Fuel price hike hits India’s poor

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The Indian government last Friday slashed fuel price subsidies in a move that will boost already high inflation, impact heavily on working people and provoke unrest. The price of gasoline is now to be determined by the market for the first time since December 2003. The government has announced that diesel and other fuels will also be deregulated.

Following the government’s decision, the price of petrol jumped by 3.50 rupees per litre or 7 percent, diesel by 2 rupees per litre or 5 percent, an LPG (cooking gas) cylinder by 35 rupees and litre of kerosene by 3.50 rupees. The higher cost of transport, cooking and lighting will immediately affect hundreds of millions of people. The price of other products will also rise as transport costs flow through the economic chain.

The finance ministry’s chief economic adviser Kaushik Basu conservatively estimated that the deregulation would add 0.9 percent to inflation. India’s benchmark wholesale price index for May was up 10.16 percent compared to a year before. The inflation rate for food for the week ending June 12 was 16.9 percent year-on-year and was even higher at 17.6 percent for the basic commodities sub-index which includes items such as rice and wheat.

The ruling Congress-led United Progressive Alliance (UPA) is under growing pressure to slash its budget deficit. Government finances in every country are being closely scrutinised by global markets as the sovereign debt crisis that emerged in Greece has spread to other parts of Europe.

Under the impact of the global financial crisis, India’s growth rate fell from 9.8 percent growth in 2007-08, its slowest pace since 2003, to 6.7 percent in 2008-09 before recovering somewhat to 7.4 percent in 2009-10. In an interview in Washington on June 23, India’s Finance Minister Pranab Mukherjee expressed concerns that Indian exports to the European Union, which constitute about 23 percent of total exports, could be affected by the EU debt crisis.

The government made major concessions to big business in three stimulus packages introduced between December 2008 and March 2009, boosting the fiscal deficit from 2.6 percent of gross domestic product (GDP) in 2007-08 to 6.7 percent in the 2009-10 fiscal year.

The combined central and state government debts have risen to around 80 percent of GDP.

Now the government is imposing these burdens on working people. Its February budget pledged to slash the deficit from 6.9 percent of GDP in the last financial year to 5.5 percent this year and 4.1 percent in 2012-13.

At last year’s G20 summit, all countries including India gave a commitment to eliminate energy subsidies. The announcement on fuel prices came just prior to last weekend’s G20 leaders meeting in Toronto. Defending the decision, Indian Prime Minister Manmohan Singh declared that setting petrol and diesel prices free were “much-needed reforms.”

The imposition of market pricing on oil products is part of a broader pro-market “reform” agenda being pushed through by the UPA government, including the privatisation and restructuring of state-owned enterprises. These plans have already provoked strikes by telecom workers in April and coal miners in May against the government’s plans to disinvest in these sectors.

Big business welcomed the fuel price deregulation. The Confederation of Indian Industry declared: “Most importantly, the move has shown that the government has the ability to implement policy changes even if they are politically difficult.”

The fuel price hikes will impact heavily on the majority of the population. According to official statistics, 37 percent of India’s population of 1.1 billion lives below the poverty line. More than 70 percent lives on less than $US2 a day.

At the same time, according to a World Wealth Report released on June 23 by Capgemini and Merrill Lynch Wealth Management, the number of dollar millionaires in India in 2009 increased to 126,700, pushing the country into 15th position in the world.

The price rises immediately provoked angry protests over the weekend. A demonstration organised by the Hindu supremacist Bharatiya Janata Party (BJP) blocked traffic in the capital of New Delhi with protesters shouting "Down with the government", and burning effigies of the prime minister. The BJP also organised a protest in the Punjab.

When in power between 1998 and 2004, however, the BJP was instrumental in extending the pro-market agenda and the opening up of India to foreign investors that was started under the previous Congress-led government. The BJP took the first steps towards establishing market-based fuel prices, with a system of automatic rises in line with international prices, but abolished it in the face of widespread opposition.

Other protests were organised by Communist Party of India-Marxist (CPM) in West Bengal and Kerala where the party heads the state governments. Thousands of people were affected by a 24-hour strike by bus and taxi operators in Calcutta. Protesters in the state capital chanted, "Roll back the price increases." A CPM leader Brinda Karat told the media: "This move shows how utterly insensitive and callous the government is to the terrible impact of price rises on the people of this country."

The CPM and the Communist Party of India (CPI), together with the right-wing BJP, are supporting a nationwide strike against the fuel price rises on July 5. The protest is also being backed by the BJP's allies and smaller leftists and regionally-based parties. The CPM and its allies issued a statement denouncing the price rises as "another cruel blow" to the people and urged maximum support to pressure the government to back down.

Like the CPM's one-day strike in April over rising food prices, the CPM's latest protest is not to mobilise the working class as an independent political force as the rallying point for a struggle against capitalist rule. Rather it is directed at subordinating popular anger to the party's political manoeuvring as well as to refashion its tattered credentials as an oppositional and anti-business party.

The strike was timed to coincide with a "cut motion" in parliament instructing the government to roll back increases in excise and custom duties on petrol and diesel in the budget. The CPM made clear at the time that its intention was not to "destabilise" the government, pointing out that if that had been its aim it would have moved a no-confidence motion.

The CPM and its "left" allies, which have thoroughly integrated themselves into the Indian political establishment, function as a convenient political safety valve to contain the hostility of the masses. The party backed the UPA government during its first four years in office and was responsible for its anti-working class policies. CPM-led state governments in West Bengal, Kerala and Tripura are notorious for their ruthless implementation of similar pro-market economic policies.

Having let off steam at its one-day protest in April, the CPM took no further national action. The UPA government ignored the strike and proceeded to increase fuel prices. Again the CPM, in a de facto alliance with the BJP, has stepped in to contain the widespread opposition to the latest decision.