



New Trade Union Initiative

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Budget for the rich to get richer and throw crumbs to the poor: *New Delhi, 2 March 2015:* The Union Budget of 2015-16, the BJP government's first full budget, has a sense of triumphalism that it 'can fly' because it believes that, the 'opportunity for this exist because we (the BJP government) have created it' over the last nine-and-a-half months. This government is taking credit for conditions and circumstances that it has nothing to do with or did not, in the remotest way, have the ability or opportunity to contribute to. The BJP government rewards itself with the entire credit for the deceleration of the rate of inflation. It does not anywhere take note of the fact that inflationary pressure and therefore the country's current account balance, has anything to do with the fact that international oil prices are at their lowest level in 5 years and at, in fact, half of what they were in May 2014. The BJP government would be wise to note that almost identical circumstances marked the euphoria at the start of the second UPA government. Furthermore, although inflation indices may show a decline, the measure of food price inflation is yet to show any significant decline.

The second reason that appears to tell the BJP government that its' time to 'fly' has come is that, based on revised government statistics, it has given itself the title of the 'fastest growing largest economy' in the world. The government's Economic Survey 2014-15 (ES), released on 27 February 2015, indicated that the economy will grow in 2015-16 by anywhere between 8.1 to 8.5 percent from a growth of 5.9 percent in the current year (2014-15).

A substantial part of the Budget Statement is interspersed with the promise that 'every rupee of public expenditure...will contribute to the betterment of people's lives through job creation, poverty elimination and economic growth'. Hence the test we must apply to this budget is whether the growth inspired by this budget will indeed contribute to job creation and poverty elimination. Equally, we are concerned about whether this rate of growth will introduce stability in the economy and what its distributional consequences will be for the working class.

Reducing Poverty by Reducing Budgetary Provision on Social Protection

The government's promise of 'poverty elimination' comes with an across-the-board reduction in government expenditure on social protection and social security. The funds allocated for the MGNREGA are frozen at Rs. 34,000 crores and have for the first time come to below 2 percent of government expenditure. Expenditure on health, education, women and child development, both rural and urban housing, drinking water and sanitation, and welfare of SCs, STs and minorities all taken together have faced cuts amounting to 1 percent of the total budgeted expenditure or nearly Rs. 10,000 crores. If we break these down and adjust for the increases in the Prime Ministers pet projects 'Swachh Bharat' and urban housing through public private partnerships (PPP), then the reductions in the Sarva Shiksha Abhiyan, the Mid-day Meal Scheme, the Integrated Child Development Scheme (ICDS), the National Rural Health Mission and the Indira Aawas Yojana are not insignificant. Apart from not allowing for the scaling up of these critical programmes, the reduced budgetary support implies that the roughly 1 crore 'honorary' workers employed by these programmes will not see an increase in their meagre wages and will continue to remain close to the poverty line.

Not to be seen as wanting in generosity, the Budget Statement increases the provision for food subsidy by a 'generous' sum of Rs. 2,000 crores to Rs. 124,000 crores. The full implementation of the National Food Security Act would require significantly more budgetary support than this which implies, despite the expressed promise of transparency, that the BJP government has decided to accept the Shanta Kumar Committee recommendation of restructuring the Food Corporation of India and curtailing the reach of the NFSA.

Universal Social Security defined by ability to pay

Additionally, the BJP government commits itself to creating a ‘universal social security system’ for which government is willing to commit Rs. 1200 crores. This will support contributory pension, accident and life insurance schemes which the government will support for a maximum of five years. Even through the most generous computation, these schemes can reach 1.2 crore people or about 2.5% of the working population.

Towards furthering a ‘universal social security system’, government commits itself to providing workers a choice between health care benefits under Employee State Insurance and contributory health insurance and between Employees’ Provident Fund and the New Pension Scheme. In ‘choosing’ between health care and retiral benefits that are guaranteed and protected under law, the government is playing on the monetary hardship of workers ‘below a certain threshold of monthly income’ in pushing them to low contribution options in the private sector. The BJP government’s objective is not to create a system of universal social security but to universalise, in every sphere of economic life, the principle of capacity to pay and ability to pay.

‘Ease of Business’ means the exchequer will guarantee the profits

Having turned over the task of social security to private insurance and pension companies, the BJP government recognises that the private sector is in trouble and cannot really drive growth and lacks the capacity to invest in the economy to drive growth and create jobs, as its Economic Survey admitted: ‘The situation of Indian public-sector banks and corporate balance sheets suggests that the expectation that the private sector will drive investment needs to be moderated’. And even though it explicitly acknowledges in both its 2014-15 and 2015-16 budgets that the PPP model does not work, the BJP government committed itself to the PPP model (3PIndia) as the institutionalised sponsorship of the private sector by government in its 2014 Budget, and now, it goes one step further in cementing this sponsorship by confirming that the ‘sovereign will have to bear a major part of the risk’ for capital investment. These ‘sovereign’ or government guaranteed loans will come from tax free bonds.

The commitment of the BJP government to subsidise the private sector cannot be in doubt. The job will not be completed merely by guaranteeing loans for private investment. For a start, it will hand over five ultra mega power projects to the private sector after putting in place ‘all clearances’ in the ‘plug-and-play mode’. Besides these five power projects, government will consider other infrastructure projects, too, including railways, ports, highways and airports. The package of the BJP government’s policy issued through the present and the previous BSs along with the Land Acquisition and Coal Ordinances represent that for ‘ease of business’ to succeed, ‘eminent domain’ must be in place. ‘Eminent domain’ must exist for the private sector so that ease of profit allows Prime Minister Narendra Modi’s ‘ease of business’ model to work.

In the knowledge that ease of profits for infrastructure will not be sufficient to pull in enough investable resources to drive 8+ percent growth, the BJP government must necessarily turn its attention to foreign investment. Various tax concessions have been extended to foreign portfolio investors, including those who do not wish to register themselves in the country. Special provisions are also to be put in place under the BS to ease the functioning of private equity and hedge funds that are in polite company called Alternative Investment Funds. Most of all, the distinction between foreign portfolio investment (that is speculative and moves from one country to another and one company to another) and foreign direct investment (that is stable in a single company) has been effectively extinguished. This will serve to tilt the balance towards more short-termism, more speculation and even less towards long-term investment in technology, innovation and skills than is currently the case with multinational companies.

In addition to the foregoing, the BJP government promises to lower corporate tax – the tax on companies – from the present 30 percent to 25 percent over the length of this government. The budget abolishes wealth tax and replaces it with a 2 percent cess on those with incomes of Rs. 1 crore or more. This will

brings in Rs. 9,000 crores a year or about 0.50 percent of the total budgeted government expenditure for 2015-16. Conversely, service tax will rise from 12.36 percent to 14 percent. While on the one hand, the BJP government has made clear that it will continue to provide tax breaks on corporate and personal income taxes by raising service tax and confirming the introduction of the Goods and Service Tax by April 2016, the BJP government will extend the reliance on indirect taxes. Although the BS does announce a new legislation for hunting down black money abroad, its scrapping of the proposal for the Direct Tax Code to plug loopholes in taxes and putting the General Anti-Avoidance Rules on the back burner is an indication of how serious the BJP government is about plugging loopholes at home.

The BJP government's tax proposals will potentially 'forego' about Rs. 600,000 crores. Of this, some 10% or Rs. 60,000 crores will be the direct benefit to private companies. While the BJP government expects the economy to grow at 8+ percent a year, the BS only estimates an increase in tax revenues of 1.35% as compared to the previous year. The Tax-to-GDP ratio is expected to dip to less than 10 percent over the next year. This would mean taking the country back to the same state as at the time of the last BJP government.

Who will pay for government expenditure?

The questions remains: where is the money to meet government expenditure going to come from, in the absence of increased tax revenue, and where will the money for capital investment come from, to create the jobs that will 'make in India'?

Monies to meet government's expenditure will come from two sources – first, nearly 10 percent of government expenditure will be met through interest and dividend payments to government by public sector undertakings and the sale of shares (disinvestment) in public sector undertakings. The most important source of government funds will come through borrowings.

As for job creation, from its own side, the BJP government plans to invest a sum total of Rs. 70,000 crores in capital investment. The BS does not tell us where it will go. No one knows at this point how much of it will go to shoring up PPPs. At any rate, the amounts on offer are in fact less than 0.50 percent of GDP. This is going to be far from sufficient to drive 8 percent growth or take it to the 'double-digits', as the BS promises for the years ahead. The BJP government is relying on an additional Rs. 320,000 crores to be invested by public sector corporations. Hence 'make in India', too, will be for the private sector with the resources of the public sector.

The general condition of the economy is poor and the 'roadmap for the future', as put forward by the BS, provides little hope for working people. For one, the entire fiscal framework - of taxation and spending - of the BJP government will contribute further to inequalities. Second, the increased 'sovereign' borrowings to finance investment will be further tax-free transfers to the rich. And third, the dependence on foreign investment flows pushes up the value of the rupee which makes our exports more expensive abroad and makes it difficult to export our goods abroad. This bodes poorly for sustained and stable levels of economic growth and therefore for job creation and wages with growing inequalities.

And yet, perhaps, there is still a chance for *achhe din!* The BS promises that if the rich pay taxes beyond expectation (the level of which remains unstated), the BJP government will throw in an additional Rs. 10,000 crores (or a total of 0.50 percent of budgeted expenditure) to fund the MGNREGA, Integrated ICDS, Integrated Child Protection Scheme (ICPS) and the Pradhan Mantri Krishi Sinchai Yojana. Working people must live in the hope that the rich get richer - for it is then that the BJP government will throw crumbs at them.

Gautam Mody

General Secretary

