

# Indian budget inflicts more austerity amid job crisis, deepening economic slowdown

Kranti Kumara  
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India's Narendra Modi-led Bharatiya Janata Party (BJP) government has presented a 30.4 trillion rupee (US \$425 billion) budget for the 2020–21 fiscal year that provides modest sops for big business and the well-to-do, and increased austerity for working people.

Presented to parliament by Finance Minister Nirmala Sitharaman on February 1, the budget was unveiled five months after the government announced a slew of impromptu pro-big business measures, including a massive corporate tax cut and accelerated privatization drive, in the name of boosting flagging economic growth.

However, in the interim, India's economy continued to falter, due to steep declines in consumer demand and business investment, and the reluctance of banks, weighed down by unpaid corporate loans, to extend credit.

In the third quarter of 2019, economic growth fell to a more than six-year low of 4.5 percent, even as inflation rose sharply.

Citing an economic slowdown in India that "has surprised everyone," the International Monetary Fund (IMF) recently cut its global growth projection for 2020. The IMF now anticipates India will record 4.8 percent real GDP growth in 2019, as compared with the 6.1 percent it projected as recently as October. It has also slashed its projection for 2020 to 5.8 percent, down almost a full percentage point from its previous forecast.

With both big and small businesses slashing jobs, India's unemployment rate has soared, reaching almost ten percent in urban areas. Whereas some economists had spoken in recent years of India experiencing "jobless growth," a recent article in the *Economic and Political Weekly* argued India has now transitioned from "jobless to job-loss [economic] growth."

In ruling class circles there is growing apprehension that the ongoing nationwide protests against the BJP's anti-Muslim Citizenship Amendment Act will intersect with mounting popular anger over the jobs crisis, endemic poverty and ever-deepening social inequality, and trigger a social explosion.

In the run up to the second budget of their second term, Modi and the BJP faced conflicting demands from domestic big business and the mouthpieces of international finance capital such as the IMF.

Indian business was pressing for the government to kick-start the economy by providing "fiscal stimulus," i.e., by boosting government spending on infrastructure projects useful to business, such as building or improving roads, ports and electricity supply

and by implementing further tax cuts. The IMF, on the other hand, sternly warned the Indian government that it needed to maintain "fiscal discipline" and resume its stalled effort to reduce the annual budget deficit.

In a recent report the IMF complained that India's state debt, at 68.5 percent of GDP, is "among the highest" in "emerging markets." It urged the Modi government to eschew new infrastructure projects, saying that to "generate the revenue needed to get them off the ground" India's debt "must be reduced," and to instead focus on "structural reforms." That is, according to the IMF, it should concentrate on eliminating all remaining restrictions on the layoff of workers, further accelerate the privatization of state-owned enterprises, make it easier for enterprises to assemble large parcels of land, and otherwise "ease" the regulatory "burden" on business.

In the end, Modi and Sitharaman resisted the calls for large-scale "fiscal stimulus" and pressed forward with social-spending austerity.

The finance minister subsequently defended this, claiming India's economy will soon be on the mend and avowing the BJP would "not repeat the mistakes of the splurging," an apparent reference to the tens of billions of dollars the previous Congress Party-led government spent to stimulate demand during the post-2008 slump.

But the reality is the Indian capitalist elite and its government have little room for maneuver. In preparing the budget, the BJP found itself caught between the anvil of a \$42 billion shortfall in projected tax revenue and the hammer of increased debt financing costs.

The budget has projected a deficit equivalent to 3.8 percent of India's GDP for fiscal year 2019–20, up 0.5 percentage points from what the government promised in last July's budget, and a 3.5 percent deficit in 2020–21. However, many analysts believe these figures are based on rosy projections of growth, tax revenue and privatization receipts.

At US \$425 billion, India's total budget is less than 40 percent of that of the United Kingdom, although the latter's population of 67 million is only a tiny fraction of India's (1.37 billion). Out of this, interest payments on the government debt represent Rs. 7.1 trillion (\$100 billion) or about 23.5 percent of all state expenditure. When combined with India's \$66 billion military budget—the world's third largest—some 40 percent of the budget is already accounted for, leaving just 18.2 trillion rupees (\$257 billion) for all

other spending.

## Attacking the most vulnerable

The BJP budget inflicts its cruellest cuts on the most vulnerable sections of the rural poor, with \$1.3 billion being slashed from the Mahatma Gandhi National Rural Employment Guarantee Program (MGNREGP), a program that literally determines whether tens of millions of rural poor eat or not.

MGNREGP statutorily guarantees 100 days per year of menial, minimum-wage work, such as digging ditches. Although the program has repeatedly been oversubscribed, with many more seeking MGNREGP work than available jobs, the BJP has slashed the program's budget from an already meager Rs. 710 billion (\$10 billion) to a mere Rs. 615 billion (\$8.66 billion). To discourage impoverished rural workers from availing themselves of even this skimpy benefit, the Modi government has repeatedly held up the release of the funds that pay their wages.

The budget provides a minuscule Rs. 675 billion (\$9.5 billion) for health care, which translates to \$7.30 (Rs. 519) per person over the course of the entire year. Education spending is just Rs. 993 billion (\$14 billion), or some \$10 billion *less* than the education budget of the City of New York!

To boost consumption and also no doubt placate its middle-class supporters, the BJP announced a \$5.6 billion per year tax cut that targets the 98 million or so Indians who earn regular wages or salaries in the "formal" or organized sector of the economy. The Finance Minister loudly proclaimed a decrease of income tax rates of between 5 and 10 percent for persons earning less than Rs. 1.5 million (\$21,000) per year. However, to benefit from the cuts people must forego their current exemptions and deductions. Given that 72 percent of regular workers earn less than Rs. 216,000 (\$3,040) per year to begin with, this will hardly provide a major boost to consumer demand.

The Finance Minister handed corporations one of their main demands. She announced the elimination of the Dividend Distribution Tax (DDT) which corporations used to pay directly to the government when they distributed dividends to stockholders. These taxes are now to be paid by the people who receive the dividend, meaning in many, if not most cases, the taxation rate will be lower.

Last September Sitharaman announced a major reduction in corporate tax rates that according to the recently released Economic Survey (ES) 2019–20 has mostly benefited India's largest corporations. Despite the cash windfall from the reduction in their taxes, estimated by the ES as a gain of between 18.5 to 27.3 percent of existing tax liability, corporations have used the funds to shore up their balance sheets, not re-invest.

In this month's budget, Sitharaman also announced a gargantuan privatization drive for the coming fiscal year to the tune of Rs. 2.1 trillion (\$30 billion), double the 2019–20 goal. This includes selling off a portion of the giant, wholly government-owned Life Insurance Corporation of India and the national airline, Air India.

This adds to last November's announcement that the government is selling off its entire 53.3 percent stake in the highly profitable Bharat Petroleum (BPCL), its 64 percent share of the Shipping Corporation of India, which owns India's biggest ocean fleet, and its 31.8 percent share of the Container Corporation of India.

On January 8, tens of millions of workers across India joined a one-day general strike to protest the Modi government's five-and-a-half year assault on Indian workers, of which the handing over of public assets to big business is a key component.

Even while the Modi government proclaims one of its major goals is to transform India into a production-chain hub for world capital rivalling China, India has increasingly resorted to protectionist measures, as have the US and other major capitalist powers. The budget sharply increased tariffs on many goods, including footwear, refrigerators, furniture, toys and mobile phone parts. Not coincidentally, China is a major exporter to India of many of the affected goods.

The Modi government has garnered a justifiably notorious reputation for fudging and inflating budget numbers. Despite the economy being mired in a long-term crisis, it has based many of its budget calculations on an exaggerated growth-rate projection of 6 to 6.5 percent for 2020–21. This is so it can inflate revenue figures and produce, as a result, a smaller and entirely fictitious fiscal deficit estimate.

From Sitharaman's rambling, close to three-hour budget speech, one would hardly get any sense that the Modi government is presiding over a socioeconomic disaster that has pushed hundreds of millions to the brink of hunger and starvation. According to the finance minister, "[The] fundamentals of the economy are strong and that has ensured macroeconomic stability. Inflation has been well contained."

India's stock market, reflecting the sentiments of foreign and domestic speculators, gave a decided thumbs-down, with the two major stock market indices falling by about 2.5 percent in the hours following the budget speech.

This was due both to apprehensions about the prospects for the Indian economy, and concerns that the markets may not be "liquid enough" to support the government's massive privatization drive. In other words, there are fears private businesses may not be able to raise sufficient capital from financial markets, as the government sucks up funds with its selloffs of LIC, Air India, and other assets.

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