India announces “big bang” economic reforms

Kranti Kumara
18 September 2012

Under immense pressure from credit rating agencies, the corporate media and international and domestic big business, India’s government has announced a series of “big bang” economic reforms aimed at reducing the state budget deficit at the expense of working people, attracting foreign investment, and spurring the reorganization of key economic sectors so as to make them more profitable for capital.

The economic “shock therapy” began last Thursday with the announcement by the Congress Party-led United Progressive Alliance government that it is hiking “unbranded” diesel fuel prices by 14 percent and drastically curtailing the subsidy on natural gas cylinders, the primary cooking fuel of hundreds of millions of working-and middle-class Indians. Henceforth an Indian family, no matter its size, will be restricted to six cylinders at the subsidized price—about half the unregulated price—per year.

The next day, dubbed “Big Bang Friday” by Prime Minister Manmohan Singh, the government announced that it is opening the retail, domestic airline, and media sectors to much increased foreign investment. Overseas multinational retail giants such as Walmart and Carrefour will now be allowed 51 percent ownership of multi-brand stores. Foreign investors will be able to own up to 49 percent of domestic air carriers and foreign media conglomerates will be able to increase their ownership of broadcast media from 49 to 74 percent.

The government also announced Friday that it will sell off a 150 billion rupee (US $ 2.7 billion) stake in several large state-owned enterprises. And on Monday, Finance Minister Chidambaram said the government will announce more “reforms” in the coming days. Although he did not spell these out, he suggested they will involve further reductions in government spending, new tax cuts for business, and a more “transparent,” non-retroactive tax regime for investors.

Big business has long been demanding the UPA government undertake a new wave of pro-investor “reforms.”

However, the Congress Party, the dominant partner in the UPA coalition and the Indian bourgeoisie’s premier political party, has till now not felt politically strong enough to push them through. The government has been repeatedly rocked by corruption scandals arising from its fire-sale sell-off and outright gifting of state assets. And for fear of an electoral backlash, several of the UPA’s key coalition partners have balked at implementing unpopular policies like subsidy cuts and opening the retail sector, which currently employs tens of millions in small shops, to transnational mega-retailers with global supply chains.

But with economic growth slumping well below 6 percent, foreign investment falling by 67 percent in the first quarter of the 2012-13 fiscal year, the rupee trading near record lows against the US dollar, and high oil prices driving up the budget deficit, international and domestic big business have placed unrelenting pressure on the government to take precipitous action on their behalf. For months, the domestic and international corporate media have been attacking the government for its “policy paralysis.”

The Indian press has directly attributed Thursday’s decision to raise diesel prices and slash the subsidy on liquefied natural gas cylinders to threats from Moody’s, Fitch and other credit rating agencies that they will slash India’s rating to junk bond status if the UPA government doesn’t slash the budget deficit to GNP ratio.

U.S. big business’ “commander-in-chief,” Barak Obama, for his part, has publicly urged India to

© World Socialist Web Site

undertake further pro-foreign investor reforms, particularly the opening up of the retail sector to the likes of Walmart. In an interview with Press Trust of India last July, Obama claimed “there appears to be a growing consensus in India … for another wave of economic reforms to make India more competitive in the global economy,” then added, Washington would give India’s government its full support in making “the difficult reforms that are necessary.”

Predictably the reaction from domestic big business and the corporate media to the UPA’s policy turn has been euphoric.

“I'm sure this … will enhance the image of India amidst foreign investors and will signal that India is on the move again,” said Ratan Tata, India’s most prominent industrialist.

On Thursday, on the heels of the diesel price hike and the cut in the cooking gas subsidy, India’s key stock market index, the SENSEX, soared by 2.5 percent. Yesterday, the Sensex closed at its highest level since July 2011.

The *Washington Post* hailed the UPA’s announcements of late last week, calling them “the biggest and arguably toughest economic reforms since Prime Minister Manmohan Singh took over in 2004.”

This endorsement would not be especially significant except that India’s government, in an unmistakable sign of its weakness and apprehension about the negative attitude of foreign investors, took great exception to a critical *Washington Post* piece earlier this month. In a front page report published September 5, the *Post* had lambasted Prime Minister Manmohan Singh as “a dithering, ineffectual bureaucrat presiding over a deeply corrupt government.”

The reaction of other mouthpieces for U.S. and foreign capital to the UPA government’s abrupt policy shift has been more guarded.

Standard & Poor’s welcomed the changes, but said it was continuing to characterize India’s outlook as “negative,” at least partly because “at this stage it is still uncertain whether these measures can be implemented or not.”

The *Wall Street Journal*, meanwhile, observed that “resistance” to the new measures “is likely to be fierce, and even if they stick, foreign investment won't necessarily flood in.”

The Stalinist parliamentary parties, which have played a critical role over the past two decades in implementing the bourgeoisie’s drive to make India a cheap-labour producer for the world capitalist market, have joined with a host of regional and caste-based bourgeois parties in calling for a one-day all-India *hartal* (general shut down of schools, shops, and workplaces) this Thursday to demand the rescinding of the UPA’s “big bang” reforms.

The Hindu supremacist BJP, the Official Opposition in India’s parliament, is also trying to exploit the popular anger over the price rises and the fears of widespread social dislocation as a result of the entry of Walmart and other giant retailers. It has issued its own call for a *hartal* on September 20.

Several of the Congress’ UPA partners are also claiming to oppose last week’s “big bang,” especially the cooking fuel and diesel price increases, which will quickly translate into food price and public transport fare increases.

Last year, the West Bengal-based Trinamul Congress, the second largest UPA constituent, forced the Congress-led government to suspend its plan to open up the multi-brand retail sector to foreign investment by threatening to withdraw the support of its 19 Lok Sabha MPs.

This time, however, Manmohan Singh and the Congress Party have indicated that they are determined to face down any opposition within the UPA so as to press forward with the socially incendiary agenda of big business. Speaking last Friday, Singh declared, the “time for big-bang reforms has come. If we have to go down, we will go-down fighting.”

To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact