the price of all goods rise.

The government-appointed Kirit Parikh Committee recently recommended the deregulation of petrol and diesel prices and a sharp reduction in the government subsidy on cooking gas and kerosene. These proposals have sparked widespread opposition, but in his budget speech Mukherjee indicated the government will act on at least some of them as it moves forward with "fiscal consolidation," i.e. takes steps to reduce the budget deficit. "Decision on these recommendations," said the finance minister, "will be taken by my colleague, the minister of petroleum and natural gas, in due course."

In severe blow to farmers, the government has significantly reduced the fertilizer subsidy.

As a result, the price of urea, the most widely used fertilizer, is rising by 10 percent.

Fearing a popular backlash, two of the most important constituent parties of the UPA—the West Bengal-based Trinamul Congress and the Tamil Nadu-based DMK—have denounced the fuel price increases. But Prime Minister Manmohan Singh and Congress Party President Sonia Gandhi have brushed aside their criticisms. "Any increase in prices does hurt some people," Singh told reporters while travelling back to India from a visit to Saudi Arabia. "But we have to take a long-term view."

The fuel and fertilizer increases clear indicate at whose expense the government intends to carry out "fiscal consolidation."

To much praise from big business, Mukherjee pledged that the government will reduce the budget deficit to GDP ratio from 6.9 percent in the current fiscal year, which ends next month, to 5.5 percent, 4.8 percent and 4.1 percent in 2010-11, 2011-12 and 2012-13 respectively. Uday Kotak, a banker and a financial sector expert, commented: "The budget is a big positive in terms of controlling fiscal deficit."

During its first term in office, the Congress Party-led UPA pressed forward with neo-liberal policies, while using a fraction of the increased tax revenue resulting from rapid economic expansion to increase social spending. This included establishing an employment guarantee scheme that is meant to provide one member of every poor rural household at least 100 days of menial, minimum wage-labor per year.

As is the tradition of the Congress, the India's bourgeoisie's principal party, Mukherjee touted his budget as a dedicated to the *aam admi* (common man). In reality it reduces social spending.

"The budget has been quite conservative on the inclusion agenda and social programmes," noted a commentator in the *Times of India* who was highly supportive of the budget. "… Thus, total spending on the flagship inclusion programme NREGA, now renamed Mahatma Gandhi National Rural Employment Guarantee Scheme, has remained essentially constant at Rs 40,100 crore in nominal terms compared to Rs 39,100 crore last year, which means a decline in real terms. It's the same story if you take the total spending programme on rural development, or agriculture, or school education and literacy, or women and child development, or health. In all these social inclusion programmes, the expenditure levels have been maintained at more or less the same nominal levels as last year, meaning a decline in real terms."

While the government justifies this cut in real social spending by pointing to the deficit and a reputed lack of financial means, its own figures on "foregone [tax] revenue" show that this year alone the government is forsaking tens of billions of dollars in revenue from Indian businesses.

Mukherjee also portrayed his budget as pro-farmer. In fact, the budget continued the now two decades old practice of prioritizing the infrastructure products sought by export-oriented big business over state investment in irrigation and other forms of agricultural support. And as P. Sainath noted in an article in the *Hindu*, increasingly state credit for agriculture has been diverted from small farmers to agribusiness. The most recent budget continues this process with agricultural credits available for the setting up "cold storage" facilities and to foreign-based agribusiness.

Last week's budget announced a seemingly modest 4 increase in military-defence expenditure. However, this comes on top of the massive 34 percent hike in military spending in last year's last budget. Moreover, Mukherjee pledged to provide more funds for Indian's armed forces if needed. Even while the Indian bourgeoisie condemns hundreds of millions to misery, it is pursuing a massive military buildup, developing ballistic missiles and a blue-water navy, in pursuit of its ambition to become the ruling class of a world power.