India’s pro-business BJP government tables austerity budget

By Kranti Kumara
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Hemmed in by a deepening socioeconomic crisis that has sent unemployment to a 45-year high, the recently re-elected pro-business Bharatiya Janata Party (BJP) government, led by the Hindu strongman Prime Minister Narendra Modi, has presented the first annual budget of its second five-year term.

Alongside soaring unemployment, economic growth has plummeted to a five-year low of 6.8 percent and an agrarian crisis is devastating rural households.

Prior to the unveiling of the budget on July 5, competing demands were being made by domestic and foreign big business on the one hand and the credit rating agencies and International Monetary Fund (IMF) on the other.

Corporations called for the government to increase economic stimulus to counter a fall in private investment to a 15-year low. Indian CEOs urged Modi to increase government spending on “new ports, highways and airports, considering that the private sector investment plans were still in cold storage.”

At the same time, because domestic consumption has fallen off, with mountains of automobiles and two-wheelers remaining unsold, a section of big business has called for tax breaks for the middle class, whose income has stagnated. They demand that the BJP-led ruling coalition, the National Democratic Alliance (NDA), use its commanding parliamentary majority of 343 out of 543 seats to ram through “big-bang reforms.”

This is a euphemism for a further assault on what remains of labour laws and regulations, already virtually unenforced in practice, along with accelerated procedures for the purchase of land for industrial purposes, including forced evictions where necessary, and a steep lowering of corporate taxes.

Prior to the tabling of the budget, however, representatives of world finance capital warned the Modi government to maintain “fiscal discipline,” a code word for the austerity in social spending Modi had carried out during his first term in office from 2014.

In the event, despite the announcement to the Lok Sabha (the lower house of parliament) of a number of pro-business measures by newly appointed Finance Minister Nirmala Sitharam, neither group was satisfied and the domestic stock market fell sharply.

The budget tabled by Sitharam amounts to Rs. 27.8 trillion (US$400 billion), an increase of over 13 percent from the previous year. As usual, fully a quarter of the budget, amounting to over Rs. 7 trillion (over $100 billion), is financed by debt. Because of this, annual interest payments alone consume Rs. 6.6 trillion ($95 billion). Coupled with a military budget amounting to Rs. 4.3 trillion ($62 billion, fourth highest after the US, China and Saudi Arabia), the two items consume 40 percent of the budget.

This leaves a meagre Rs. $16.9 trillion ($245 billion) for all other spending in a country of 1.3 billion people, out of which close to 900 million eke out a living on less than $2 a day.

Thus, there are hardly any financial resources left outside of debt financing for increased government spending to stimulate economic growth. And any further increase in debt adding to the budget deficit will be frowned upon by the Western credit rating agencies such as Moody’s, which indirectly control the cost of funds through their ability to downgrade India’s credit rating.

A major announcement in the finance minister’s speech was the goal of growing the Indian economy to a nominal $5 trillion from its current nominal gross domestic product of $2.8 trillion. Sitharam said: “Our economy was at approximately US$1.85 trillion when we formed the government in 2014. Within five years, it has reached US$2.7 trillion. Hence, it is well within our capacity to reach US$5 trillion in the next few years.”

Assuming the exchange rate remains the same, the growth rate has to average about 12.5 percent every year for the next five years for this goal to be met.

The budget deficit increased to 3.4 percent of GDP from the announced 3.3 percent for the last fiscal year because of a fall in revenue due to lower sales tax (GST) intake arising from the slump in demand for consumer and industrial goods. Even this figure is highly suspect, since the Modi government has deliberately overstated its revenue for 2018-19 to the tune of Rs. 1.7 trillion ($25 billion). This is because the government has refused update its figures prior to presenting the current year’s budget despite having access to the more accurate revenue figures released by the Comptroller and Auditor General on May 31.

In keeping with the Modi government's mantra of privatization, giant public sector units (PSUs) such as the national carrier Air India are to be sold off to private capital. The targeted amount is a little over Rs. 1 trillion ($15 billion) higher than the Rs. 900 billion in the last financial year. Media, aviation and insurance sectors that have already seen significant penetration by foreign capital are to be further opened up.

Railways are to attract a gargantuan sum of Rs. 50 trillion ($725 billion) by 2030. The overwhelming bulk of these funds is to come from private capital, which means more privatization. In response, the rail workers' union has announced a three-day strike against privatization this week.

The budget provides no relief for the rural masses, whose impoverishment is so great they are barely able to feed themselves properly. Although agriculture contributes only 23 percent to the country's GDP, over 59 percent of the country's workers depend upon this sector for a living.

Despite the announcement of Rs. 600 billion ($9 billion) to the Mahatma Gandhi Rural Employment Guarantee Scheme (MNREGS), which guarantees 100 days of menial, minimum-wage work per year to one member of any rural household that requests it, the fund is actually being starved of money. At least 20 percent of the current year funds over the past five years have been used to meet past liabilities.

More and more rural households have come to depend on MNREGS as they sink deeper into poverty under conditions of a chronic depression in rural income. However, increasing numbers are being turned away when they seek employment under this scheme. Last year through November, out of the 72 million who sought employment, only 59 million were provided some sort of a job. Even their minuscule wages are not being paid on time, discouraging ever more rural workers from applying.

The much-anticipated tax relief for the "middle-class"—a misnomer given that the average annual income of the top 10 percent was a little over $12,000 in 2014—was not forthcoming. Instead, Sitharam proposed an income tax exemption of Rs 150,000 ($2,000) for loans taken out to purchase electric vehicles. This move highlights the vast gulf separating the world inhabited by the Modi government and the life of daily misery experienced by the majority of the middle class, who struggle with daily shortages of drinking water and electricity.

Further tax hikes on petrol and diesel will increase food costs and impoverish the masses even further.

Sitharam also announced a further bailout of country's public-sector banks by carrying out a "capitalization" to the tune of Rs. 700 billion (over $10 billion). This injection of money is prompted by the inability of the banks to increase credit to India's cash-starved businesses because of the huge amount of mostly corporate debt that remains unpaid. This debt amount was estimated at Rs. 10.25 trillion ($150 billion) as of March 2018. In the last fiscal year, the government injected a record Rs. 1.6 trillion ($23 billion), thus indirectly compensating the banks for their losses.

In keeping with the Indian elite's ambitions to be a global military power and a junior military partner in US imperialism's drive against China, the military budget has risen to Rs. 4.3 trillion ($63 billion) from last year's Rs. 4 trillion ($50 billion). Out of this, a little over Rs. 1 trillion ($14.5 billion) is earmarked for pensions.

This military budget has evoked general criticism for not keeping up with "need." According to the *Hindu*: "There is disappointment in the military and industry over the defence allocation in the Union Budget." The Air Force has been allocated Rs. 390 billion, but it has a committed liability for Chinook, Rafael and the S-400 of Rs. 490 billion this year, which means it won't even be able to meet the current year's commitment.

As the *Business Standard* observed: "In 2014-15, defence allocations, including pensions, accounted for 17.1 per cent of the central government's spending, or about 2.28 per cent of GDP. This year, the Defence Budget will comprise 15.5 per cent of government expenditure and only 2.04 per cent of GDP."

Given the paucity of domestic capital, the Modi government will increasingly bend to the demands of foreign capital to spur economic growth. That is why it is determined to gut any labour and environmental regulations that stand in the way of profit interests.

Signaling to big businesses that its demands are being heard, the government announced last week that will table a bill in the Lok Sabha to consolidate 13 labour laws into a single "code." Although it is not yet clear what this will entail in practice, it is all but certain that it will benefit businesses at the expense of the already brutalized Indian working class.