Indian budget raises taxes and prices

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India's annual budget, presented by Finance Minister Pranab Mukherjee to the national parliament on March 16, increased consumption taxes and cut subsidies on essential items. Its main impact will be to hit the working people and rural toilers with higher prices, particularly for fuel and fertiliser.

With inflation already running at 9 percent for much of 2011, further burdens are being placed on the masses in an effort to satisfy the financial markets by cutting the budget deficit and government debt levels.

Borrowing from William Shakespeare's *Hamlet* in an attempt to justify the social assault, Mukherjee told lawmakers: "I must be cruel only to be kind." Prime Minister Manmohan Singh declared that his government had no choice but to "bite the bullet." Singh promised further "tough" decisions in consultation with business leaders.

Nevertheless, global market analysts condemned the government for giving no details on how it would reach its target of cutting the budget deficit to 5.1 percent of gross domestic product for 2012, and for failing to deliver promised "free-market" reforms to investors. Swiss & Global Asset Management's Vincent Lagger told London's *Financial Times* that the budget contained "no big announcement whatsoever."

The budget revealed the damaging impact of the international slump, particularly in Europe, India's biggest export market. It cut growth predictions to 7.6 percent, significantly lower than last year's prediction of 9 percent, a level that Singh had previously warned was necessary to ward off unemployment and social unrest.

Indian big business had called for several long-awaited economic "reforms" to be included in the budget, such as further opening the retail sector, banking, insurance and pension funds to foreign investment. The Congress Party-led United Progressive Alliance (UPA) government had repeatedly announced such measures, but put them on hold due to popular opposition and resistance from coalition partners, including the West Bengal-based Trinamool Congress.

The government already confronts anger among ordinary people over high inflation and deteriorating living standards, expressed in recent strikes and peasant protests. On February 28, over 100 million workers joined a countrywide general strike to oppose the government's socio-economic policies.

The rising discontent was reflected in the five state assembly elections held in February-March. Most importantly, in Uttar Pradesh, Congress came in fourth, winning just 38 seats, well below its target of over 100 seats, despite an intensive campaign. In Punjab in the north, Congress lost to Siromani Akali Dal, a regional party, while in Goa on the west coast it lost to the main opposition party, the Hindu supremacist Bharatiya Janatha Party.

The budget showed the depth of the economic problems faced by the UPA government because of the global downturn and declining foreign investment. The fiscal deficit in the 2011-12 financial year is expected to reach 5.9 percent of GDP, exceeding the budget estimate of 4.6 percent. The central government's debt has reached 45.5 percent of GDP.

The Reserve Bank of India has raised interest rates 13 consecutive times since March 2010 in an unsuccessful attempt to contain inflation, making credit expensive for business. The declining growth rate has made it impossible for Congress to pursue its "inclusive growth" policy, which promised increased social spending in an attempt to contain discontent.

For the second year in a row, the budget reduced social spending in real terms. Rural development programs were slashed by 8 percent, with a substantial cut in the government's much-hyped rural employment guarantee scheme. Education and health received nominal increases of 18 percent and 14 percent respectively, but much of that will be eaten away by soaring prices.

In the biggest blow to working people, the budget increased excise and service taxes from 10 percent to 12 percent and capped subsidies at 2 percent of GDP, with a further cut to 1.7 percent to follow. Prime Minister Singh admitted that this "fiscal consolidation" would mean "adjusting the prices of petroleum products." Mukherjee also announced, a few days before the budget, a cut in interest rates on Employees Provident Fund deposits from 9.5 percent to 8.25 percent.

Among the measures favouring big business, was duty tax relief for sectors such as agriculture, infrastructure, mining, railways, roads, civil aviation, manufacturing, health and nutrition, and the environment.

Mukherjee set a target of 300 billion rupees ($US6 billion) to be raised through disinvestment—partial privatisation—of public sector enterprises, and proposed to spend 50 trillion rupees developing infrastructure, in partnerships with business. To attract foreign investment, overseas airlines will be permitted to invest in domestic aviation companies, and foreign investors will get access to the corporate bond market.

Last week, in the railways budget, the government dropped a plan to raise passenger fares for the first time in eight years, a move that would have severely affected millions of commuters. The *Business Standard* condemned the "irresponsible rollback" in the face of opposition from coalition partners, saying it "cast a shadow" on whether the government's pledges to reduce the budget deficit were "even slightly believable." The next day, March 24, Mukherjee pledged to take "some difficult decisions" in coming months.

The budget increased military spending by 18 percent, on top of last year's 11 percent hike. The Indian elite is aggressively pursuing its geo-political interests at the expense of working people. India's defence expenditure is 1.9 percent of GDP and 13 percent of the government's total expenditure, compared to China's defence budget of 1.3 percent of GDP. The rising military spending will inevitably fuel tensions with China as well as India's other rival neighbour, Pakistan. According to the Stockholm Peace Research Institute, India has become the world's largest arms importer, surpassing China.

India's main Stalinist parliamentary party, the Communist Party of India (Marxist), or CPM, criticised the budget as "regressive" for "imposing greater burdens on the working people." It was silent, however, about the increased military spending, indicating its agreement with New Delhi's geo-strategic offensive. For all the Stalinists' rhetorical criticisms, the CPM-led Left Front played a critical role in establishing the ruling UPA coalition in 2004 and gave it crucial direct parliamentary backing for four years.