As rupee slides, India's PM vows to accelerate pro-investor reform

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The value of the Indian rupee continued to slide this week, forcing India's central bank to announce further emergency measures and Indian Prime Minister Manmohan Singh to reiterate his government's determination to implement socially incendiary pro-investor reforms.

At Friday's trading close, 65.70 rupees bought one US dollar, up from Wednesday's all-time record low of 68.85 rupees to the dollar, but still down significantly from the previous week. The rupee has depreciated by about 20 percent since the beginning of the year, with virtually all that decline coming since mid-May.

The rupee's fall has stunned and staggered the Indian bourgeoisie. "We have lost the confidence of the world," lamented Indian industrialist Ratan Tata in an interview Wednesday.

In the past four months, foreign investors have pulled more than $12 billion from India. This capital flight has raised the specter of a current accounts crisis, because India requires a net annual inflow of tens of billions of dollars to finance a massive current accounts deficit.

The plummeting rupee is also stoking inflation, which is currently running at close to 10 percent, thereby eroding living standards, suppressing consumer demand, and forcing the central bank to persist with a high interest rate regime that has exacerbated the sharp fall in India's growth rate that began in 2011. On Friday, India's Central Statistics Office reported that in the April-June quarter India's economy grew at an annual rate of just 4.4 percent. This was the lowest growth rate since January-March 2009, i.e., since the immediate aftermath of the 2008 world financial crash.

After the rupee lost more than 6 percent of its value in Tuesday and Wednesday's trading, India's central bank, the Reserve Bank of India, announced a series of measures aimed at reducing the demand for dollars. These included providing the country's oil companies with dollars so they don't have to buy them on the foreign exchange market and expanding Indian purchases of Iranian oil, which are already made in rupees.

The Congress Party-led United Progressive Alliance government has placed great stock in the development of an Indo-US "strategic global partnership" and in deference to Washington, which is waging economic warfare against Iran, New Delhi has significantly scaled back its imports of Iranian oil over the past year. But clearly, desperate times require desperate measures.

Indian Prime Minister Manmohan Singh's address to parliament Friday—his first major statement on the rupee crisis—was a balancing act. He tried to downplay the scope and scale of the current crisis, while seeking to reassure domestic and especially international capital that his government will implement the pro-investor reforms they have long been demanding.

Singh said the rupee had been hit by "certain external developments." Foremost among them was the US Federal Reserve Board's May 22 announcement that it may soon end a major component of its cheap credit policies, quantitative easing. This, noted Singh, had triggered a reversal of global capital flows out of emerging economies, leading to the rapid depreciation of many currencies, including the South African rand and the Brazilian real.

He then conceded that India's large current account deficits and "some other domestic factors" had caused India's currency to be especially hard hit. If truth be told, however, most, if not all, Singh's domestic factors are but different expressions of the world capitalist crisis. India's exports have stagnated due to recessionary conditions in Europe and anemic growth in North America. Meanwhile, the value of its iron ore exports—which go almost entirely to East Asia—have collapsed due to declining demand in China and falling prices.

Singh used his speech to reiterate that the measures the government took in mid-August to temporarily limit the amounts Indian companies and individuals can invest abroad were not a presage to capital controls. “The sudden decline in the exchange rate is certainly a shock,” said Singh. “But we will … [not address it] through capital controls or by reversing the process of reforms.”

Rather India’s Congress Party-led government, proclaimed Singh, will seek to contain and defuse the crisis by more vigorously implementing the demands of international capital for the abolition of any remaining limits on foreign investment, the implementation of further corporate tax cuts and other concessions, and the elimination of the budget deficit through social spending cuts. “We will make every effort,” declared Singh, “to maintain a macro economic framework friendly to foreign capital inflows to enable orderly financing of the current account deficit.”

He appealed to the opposition to assist the government in implementing “difficult,” i.e., unpopular, pro-market reforms: “The easy reforms of the past have been done. We have the more difficult reforms to do such as reduction of subsidies, insurance and pension sector reforms, eliminating bureaucratic red tape and implementing Goods and Services Tax. These are not low hanging fruit and need political consensus.”

It is an open secret that were the Official Opposition, the Hindu supremacist Bharatiya Janata Party, in power it would implement this very same big business agenda. Indeed, in responding to Singh’s speech, BJP leader Arun Jaitley castigated him and his government for their “populist” policies—a common big business epithet for social spending. But the BJP is loath to endanger its election prospects—India is scheduled to go to the polls by not later than May of next year—by assisting the Congress in implementing regressive reforms that will mean massive social dislocation and push still greater sections of the population into hunger and poverty. Following Singh’s speech, a delegation of BJP leaders visited Indian President Pranab Mukherjee to urge him to defy constitutional norms, disband parliament and call an early election. While there is absolutely no prospect that Mukherjee, a Congress elder statesmen, will do the BJP’s bidding, the BJP leaders’ presidential visit was a demonstrative rebuff to Singh’s plea for help.

The electoral and parliamentary maneuvering notwithstanding, there is no question that the Indian bourgeoisie is moving rapidly to intensifying the assault on the working class and this under conditions where the past 20 years of India’s capitalist expansion have seen a massive increase in social inequality and economic insecurity. Singh concluded his Friday address by emphasizing “the benefits we reaped in the last 15 to 20 years” from pro-market reform. In fact, the lion’s share of these benefits have gone to a tiny strata of rich and super-rich, with a few crumbs left over for privileged sections of the middle class. A recent study found that between 1991 and 2011 the real income of workers increased by less than 1 percent. And hunger stalks rural India with a majority of India’s children stunted and malnourished.