

India's "growth" budget coddles business while punishing working people

Kranti Kumara, Keith Jones
3 March 2015

India's nine-month-old Hindu communalist Bharatiya Janata Party (BJP) government tabled its much-anticipated first full budget Saturday.

In the run-up to Finance Minister Arun Jaitley's budget speech, India's corporate media, the *Financial Times*, *Wall Street Journal* and other leading mouthpieces of international capital were full of editorials and commentary demanding that Prime Minister Narendra Modi and his BJP dramatically accelerate the pace of neoliberal restructuring. Their mantra was that the government had to deliver "big bang reforms." This is a euphemism for privatization, deregulation, and pro-investor tax and other concessions and for massive social spending cuts, especially the slashing of food and other subsidies that constitute a vital lifeline for India's impoverished workers and toilers.

Domestic and international big business have generally lauded Jaitley's 2015-16 budget as "pro-investor" and "pro-growth." With good reason: it introduces a raft of "investor-friendly" measures, including further corporate tax cuts and increased disinvestment (partial privatization) of Public Sector Units (PSUs); and places the burden of "fiscal consolidation"—i.e. the reduction of the budget deficit to GDP ratio—and of increased state infrastructure spending on working people through social spending cuts and increased sales and other regressive taxes.

Central to the budget are plans to boost the building of transport, power-generation and other infrastructure. India's meager, dilapidated infrastructure has been a major barrier to the Indian elite realizing its ambitions to place India's large reserves of cheap labor and natural resources at the disposal of international capital.

Indian big business, which was roiled by the halving of India's growth rate between 2011 and 2014, has also been imploring the central bank to lower interest rates and the government to introduce other stimulus measures.

Jaitley announced a 700-billion-rupee (\$11.3 billion)

hike in Indian government spending on infrastructure in the 2015-16 fiscal year. A 25 percent increase from the fiscal year ending on March 31, this measure has been widely hailed by business spokesmen as a much-needed shot in the arm for India's economy.

Jaitley further announced that investors will be offered tax-free infrastructure bonds for road, rail and irrigation projects and that the rules governing PPPs (Public-Private Partnerships) are being changed so that investors will be relieved of much of the financial risk. Also, the government is setting up a new National Investment and Infrastructure Fund in which it will invest 200 billion rupees (\$3.2 billion) per year to kick-start PPPs, thereby ensuring that most of the initial investment and risk are assumed by the state, not its investor "partners." Jaitley signaled that much if not all of this \$3.2 billion "seed money" will ultimately become private equity.

The BJP government will slash corporate taxes across the board under a five-year plan to reduce the general corporate tax rate from 30 to 25 percent.

The government is also eliminating a "wealth tax," citing as part of its justification the fact that the upper middle class and rich systematically "avoid it"—i.e. refuse to pay. In its stead, the government is raising by 2 percentage points the surcharge paid by those earning taxable income of more than Rs. 10 million (\$160,000) per year, a tiny minority.

While it reduces the tax burden on business and the better-off, the government is increasing various sales taxes and charges and vowing to implement a national General Sales Tax (GST), a longstanding demand of Indian and international business, by April 1, 2016. According to Jaitley, the regressive GST will provide India with "a state of the art indirect tax system" and "play a transformative role in the way our economy functions."

The government has set a Rs. 410-billion (\$6.7 billion)

disinvestment target in 2015-16 and plans to raise even more funds from reducing its ownership stake in PSUs the following year. This is separate from a previously announced plan to begin selling off money-losing PSUs.

The BJP government is slashing social spending in many areas. The allocation for health care including health research and AIDS control is to be cut by 15 percent to just Rs. 331.5 billion (\$5.4 billion) and for education by 16 percent. In 2015-16, New Delhi will spend just Rs. 422 billion (\$6.9 billion) on primary and secondary education and Rs. 269 billion (\$4.4 billion) on higher education.

These cuts come in the wake of what the *Business Standard*, a major voice of corporate India, describes as “ruthless cutting of expenditure—mostly...money for social expenditure programmes” in recent months, as the government pressed to meet its commitment to reduce the deficit to 4.1 percent of GDP (Gross Domestic Product) in the 2014-15 budget year.

Jaitley pledged that in the coming fiscal year the deficit-to-GDP ratio will be further reduced to 3.9 percent. This falls somewhat short of the target of 3.6 percent announced in the previous budget. The BJP government is also putting off by one year to 2017-18 its plan to reduce the deficit-to-GDP ratio to 3 percent.

Many business commentators have accepted the government’s argument that in the current troubled economic situation this is prudent. They point to the government’s “success” in slashing social spending and note that while the pace of deficit reduction is being slowed it is with the aim of providing business with a stimulus boost and meeting its infrastructure needs.

There are, however, significant voices who are arguing that government has not gone far enough, especially in reducing food and fertilizer subsidies. In a widely quoted comment, Devika Mehndiratta, a senior economist at ANZ Research, said Jaitley’s speech was “definitely far from what some were hoping would be an event similar to the game-changing budget of 1991 which ushered in India’s economic liberalization.”

She was referring to the watershed budget of 1991 when the then Congress Party government jettisoned state-led capitalist economic development and adopted as the class strategy of the Indian bourgeoisie the drive to make India a cheap-labor platform for global capitalism.

Anticipating such criticism, Jaitley vowed in his budget speech that the government will not rest content with “incremental changes,” adding “people who urged us to undertake ‘big bang’ reforms also say the Indian

economy is a super-giant which moves slowly but surely.”

The government is acutely aware of the socially incendiary character of the neoliberal “transformation” demanded by domestic and international big business.

Modi and Jaitley are hoping that they can revive strong economic growth before taking the axe to price subsidies, the MNREG (which provides work for tens of millions of rural laborers), and other social programs, calculating that increased growth will shore up their support in the middle class and somewhat dampen the anger of the masses.

It also needs to be emphasized that the budget is only part of the government’s sweeping pro-big business “reforms.” At the turn of the year, Modi and Jaitley took the extraordinary step of using ordinances to impose a series of pro-investor measures that were blocked in parliament, most importantly changes to the 2013 Land Acquisition Act, which governs land expropriations for business projects. (See: India’s Modi regime imposes big business “reforms” by executive fiat)

Over the next three weeks the government must get these ordinances approved by parliament or they will lapse. Despite massive popular opposition, the BJP government has in recent days reiterated its determination to make permanent its rewriting of the Land Acquisition Act on behalf of big business.

The government is also pressing forward with an aggressive foreign policy, aligning India evermore closely with the US and its allies against China and pressing full speed ahead with the expansion and modernization of India’s armed forces. While Jaitley was slashing social spending, Saturday’s budget contained a 7.9 percent hike in military spending, raising India’s total military budget to more than \$40 billion (Rs. 2.47 trillion)—a trillion-rupee or more than 65 percent increase since 2010-11.



To contact the WSWs and the Socialist Equality Party visit:

wsws.org/contact