India: Cash transfer scheme aims to slash subsidies to India's poor

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India's Congress Party-led United Progressive Alliance (UPA) government has launched a program to replace the price subsidies it provides on some essential food, fuel and fertilizer products with direct cash transfer payments (DCT). Prime Minister Manmohan Singh and Finance Minister Chidambaram are the chief architects of this scheme, whose ultimate aim is to substantially reduce the real amount that the government spends on subsidizing commodity purchases, while forcing all sections of the population—including the hundreds of millions living in extreme poverty—to pay "market prices."

The replacement of price subsidies by cash payments is a longstanding demand of the World Bank and other representatives of international big business. Chidambaram, for his part, has touted its impact as "nothing less than magical."

The government is presenting its DCT scheme as an anticorruption measure, pointing to the well-known, deeply entrenched corruption in the Public [food] Distribution System and in the distribution of various government cash benefits.

However, the government's real reason for monetizing the subsidies is to stealthily reduce their value via inflation. Given the double-digit inflation that is endemic to the Indian economy, the value of the money payments the government is substituting for the price subsidies will rapidly decline.

Beginning January 1, the government has initiated DCT in 20 districts in 16 different states. This is scaled down from the government's original plan to start implementing it in 51 districts. Every person getting government aid will now have to have a bank account and obtain the government-issued Unique Identity (UID) to receive benefits.

At present the DCT is confined to cash payments such as scholarships, pensions to widows, and the wages of workers hired under the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGA).

But beginning in April, the government plans to introduce DCT to the Public Distribution System (PDS) in 6 union territories. Union territories, in contrast to states, are directly administered by the Indian government.

Under the current PDS, the government purchases basic foods such as rice, wheat, sugar and legumes directly from farmers after the harvest and distributes them, through government "fair-price" shops, at subsidized prices to the very poor. Starting in April the poorest of the poor in the six union territories will receive cash in lieu of subsidized commodities.

As with the other DCT benefits, the cash payments that replace the price subsidies will be paid via direct deposit into a bank account. Hitherto, cash benefits were paid through the post office or village administration.

The government is recklessly pushing ahead with DCT, even while 60 percent of India's population have no bank account and only 36,000 of India's 600,000 villages have a bank branch.

Forcing Indians to open a bank account is in fact a second key aim of the DCT.

Despite the liberalisation of the Indian economy in 1991, the Indian financial sector has been unable to finance big projects and satisfy the growing demands of the Indian ruling elite for funds for investment. Since 2005 the Indian government has taken many initiatives, such as opening more bank branches, to entice the rural poor into using the country's banks. But as the poor have little to nothing in the way of savings, and the banks are loath to lend money to those with few if any assets, these efforts have produced meagre results.

Boosting India's banking sector is an important goal of the government and India's ruling elite. Recently Finance Minister Chidambaram commented, "We need two to three world-sized banks. China has three among the world's top 20. We have none. We need more banks."

Now with the DCT, the poor will have no choice but to open bank accounts, providing a badly needed shot in the arm for the country's banks, most of which remain state-owned. Not only will the banks be able to profit from various charges. Large amounts of money will be directed through them, enabling the banks to improve their balance sheets, which have been hard-hit by “problem” loans in the corporate sector.

The UPA government is also holding the poor for ransom in another sense, since they will now be compelled to get the new biometric Uniform Identity (UID) number to be able to access government benefits and open a bank account. The UID contains individual biometric data including a photograph, fingerprints and iris scan, which are all stored in a centralised database. The government launched this programme without any parliamentary approval and at a great cost to the public exchequer.

The government expects to compel 600 million people to enrol by the end of 2014. This move erects the essential scaffolding of a national security state to monitor citizens without any oversight, let alone democratic accountability.

With the phasing out of price subsidies, the ruling elite is targeting for destruction the PDS, which, by providing the poor with basic foods items at subsidized prices, has for decades meant for hundreds of millions the difference between eating a meal that leaves them malnourished and outright hunger and starvation.

The other major subsidized commodities are diesel, kerosene and cooking gas cylinders and, for farmers, fertilizer and electricity.

In the current financial year, which ends in March 2013, the government has budgeted slightly more than rupees (Rs.) 2 trillion ($36 billion) which is about 2.6 percent of India’s Gross Domestic Product for price subsidies. The government aims to reduce this steeply to a mere 1.75 percent of GDP by the 2015-16 fiscal year.

Of the total budgeted, Rs. 730 billion ($13.3 billion) is for food to the impoverished, Rs. 600 billion ($11 billion) for subsidizing fertilizer to farmers, and Rs. 400 billion ($7.3 billion) for subsidizing petroleum products.

In the previous financial year, the government budgeted Rs. 1.43 trillion ($26 billion) for subsidies but due to a series of factors, including rising oil prices and a decline of the value of the rupee, ended up spending Rs. 2.2 trillion ($39.3 billion).

The government’s push to reduce expenditure on price subsidies is being made under the threat of a credit rating downgrade by international rating agencies. These agencies such as Standards and Poor, Fitch and Moody’s insist that India must reduce its deficit-to-GNP ratio by getting rid of “unproductive” expenditure—i.e. benefits for the poor—if the government wishes to maintain its current sovereign credit rating at a notch above junk.

The government has already drastically reduced the diesel subsidy and has limited the number of subsidized cooking gas cylinders to 9 per year per household irrespective of its size.

The substitution of DCT for price subsidies is being sold to the public as an anticorruption measure, but even as the new system eliminates some middlemen it is creating others.

Because of the lack of bank branches in rural areas, the Reserve Bank of India is appointing “banking correspondents” (BCs) to authenticate beneficiaries’ UIDs and either open bank accounts for them or give them cash payments. The BCs will get commissions for their “services,” adding a parasitic cost to the public exchequer.

An article in *Frontline* magazine noted that corruption is the “hallmark of the BC model.” The article noted that BCs were “found to indulge in malpractices, such as asking for unauthorised money, over and above the bank’s approved rates of charges from the customers.”

Although certain opposition parties have criticized the DCT, their opposition is hollow.

“We are supportive of the idea of direct cash transfer,” Yashwant Sinha, a leader of the official opposition Bharatiya Janata Party (BJP), told *The Indian Express*. The BJP only has “some doubts over the intentions and the manner of implementation of the scheme by the government.”

No real opposition will be forthcoming from the two main Stalinist parties, the Communist Party of India, Marxist (CPM) and the Communist Party of India (CPI) either, for they are an integral part of the Indian establishment. The Stalinists sustained the UPA government in power during its first four years in office and in those states where they have held office during the past two decades have ruthlessly implemented the Indian bourgeoisie’s pro-market reform program, including banning strikes and violently suppressing peasant opposition to the expropriation of their lands for big-business development projects.