

Indian budget tabled amid demonetisation shock, mounting economic uncertainty

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Arun Jaitley, the finance minister in India's Hindu supremacist Bharatiya Janata Party (BJP) government, presented Wednesday the budget for the fiscal 2017-18 year, which begins April 1.

In its fourth budget since assuming the reins of power in May 2014, the BJP attempted to balance the competing demands of different sections of Indian and international capital for economic stimulus measures and continuing "fiscal consolidation" (austerity).

A further major concern was mitigating the fallout from the government's shock November announcement that more than 85 percent of the currency in circulation could no longer be used for economic transactions. Demonetisation caused large sections of the Indian economy to immediately seize-up, resulting in millions of workers losing their jobs. Rural India has been especially hard hit, with farmers forced to sell their produce at fire-sale prices and unable to hire or at least pay their labourers.

In his budget speech, Jaitley made only passing reference to the massive uncertainty facing the world economy, especially since the coming to power of a new US administration, under Donald Trump, committed to an aggressive America First policy—protectionist measures, increased pressure for countries like India to remove all barriers to US investment, and geopolitical confrontation.

Instead, Jaitley repeated the BJP's mantra that India is the world's great "growth" story. No matter industrial production is stagnant, exports are down sharply since 2014, and foreign investors have pulled more than \$10 billion out of India's economy since November.

"Amidst all these [negative world] developments," declared Jaitley, "India stands out as a bright spot in the world economic landscape. India's macro-economic stability continues to be the foundation of economic success."

Much of Indian big business had eagerly anticipated the budget in the expectation the government would strive to counteract the fall in domestic and international demand through "state-led" investment—i.e., the use of taxpayers' funds to pay for transport and other "business-friendly" infrastructure projects.

Other sections of capital, especially overseas, urged the BJP

government, which had imposed major cuts in social spending in its first two years in office, not to abandon the "gains" of "fiscal consolidation." The western credit rating agency Standard and Poor's, for example, called on the government to stick to the plan announced in previous budgets to limit the fiscal deficit for 2017-18 to no more than 3 percent of India's GDP. (In 2015-16, India's GDP was just \$2.3 trillion, while that of the US, which has about one-quarter of India's population, was \$18 trillion.)

In the end, Jaitley and Prime Minister Narendra Modi decided to "pause" the staggered reduction of India's deficit to GDP ratio, so as to free up funds for targeted stimulus measures. The budget commits the government to holding the deficit in the coming fiscal year to 3.2 percent of GDP, the same level as in 2016-17.

"My approach," claimed Jaitley, "... is to spend more on rural areas, infrastructure, and poverty alleviation with fiscal prudence."

In fact, the biggest increases in real terms are in infrastructure and military spending.

Despite the havoc caused by demonetisation and the mass poverty and lack of social infrastructure that blight all but a few privileged enclaves in urban India, the BJP government is increasing, in real terms, the budgets of only a select number of social programs and then only modestly.

Total projected expenditure is Rs. 21.47 trillion (\$315.7 billion), which is only a slight increase from the actual expenditure—as opposed to the original budget estimates—of Rs. 20.14 trillion in 2016-17.

To kick-start domestic demand, Jaitley has set aside close to Rs. 4 trillion (\$58 billion) for infrastructure spending with the railways alone allocated Rs. 1.3 trillion.

The government is also cutting taxes for small businesses and reducing the income tax rate on the first Rs. 250,000 (about \$3,700) of income from 10 to 5 percent.

The budget sets military expenditure in 2017-18 at Rs. 3.6 trillion or about \$53 billion.

In the current fiscal year actual military expenditure is expected to be Rs. 3.45 trillion, after the government injected additional funds due to last fall's war crisis with Pakistan.

India's military expenditure has risen dramatically since the

turn of this century as the Indian elite pursues its great-power ambitions. Under Modi, India has cemented a “global strategic alliance” with the US and effectively transformed India into a “frontline” state in Washington’s military-strategic offensive against China.

Over 800 million people in India live on less than \$2 dollars a day, yet military spending accounts for close to 17 percent of India’s budget.

India also has the dubious distinction of being the world’s largest weapons importer, consuming 14 percent of world arms sales.

Jaitley made much of an increase in spending under the MNREGA (Mahatma Gandhi Rural Employment Guarantee Act), which guarantees 100 days of menial, minimum-wage work per year to one member of any rural household that requests it.

Jaitley projected a budget of Rs. 480 billion for the MNREGA in the coming year, a 100 billion rupee increase from the projected expenditure in the budget he presented in February 2016.

However, due to the chronic jobs crisis that stalks rural India and the demonetisation disaster, spending on the MNREGA in the current year, according to government figures, has already swelled to close to Rs. 480 billion.

Apart from the phony MNREGA increase and the business-tailored infrastructure spending, Jaitley had effectively nothing to offer the jobless, whose numbers have increased astronomically over the past decade.

According to the government’s own figures, last year only 150,000 new jobs were created in the formal or organized sector of India’s economy. Yet there are a million new entrants to the labour force every month.

The Labour Ministry’s 2015 “Employment-Unemployment Survey” shows slightly more than 67 percent of Indian households earn less than Rs.10,000 (\$147) per month and over 77 percent of Indian households do not have even a single person employed with a regular salary.

With Wednesday’s budget the government reiterated its intention to step up its disinvestment/privatization drive. Jaitley set a target of raising Rs. 725 billion (\$11 billion) through disinvestment, well over double the amount realized this year, with the main target several Public Sector Units linked to the massive and highly accident-prone Indian railways.

Reaction to the budget within the ruling elite has generally been favourable. Editorials in many of the leading dailies, including the rightwing *Indian Express* and the liberal Chennai-based *Hindu*, praised the government for eschewing “populist” spending, i.e. increasing social expenditure.

The *Indian Express* declared the “best takeaway from the budget” that the government had resisted “playing to the gallery” although “crucial state assembly elections” are “just days away” and “an already investment-starved economy” is being buffeted “by headwinds both domestic (from

demonetisation) and global (‘Buy American, Hire American’ policy of the new Donald Trump administration, hardening crude prices, rising interest rates).”

On budget day, India’s main stock index rose to a three-month high. A major factor in this rise was the government’s decision not to proceed as rumoured with an increase in the capital gains tax.

Big business, however, was disappointed with the government’s failure to implement, or even announce a timeline for enacting, its pledge to cut corporate taxes from 30 to 25 percent.

A JP Morgan analyst quoted by the *Financial Times* noted the strikingly complacent outlook exhibited by Jaitley despite the ominous economic storms gathering globally that could severely impact the Indian economy.

“There is almost no sense from the authorities that they have discussed or analysed the dimension of the possible global shock ... and how things might change for India,” said the analyst.

The *Economic Survey* issued by the Finance Ministry the day before the budget painted a bleak picture of the Indian economy and especially of the balance sheets of India’s state-owned banks and highly indebted domestic corporations.

According to the *Survey 57* of the top 100 corporate debtors would need debt reductions of more than 75 percent and these debtors threaten to overwhelm the banking system. The *Survey* found 13 public sector banks are in severe economic distress and suggested that a government-led bailout—in which the burden of the debts would fall on taxpayers, i.e. working people—will probably be needed.

On the capital investment front, the statistics are positively disastrous. While growth in private investment was 5 percent in the 2010-11 fiscal year, by 2015-16 it had turned negative. In the current financial year, business investment has fallen by 7 percent.



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