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The Poverty of Economic Philosophy

A Critique of the UPA Government's Economic Policies

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The National Common Minimum Programme of the UPA Government signified a compromise of sorts; while not making a complete break from the neoliberal policies of the NDA regime, it did promise to address their most adverse fallouts, burgeoning unemployment and agrarian distress. Besides the crucial outside support lent by the Left Parties to the formation of a secular Government, which obviously left its imprint on the NCMP, what also forced the pioneers of neoliberalism who had seized the key levers of the UPA Government to accept this social welfarist programme, was the attuned political rhetoric of the election bound Congress Party led by Sonia Gandhi, which promised to ameliorate the living conditions of the *aam admi*. The economic philosophy underlying this compromise was articulated by none other than the Prime Minister through the celebrated phrase: "liberalization with a human face".

The theoretical basis for neoliberal policies or "liberalization" is extremely tenuous. To put it simply, it suggests that markets work and work in a manner which produces the most efficient outcome. Accordingly, it suggests that unemployment is caused by "rigidities" in the labour market, which if removed would lead to full employment. That is why labour market "flexibility" is recommended. Similarly, the solution to the problems of agriculture are said to be found in "getting the prices right" through integration into the world market. And the economy as a whole is supposed to grow faster by removing the barriers to free movement of capital and goods across borders. These theoretical fairytales about capitalism in general and the market mechanism in particular, which were fashionable during the early nineteenth century, were demolished long ago by philosophers like Marx and economists like Keynes and Kalecki. Tearing apart the myth of efficiently functioning markets, they had laid bare the actual processes underlying capitalism — the process of capital accumulation, concentration of capital leading to monopolies, the market failures that arise as a result and the existence of involuntary unemployment under capitalism due to the problem of effective demand.

Unfortunately, these path-breaking advances in economic science and philosophy, despite having been developed as a formidable body of knowledge, could not succeed in converting all the believers of free market orthodoxy. That is because the free market myth as an ideology helps to buttress the class interests of capitalists, especially big business and international finance capital, which continue to dominate the contemporary world. In the backdrop of the imperialist offensive unleashed under the rubric of globalization, free market orthodoxy has reincarnated as present day neoliberalism. Therefore strategies of “liberalization” continue to proliferate, including some with confounding connotations like “liberalization with a human face”. At the end of the day, all these strategies and concepts are fundamentally flawed since they are based upon an economic framework which is purely ideological. Besides being unscientific, they also reflect sheer poverty of economic philosophy.

The contradiction inherent in continuing with the strategy of economic liberalization while at the same time introducing a “human face”, an allegory for pro-people welfarist policies, was pointed out during the early days of the UPA Government.[1] The critique of the concept floated by the Prime Minister centred on the argument that people’s welfare crucially depended upon the ability of the state to undertake social expenditure and mobilize resources for the same by taxing the rich; and liberalization undermines the capacity of the state to do so. That “liberalization with a human face” is nothing more than an oxymoron has been borne out by the twenty odd months of UPA rule.

I

While the UPA Government had made its intention to continue with the policies of liberalization amply clear right from the time its first Budget was presented by the Finance Minister in 2004, it has been hamstrung by the parliamentary strength of the Left Parties in its efforts to push through legislations which seek to further the neoliberal agenda. Foremost examples are the stalled amendments to the Insurance Regulatory and Development Authority Act and the Banking Regulation Act and passage of the Pension Fund Regulatory and Development Authority Bill, which are all meant to accelerate financial deregulation and allow foreign banks, insurance companies and pension funds to enter the Indian markets in a big way. Similar is the case with the effort to amend labour laws like the Industrial Disputes Act or Contractual Labour Act in order to introduce greater “flexibility” in the labour market, which has met with stiff resistance.

Pressure from the Left Parties forced the Government to amend a clause in the Special Economic Zones Bill, which sought to give labour laws a go-by in the SEZs. In the case of the Patents Amendment Bill the Government was compelled to incorporate several amendments pushed by the Left parties to the earlier Draft prepared by the NDA Government, including some restrictions on the grant of product patents, restoration of pre-grant opposition to patenting, exclusion of software patenting, export of patented drugs to developing countries without manufacturing capability etc, which enables full utilization of the flexibilities within the otherwise iniquitous TRIPS framework. The Left parties also succeeded in stalling the move by the Government to disinvest stakes of the BHEL, a navaratna PSU.

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[1] See Prabhat Patnaik, “The UPA Regime and Economic Policy”, The Marxist, Vol. 20-21, March 2005.

However, the Government has gone ahead full steam in accordance with the neoliberal agenda, in areas where no Parliamentary approval was necessary. These include steps like opening up the Retail Trade, Warehousing, Mining and other sensitive sectors to foreign capital, enhancing the FDI cap in the Telecom sector to 74%, privatization of the Delhi and Mumbai Airports and reduction in the EPF interest rate.[2] The role played by the Government in the adoption of the final Declaration at the Hongkong Ministerial Conference of the WTO, which would lead to the forced opening up of the Service sectors like financial services, health and education in the developing countries to the MNCs, besides tariff cuts for industrial and agricultural goods, show the extent of its collaborationism with the US and other developed countries. It is in keeping with the same neoliberal vision that the Government entered into an economic and strategic alliance with the US including in the crucial sphere of energy, galvanized during the recent visit of the US President to India.[3] The joint statement issued during the visit by the Prime Minister along with the US President, endorsed the report of the US India CEO Forum on “US-India Strategic Economic Partnership”, which has made a host of recommendations like further opening up of sectors like insurance, banking, retail trade, print media etc besides transforming the Intellectual Property regime in India to the liking of US capital. The Sensex continues to scale new heights under the UPA regime because the FIIs and domestic speculators have been endowed with generous tax concessions and are being regularly assured of the neoliberal policy thrust of this Government through announcements like the recent move to introduce capital account convertibility.

While liberalization continues apace, the “human face” components in the economic policies of the Government have been too few and far between. The only significant NCMP promise that has been implemented so far, that

[2] India already had a liberal foreign investment regime before the UPA regime came into being. FDI was allowed upto 100% in most sectors, with sectoral caps of 26, 49 or 74% in a few sectors which are considered to be sensitive from the point of view of self-reliance and national security. The UPA Government, right from its inception, has been keen on removing whatever little regulation that exists on FDI and also allow it into the handful of sectors that have so far been insulated from foreign capital, like Print Media, Retail Trade and Mining. Joan Robinson, the well-known Cambridge economist, had once remarked that of all the different areas of FDI involvement, the mining sector is the worst, since minerals are exhaustible resources. Extraction of minerals by MNCs, which would mainly be for the export markets rather than catering to the needs of domestic industries, would lead to a much faster exhaustion of the resources besides the surplus being siphoned off by the MNCs. The case of Myanmar illustrates the point. At one time its oil wealth attracted much foreign investment (Burma-Shell), and it experienced an enormous boom for a brief period, when oil extraction was going on. But today, with its oil wealth exhausted, it is one of the 40 "least developed" countries in the world.

[3] While the long-term benefits accruing to India from the much feted nuclear deal with the US in terms of enhanced levels of nuclear power generation remains elusive, especially given the opposition to the deal within the US Congress, India’s stakes in the political stability of West Asia continue to remain high because of its heavy reliance on oil imports to meet its energy requirements. India’s kowtowing to the US on the Iran affair in this context, which is obviously a *quid pro quo* on the nuclear deal, does not serve its national interests. India’s energy security needs would be better served through independent and close ties with the oil exporting countries, particularly West Asia, rather than dovetailing it with the hegemonic and aggressive energy strategy of the US.

too in a partial manner, is the passage of the Rural Employment Guarantee Act which currently covers 200 districts out of a total of nearly 600. The Left Parties had to fight hard on this legislation too, in order to prevent its attempted dilution from the neoliberal quarters within the Government. Due to the Left's intervention, the final Act came through without the clauses initially proposed by the Government enabling it to "switch-off" the scheme at will, define the nature of the works rigidly, pay arbitrary wages and shift a substantial part of the financial burden on to the State Governments. According to media reports, over 77 lakh people registered across the country within the first 15 days of the initiation of the Employment Guarantee Scheme in February this year, which points towards both the extent of joblessness in rural areas as well as the urgency of extending the scheme to all the districts of the country. However, expansion of the scheme to cover all districts does not seem to be plausible in the remaining phase of the UPA's tenure given the Finance Minister's penny-pinching approach towards it, leave alone extending the employment guarantee to the urban areas.

A Bill to recognise the traditional rights of Scheduled Tribes in forests, including land and access to minor forest produce, was introduced after inordinate deferrals. As usual, the Government gave in to the pressures from the elite conservationist lobby while drafting the Bill and set a cut off date of 1980 for the settlement of the land rights of the forest dwelling tribals, which if implemented would lead to eviction of tribals from forests on a large scale. While it is expected that the Parliamentary Select Committee, which is currently studying the Bill, would recommend the removal of this provision along with other desirable changes like the removal of the unjust landholding limit of 2.5 hectares, what is noteworthy in this context is the attitude of the Government, which gives precedence to the interests of a handful of elites and hoteliers over the livelihood concerns of millions of tribals.

Tardiness in introducing pro-people legislation is also evident in the case of the Bill to provide a comprehensive social security to the workers in the unorganized sector, a key promise made in the NCMP. This Bill, along with another one covering agricultural workers, is yet to be introduced in the Parliament even after the passage of nearly two years since the Government assumed office. The Right to Education Bill, which seeks to fulfill the Constitutional mandate of ensuring free and compulsory education for all children between the 6-14 age-group, has been held up due to opposition from the right-wing circles.

The class bias of the UPA Government's policies is evident from this balance sheet. It is eager to serve the interests of international finance capital and big business through legislations like the amendment to the IRDA Act, Banking Regulation Act or seeking to change the labour laws, and further the cause of liberalization bypassing Parliament wherever possible, like the recent announcement regarding capital account convertibility. This contrasts sharply with its procrastination and prevarication when it comes to legislating for the rights of the workers, the unemployed and the deprived sections.

II

The UPA Government's continued adherence to the neoliberal policy framework is further testified by the current celebration over the 8% GDP growth rate registered in 2005-06 and the Sensex zooming past the 10,000 mark (currently above 11000), oblivious of the fact that the "India Shining" fiasco of the NDA was based upon precisely the same misleading indicators of economic well being, which miserably failed to convince the Indian electorate. The real condition of the masses is better reflected in the results of the 60th Round of National Sample Survey on Employment and Unemployment reported in the Economic Survey 2005-06: the unemployment rate between 1993-94 to 2004 for males increased from 5.6% to 9% in rural areas and from 6.7% to 8.1% in urban areas, and for females increased from 5.6% to 9.3% in rural areas and 10.5% to 11.7% in urban areas.

Agriculture, which employs over 55% of the country's workforce, continues to remain in doldrums. The latest Economic Survey notes that agriculture grew by 2.3% in 2005-06 after 0.7% growth registered in 2004-05, which implies that the growth rate for agriculture during the entire Tenth Plan period (2002-07) is not only going to fall short of the targeted 4% but may also fail to improve upon the dismal 2.1% growth experienced during the Ninth Plan. Such a protracted period of low and volatile growth in agriculture puts paid to the tall claims of faster GDP growth by the mandarins of neoliberal reforms. Moreover, contrary to the claims made by the Government regarding the inflation rate continuing to be below 5%, prices of essential commodities are showing an upward trend. The Government's reluctance to bring about the much needed import duty restructuring for crude oil, in the backdrop of soaring international oil prices, reflect its complacency on the inflation front. The Rangarajan Committee appointed by the Government has already recommended significant increases in the prices of prices of petrol, diesel and LPG, which if implemented would have a cascading inflationary impact.

The Budgets presented by the UPA Government so far have failed to address these serious problems afflicting the economy in any significant manner. It is nobody's case that the problems of the Indian economy can all be solved through the means of fiscal policy, especially since the causes of the persistence of mass poverty, malnutrition, and illiteracy in India are structural in nature and cannot be overcome unless radical land reforms are undertaken and alternative policies are put in place in all spheres of state intervention. However, given the nature of the electoral verdict that brought the UPA to power and the commitments made in the NCMP, the least that was expected from the Government was a thoroughgoing reorientation of fiscal policy in order to bring some relief to the masses, who had borne the brunt of the deflationary and inegalitarian policies of the NDA. Crucial to this was the ability of the Government to substantially increase expenditure on employment generation, rural development, agriculture, public distribution system and social sectors like health and education. It is here that the contradiction between the “human face” and “liberalization” has starkly come into play.

The FRBM Act has already institutionalised fiscal conservatism in India. Despite the dubious economic justification behind adopting such legislation, this Act was passed in Parliament through a collusion of the BJP and the Congress in 2003. The Rules under the Act, besides mandating the elimination of the revenue deficit has also set a ceiling of 3% of GDP on the fiscal deficit to be achieved by 2008-09. In order to meet this target, the Rules stipulate that the revenue deficit and the fiscal deficit have to be cut by 0.5 percentage points and 0.3 percentage points of the GDP every year, respectively.[4] Adherence to these FRBM targets implies that the capacity of the Government to undertake expenditure, including capital expenditure, is strictly constrained by its revenue and capital receipts. In order to meet the commitments of the NCMP, the UPA Government had to therefore make a choice between two options: either to ignore the FRBM targets and expand government expenditure regardless of the size of the fiscal deficit or to launch a motivated drive to raise resources to finance expanded government expenditure.

Instead, the option that the Finance Minister has chosen is to make a virtue out of his adherence to the FRBM targets, congratulating himself for being able to keep the fiscal deficit at 4.1% of GDP (RE) for 2005-06 which was budgeted for 4.3% last year, and budgeting the fiscal deficit for 2006-07 at 3.8%. In the course of the debate on the Budget 2006-07 in the Parliament, the Finance Minister argued at length to score a point about how he is more proficient in adhering to the FRBM targets than his predecessors from the NDA.[5] What got obscured in the debate over fiscal deficits and FRBM targets is the fact noted by the Economic Survey 2005-06 that Plan expenditure as well as capital expenditure of the Central Government as a proportion of GDP, far from registering any increase has actually fallen during the UPA’s tenure. The claims made by the Finance Minister regarding the increases made in Plan expenditure in the successive Budgets of the UPA (20.4% in Budget 2006-07) has to be judged in the backdrop of a 12-13% growth of nominal GDP. Moreover, a closer look at capital expenditure within the Central Plan expenditure, which comprise the core of capital formation through the Plan, reflect a dismal picture (see table 1 below). Not only has

[4] Revenue Deficit is the difference between Revenue Expenditure (Interest Payments, Subsidies, Defence Expenditure etc) and Revenue Receipts (Tax and non-Tax Revenue). Fiscal Deficit is the difference between Total Expenditure (i.e. Revenue Expenditure + Capital expenditure) and Revenue Receipts + Capital receipts (Recovery of Loans, Receipts from PSU Disinvestment) – Borrowings. While capping any deficit irrespective of the aggregate demand scenario, in the way the FRBM Act does lacks economic rationale, capping the fiscal deficit is worse than capping the revenue deficit since it seeks to restrain capital expenditure by the Government and hence impedes capital formation in the economy.

[5] The Finance Minister’s ostensible success in reducing the fiscal and revenue deficit targets owes to an extent to some window-dressing. In the Budget 2005-06 there was substantial "off-loading" of borrowing from the Union Budget to the State Government’s Budget, following the Twelfth Finance Commission's report, to the tune of around Rs.29,000 crore.

Plan capital expenditure gone down steadily as a proportion of Total Budget Support for Central Plan over the past three years, it has declined in absolute terms in Budget 2006-07.

Table 1: Plan Expenditure in Union Budgets
(in Rs. crore)

	Budget 2004-05		Budget 2005-06		Budget 2006-07	
	Budget Estimates	Revised Estimates	Budget Estimates	Revised Estimates	Budget Estimates	Revised Estimates
Total Budget Support for Central Plan	**87886**	**82529**	**110385**	**107253**	**131284**	**-**
Central Plan Capital Expenditure	**26217**	**22712**	**27015**	**24417**	**23815**	**-**

The Central Plan outlay on agriculture & allied activities, rural development (which includes rural employment), irrigation & flood control and social services (which includes education, health, family welfare, housing, social security etc) taken together stand at Rs. 74312 crore (Revised Estimates) in 2005-06, which is less than 2.5% of the GDP. Despite the Left Parties demanding an increase in the Plan outlay on these sectors by at least Rs. 50000 crore before the Budget, the Central Plan outlay was increased by only around Rs 15000 crore in Budget 2006-07 (see table 2 below). With such inadequate Plan outlays, it is evident that the commitments made in the NCMP regarding employment guarantee, enhanced public investment in agriculture and irrigation and increased spending on health and education to reach 2-3% and 6% of GDP respectively, would remain largely unfulfilled.

Table 2: Central Plan Outlay by Sectors
(in Rs. crore)

	Budget 2004-05		Budget 2005-06		Budget 2006-07	
	Budget Estimates	**Revised Estimates**	**Budget Estimates**	**Revised Estimates**	**Budget Estimates**	**Revised Estimates**
Agriculture & Allied Activities	**4643**	**4799**	**6425**	**5907**	**7385**	**-**
Rural Development	**9239**	**11196**	**13992**	**16716**	**18269**	**-**
Irrigation & Flood Control	**458**	**365**	**524**	**418**	**587**	**-**
Social Services	**35739**	**39378**	**53384**	**51271**	**63313**	**-**
Total	**50079**	**55738**	**74325**	**74312**	**89554**	

Contrary to the claims of substantial increases in welfare expenditure in Budget 2006-07, the net increase in Plan outlay on rural employment (excluding the North eastern region component) is only about Rs. 1170 crore [from Rs. 11700 crore (RE) in 2005-06 to Rs. 12870 crore (BE) in 2006-07]. The fact that such a small increase in expenditure has been committed in the Budget on rural employment shows the non-seriousness of the

Government in implementing the Rural Employment Guarantee Act, which by conservative estimates would require an annual outlay of at least Rs. 20000 crore to be implemented in 200 districts. Outlays on agriculture and irrigation are grossly insufficient as far as reversing the declining trend of agricultural sector's capital formation in GDP is concerned. The most crucial recommendations of the National Commission on Farmers like the setting up the Price Stabilisation Fund for agricultural commodities and universalizing crop insurance have been totally ignored. The reduction in the short-term interest rate for farmers to 7% in the latest Budget falls far short of the Commissions' recommendation of 4%. Moreover, the fact that food subsidy has been fixed at Rs.24200 crore in Budget 2006-07 as against Rs.26200 crore in Budget 2005-06 suggest that far from contemplating an expansion in the coverage in the Public Distribution System (PDS), the UPA Government is moving in the opposite direction.

III

Given the acuteness of the agrarian crisis and the extent of unemployment prevailing in India today, the expenditure that the UPA Government is willing to undertake in order to address these problems is woefully inadequate. The inadequacy can be better understood through a comparison with China, which many of the leading lights of the Government often publicly claim to be their favourite economic model. In order to address their growing rural-urban divide, the Chinese Government has decided to massively step up expenditure on agriculture, rural areas and farmers during their Eleventh Five Year Plan (2006-2010). They will spend $ 42 billion in the first year of the Plan, i.e. 2006. In Indian currency at the current exchange rate that would amount to Rs. 187572 crore, i.e. nearly Rs 15000 crore more than the entire amount of Rs. 172728 crore earmarked for total Plan expenditure in the UPA Government's Budget 2006-07! This huge expenditure would be undertaken in China to invest in rural infrastructure like roads, electricity and communications as well as education and healthcare besides providing farm support and subsidies.[6]

Table 3: Expenditure on Agriculture, Rural Areas and Farmers in China

(In $ million)

2004	2005	2006
32400	**36700**	**42000**

The 2006 Plan for National Economic and Social Development adopted by the National People's Congress of China in the second week of March 2006, has resolved to, "… build a new socialist countryside, promote agricultural development and raise farmers' incomes". As a means to attain this objective, grain production has been accorded top priority. China produces more than double the amount of foodgrains produced by India annually. For instance, its total grain production was 469.47 million tonnes in 2004 compared to only 204.6 million tonnes produced in India in 2004-05. While

[6] All facts and figures are based upon People's Daily reports on the recently concluded session of the National Peoples' Congress of China available in the Online edition of the People's Daily, http://english.peopledaily.com.cn.

foodgrains output is expected to be only about 2 million tonnes more than the previous year in India for 2005-06, China experienced a growth of grain output of 14.54 million tonnes in 2005. Despite this performance the Chinese Government has laid special emphasis on grain production because they realise its crucial importance in safeguarding the self-reliance of their economy.

The principles laid down by the Plan vis-à-vis grain production are: (a) steadily develop grain production, (b) improve the overall agricultural capacity and strive to maintain total grain output at last year's level, (c) strengthen land management, protect primary farmland and stabilize the acreage sown to grain, (d) step up development of large commercial grain bases and continue to implement the projects to industrialize production of high-quality grain crops, develop superior seed varieties and protect plants, (e) increase transfer payments to major grain-producing counties and counties financially strapped. Moreover, regarding support prices the Plan says, "We will continue to set floor prices for the purchase of major grain varieties in short supply in major producing areas to keep market grain prices stable. We will also improve the system for controlling and using grain reserves to regulate grain prices at both national and provincial levels and ensure adequate local reserves." On farm subsidies the Plan states, "We will increase direct subsidies to farmers for growing grain, subsidies for cultivating improved crop strains and subsidies for purchasing agricultural machinery and tools, and phase in a system of direct subsidies to grain producers for purchasing agricultural supplies, such as fertilizers and diesel fuel. We will tighten oversight and management of fertilizer prices and agriculture-related charges, curb price increases for agricultural supplies and lessen farmers' burdens."

The Chinese resolve to increase subsidies for their farmers, ranging from direct production subsidy and price support to input subsidies on fertilizer and fuel, stands in sharp contrast to the chorus of "rationalizing" subsidies being sung at regular intervals by the "reformist" Ministers of the UPA Government. Official reports, from the annual Economic Surveys to the Mid-Term Appraisal of the Tenth Five Year Plan, even though noting the volatile nature of agricultural and foodgrains output growth, have never failed to emphasize the perceived need to cut down subsidies. Using a provision in the NCMP which says that "all subsidies will be targeted sharply at the poor and the truly needy..", the Finance Ministry has prepared a Report on Central Government Subsidies in India which details the modalities of cutting down fuel, food and fertilizer subsidies.[7] The recommendations of the Rangarajan Committee suggesting a drastic reduction in fuel subsidies and the impending price hikes of petrol, diesel and LPG are in keeping with that Report. Following the same blueprint for subsidy reduction, the UPA Government had attempted to cut down food subsidy by Rs 4524 crore earlier this year by reducing the quantity of wheat and rice issued through the PDS and Annapurna Anna Yojana. Although strong protests from the Left and other parties forced a rollback of that decision, the allocation on food

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[7] The Report has been prepared with the assistance of the National Institute of Public Finance and Policy, New Delhi.

subsidy was cut down by Rs. 2000 crore in Budget 2006-07, which besides affecting the PDS would have an adverse impact on procurement by the FCI.

The crucial difference between the vision which has prompted China to undertake their "new socialist countryside" policy and the Indian Prime Minister's "liberalization with a human face" can be best understood in terms of the following resolution contained in the Chinese Plan: "We will adhere to the principle of giving more, taking less and lessening control and accelerate the establishment of *a permanent mechanism of getting industry to support agriculture and cities to support the countryside.*" (emphasis added). If at all the UPA Government was serious about its "human face", it should have by now worked out mechanisms of getting Indian industry to support Indian agriculture and Indian cities to support the Indian countryside, in a situation where even the thoroughly class-biased media has been compelled to report the extreme cases of rural and agrarian distress. The necessary although not sufficient condition for such a mechanism is for the Government to mobilize resources from industries and cities and transfer them effectively (i.e. without the leakages caused primarily with the complicity of the ruling party) to agriculture and rural areas at a scale much bigger than the tokenism displayed by the UPA Government in its twenty odd months of existence.

Instead what we have witnessed in India is a move in a completely different path. Far from reinvigorating the role of the state to bring about a turnaround in agriculture, underlying the frequent calls for a "second Green Revolution" emanating from the Prime Minister is a vision of corporate driven export led agriculture. The decision to open up the Retail Trade sector to FDI has been widely and legitimately criticized for its likely adverse impact on domestic employment.[8] What is equally dangerous is its likely impact on agriculture. The UPA Government, while advocating the cause of FDI in Retail has argued that large quantum of foreign investment is required to develop modern supply chains in India, in terms of the development of storage and warehousing, transportation and logistic and support services, in order to meet the requirements of agriculture and food processing industries. It is in line with the same understanding that Warehousing has been opened up for FDI. However, it has never occurred to the Government that investment by the multinationals is hardly the only way to build such infrastructure or upgrade technology. That can also be achieved by increasing public investment.

The pitfalls of relying upon an agrarian development strategy driven by food retail chains and giant agribusinesses have already become clear through the experiences of several developing countries like Malaysia, Thailand and

[8] The UPA Government has been strongly advocating FDI in Retail Trade. Due to strong opposition to this from small traders across the country and many political parties including the Left, the Government has initially opened up the sector only to single brand retailers. The main player lobbying for the opening up of the retail sector is Wal-Mart, the largest multinational retail chain in the world. Over 40 million people in India are employed in the retail Trade sector. The turnover per employee of Wal-Mart is around 95 times the average turnover per employee of domestic retailers in India, which gives an idea of the extent of job loss that may occur following a full opening up of the sector.

Vietnam. Farmers face myriad problems related to depressed prices due to cutthroat competition among the food retailers, delayed payments and lack of credit and insurance. Small horticultural farmers are elbowed out of the market by the multinational retailers by setting arbitrary quality and safety standards. While the carrot of access to international markets is being dangled before the Indian farmers today, what is being concealed is the experience of primary commodity exporters of the developing world. International market access available to the global retail chains have nowhere benefited the producers from the developing countries since the latter are unable to secure a fair price for their produce in the face of enormous monopsony power wielded by the multinational giants. The growth of global supply chains have only ensured enhanced profit margins for the multinational retailers. The terms of trade for producers in developing countries, especially for the primary products, have been worsening steadily even as agricultural exports have risen in volume. Mexico offers a classic case where massive increases in horticulture exports in volume terms have not translated into any benefit to the farmers due to sharp decline in the unit value of exports and the control exercised by the US based agribusinesses.

The UPA Government's agenda to further expose the already crisis ridden Indian agriculture to the vagaries of the international market goes beyond its agreeing to another round of tariff cuts in the WTO. In the name of a "second Green revolution" it is seeking to unleash an agrarian regime dominated and controlled by multinationals in an unprecedented manner. The Seeds Bill piloted by the Ministry of Agriculture seeks to subvert the seed rights of the farmers and facilitate monopolization of the seed business in the hands of the multinational seed companies. The "Indo-US Knowledge Initiative on Agricultural Research and Education" was launched during the US President's recent visit to India. It has not only empowered Wal-Mart and Monsanto to dictate the agenda of agricultural research in India but has also ensured that such research will be largely funded by the US based multinationals and therefore tied to the stringent Intellectual Property regime of the US.

The Report of the National Commission on Farmers headed by Prof. Swaminathan has made several recommendations, which if implemented would help in ameliorating the agrarian crisis. But that would essentially imply a much larger role for the state as well as enhanced levels of public spending on agriculture, which is not the direction in which the UPA Government is moving. Rather, the UPA Government under the innocuous name of a "second Green Revolution" is brokering a multifaceted takeover of Indian agriculture by the multinationals.

IV

With every passing month, the fulfillment of the promises made in the NCMP by the UPA Government is becoming increasingly unlikely. Given the obsession with the FRBM targets, the only way that the NCMP commitments can be fulfilled is by mobilizing additional resources, mainly through taxes.[9] While the Left Parties had made a range of proposals on resource mobilization to the Government earlier this year, the Prime Minister lost no time in virtually rejecting it by saying that the Government was not in favour of a "confiscatory taxation regime". The proposals submitted by the Left Parties, far from suggesting any increase in the income tax burden on the salaried middle class or increased excise duty on domestic producers (the only proposal to increase excise duty was on diesel run luxury motor vehicles), did not even ask for an increase in the corporate tax rate which was slashed in Budget 2005-06. The focus of the proposals was on four areas from where additional resource mobilisation is eminently possible: (a) taxing the speculative capital gains made in the capital market by reintroducing the long-term capital gains tax and raising the rate of the STT (b) rationalizing the myriad tax exemptions and incentives being enjoyed by the corporates, especially exporters, which are nothing but subsidies to big business (c) increasing the rate of the wealth tax and introducing an inheritance tax with a suitable exemption limit so that only the rich come under their purview and (d) increasing sales tax/VAT on luxury items consumed by the rich. The fact that these tax proposals were perceived as being "confiscatory" shows with whom the real sympathies of the UPA Government lie.

Additional resource mobilization in Budget 2006-07 is a paltry Rs. 6000 crore, which is exactly the same as Budget 2005-06, except for the fact that last year it was entirely on account of direct taxes whereas this year it is two-third through direct taxes and the rest through indirect taxes. The fact that despite this insignificant resource mobilization effort and collection of tax arrears remaining less than 10% of total tax arrears, revenues have continued to increase is mainly on account of a tremendous rise in corporate profits which has translated into more corporate taxes, broadening of the service tax net and increase in customs revenue mainly because of the rise in international oil prices. The gross tax revenue to GDP ratio, after hitting a low of 8.8% in 2002-03 has maintained a steady upward trend since then and was 10.5% in 2005-06 and is budgeted to be 11.2% in 2006-07.

While this upward trend of the tax-GDP ratio is indeed welcome, it is difficult to conceive its continuance in the absence of any substantial effort to mobilize additional resources. In any case it is obvious that at this level of revenue mobilization, expenditure necessary to fulfill the NCMP promises cannot be undertaken, unless the Government decides to expand the fiscal

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[9] The option of mobilizing resources through disinvestment, although close to the heart of the Finance Minister, has not been possible so far in any significant manner thanks to the resistance by the Left Parties (the BHEL disinvestment episode). The Left Parties while opposing moves to disinvest shares of profit-making PSUs had made the following argument, "Selling off stakes in a profit making PSU is in effect equivalent to running a budget deficit. While in the latter case interest payments have to be made by the government in the future against a one-time borrowing, in the former future streams of income from dividends are forgone against a one-time receipt from the sale of stakes. In fact the latter is worse since it involves transferring state-owned assets to private hands, which is not the case when the government borrows from the market." The Government has not been able to come up with a response to this so far.

deficit ignoring the FRBM Act. In the course of the Parliamentary debate on Budget 2006-07 the Finance Minister has made it clear that neither is he going to deviate from the FRBM targets nor make any effort towards additional resource mobilization on the ground that “stable” tax rates are desirable and “tinkering” with tax rates would impede economic growth, a familiar neoliberal argument. What this implies in short is that the resources required to meet the NCMP commitments, beyond the inadequate outlays that are being provided currently, are not going to come unless there is an almost miraculous increase in tax buoyancy. In the absence of such a miracle the NCMP commitments would continue to be met halfheartedly, that too with increasing reluctance, until they are abandoned altogether.

A comparison between India and China, vis-à-vis revenue mobilization and total expenditure as a proportion of their respective GDPs, shows that on both counts India lags fairly behind. While the accounting practices in the Budget differ between India and China, which do not allow exact comparisons, what can be safely concluded from this observation, is that a higher share of revenue mobilization to GDP in China compared to India allows a larger proportion of expenditure to GDP.

Table 4: Revenue receipts and Total Expenditure as % GDP in India and China[10]

	India		China	
	2005-06	2006-07	2005	2006
Revenue Receipts as % of GDP	10	10.6	17.3	18
Total Expenditure as % of GDP	14.6	14.8	19	19.5

The basic contradiction with the “liberalization with a human face” strategy lies in the inability of the Indian Government to increase its revenues as well as expenditure even close to such levels (in proportional terms) as is possible in China. The Finance Minister’s instinctive abhorrence towards any suggestion to mobilize additional resources is reflective of the strategic inability of a state, which has committed itself to “liberalization”; which is an euphemism for being brazenly pro-big business and pro-speculator; to tax the rich and affluent in order to spend for the poor. Let us take the example of the capital gains tax, which is a tax on unearned income, unearned because capital gains accrue to asset holders through price appreciation of the asset and not through real investment. Every advanced country taxes capital gains at varying rates; most investors in the US pay capital gains at the rate of 15%.

[10] Figures for India based on Economic Survey, 2005-06 and China on the Report on the Implementation of the 2005 Plan and 2006 Draft Plan. GDP growth rates of India in 2006-07 and China in 2006 are both assumed to be 8%.

In Budget 2003-04, the NDA Government in its most brazen move to gratify the stock market had exempted trade in all listed equities from the long-term capital gains tax. Continuing in the same direction, the Finance Minister in the first Budget of the UPA Government in 2004 abolished the long-term capital gains tax altogether and in its place introduced a Securities Transactions Tax (STT) to be levied on all transactions in the capital market. However, following orchestrated protests by stock brokers the proposed STT rate was drastically slashed and the tax completely diluted. But the long-term capital gains tax never came back, allowing investors in the capital markets to reap the benefits of tax-free capital gains. While on the one hand the Government has lost thousands of crores of revenue because of this move, on the other hand it has led to a surge of speculative capital, both domestic and foreign, manufacturing an unprecedented boom in the Indian stock market.

The fact that 10 new entrants from India made it to the Forbes list of billionaires in the past one year, the second largest number after the US as far as new billionaires are concerned, owes a lot to this stock price bubble. It is another matter that the overwhelming majority of the Indian people, who do not invest in the stock market and therefore have no stakes in its currently skyrocketing indices, would have to bear the brunt of adjustments once this ephemeral boom comes to an end. Before this year's Budget, the Left Parties had strongly advocated the reintroduction of the long-term capital gains tax at the rate of 15% along with increasing the STT rates to check capital market volatility, which could generate around Rs 5000 crore of tax revenue. However, the Finance Minister far from introducing any tax announced a hike in the cap for FIIs holding of government securities in the Union Budget 2006-07 and has also allowed Indian Mutual Funds to invest in overseas funds. He did so because given his commitment to "liberalization" he has to ensure the continuance of the FII inflows in order to keep the stock market party going which requires periodic "good news" like the ones he announced in the Budget. And any 'bad news' of a reintroduction of the long-term capital gains tax may provoke a reversal of 'investor sentiment' leading to a stock market crash. Therefore, continued upward movement of the Sensex is preferred over any effort to tax the thousands of crores of speculative gains being made in the stock market, which in turn precludes adequate increases in welfare expenditure. Such is the predicament of "liberalization with a human face".

V

After the Budget was placed and even before the debate on the Finance Bill was over in the Parliament, the Prime Minister took another step to further his "liberalization" agenda. While addressing the Asian Corporate Conference in Mumbai, he announced the move to introduce full capital account convertibility. This, if implemented, would imply that the inflow and outflow of capital by residents and non-residents would no longer be subject to any regulation. In other words it would give unrestricted freedom to any Indian individual or entity to shift wealth out of the country at will. The Prime

Minister said that the "comfortable" position of the Indian economy, both "internally and externally", warrants a "revisiting" of capital account convertibility, which was shelved after severe currency crises hit the South-East Asian countries in 1997-98.

Joseph Stiglitz, writing about the South-East Asian crisis in his book *Globalization and its Discontents* noted that, “capital account liberalization was the single most important factor leading to the crisis.” It is widely held that India could insulate from the contagion of currency crises at that time only because of the extant capital controls. Following the experience of successive financial crises in countries like Mexico, Russia, Brazil, Turkey and Argentina besides the South East Asian countries over the past decade-and-a-half, it is now received wisdom within policy circles across the developing countries that full capital account convertibility, which allows transfer of any volume of capital in and out of a country, causes more harm than good. However, the neoliberal reformers in India have suddenly rediscovered its virtue.

Out of the “comfortable” foreign exchange reserves of $ 143 billion being celebrated by the Prime Minister, $ 44 billion, i.e. over 30% is on account of the FIIs. FII’s equity holdings currently comprise over 13% of market capitalization in the Indian stock market in contrast to less than 3% in China, while the latter annually attracts more than 10 times the FDI that flows into India. External Commercial Borrowings by domestic companies have also risen steadily to nearly $ 15 billion in 2005-06. According to the RBI, the ratio of *volatile* capital flows (defined to include cumulative portfolio inflows and short-term debt) to reserves, which was 36% on March 2004, had increased steadily to 40.5 % on September 2005. In contrast, the share of net FDI in total private capital inflows was around 10%. Far from generating any sense of comfort, such rising proportions of volatile capital inflows increase the possibility of financial turbulence.

In fact the combination of an unsustainable stock and real estate bubble fuelled by 'hot money' inflows, currency appreciation and a widening current account deficit, being witnessed in India currently, look eerily similar to the situation prevailing in the South East Asian countries in the period preceding the currency crises of 1997-98. Introducing capital account convertibility at this stage would only encourage such speculative inflows and reckless external commercial borrowing and make the Indian economy vulnerable to financial crisis. The experiences of several developing countries which suffered currency crises triggered by sudden outflows of portfolio capital show that such crises are invariably followed by the infamous “bailout” packages of the IMF, which not only impose sharp cutbacks on government expenditure in the name of “stabilization” but also facilitate the transfer of domestic assets to foreign capital on a massive scale. The occurrence of such a crisis in India would willy-nilly subvert the NCMP and deliver a lethal blow to economic self-reliance.

Despite being aware of the risks involved, the UPA Government’s enthusiasm in pushing for greater financial liberalization smacks of sinister motivations. Suspicion is further reinforced by the systematic attempts being made under the UPA regime, to undermine the Reserve Bank of India, which unlike most conservative Central Banks across the world has always advocated a cautious approach as far as financial liberalization is concerned. On several occasions, first on the issue of raising the FDI cap on the ownership of domestic banks, then on the issue of further deregulating FII inflows and now on the question of capital account convertibility, a reluctant RBI is being steamrolled into submission by the Government. This missionary zeal displayed by the UPA Government in pursuing “liberalization”, is scarring its “human face” beyond any recognition. The crucial commitment in the NCMP to reduce the "vulnerability of the financial system to the flow of speculative capital" is being violated in the process.

VI

The economic policies of the UPA Government, far from being able to address the central problems of unemployment and the agrarian crisis, are adding new ones for the Indian economy. Disillusionment among the people whose aspirations were raised with the UPA’s coming to power, is fast turning into discontent. Those at the helm should realize the disconnect between the well being of the people and “liberalization”, with or without a “human face”, and abandon such fallacious strategies in favour of one which enables it to genuinely met the pro-people commitments made in the NCMP. Failure on the part of the UPA government to bring about a course correction would lead to precisely the same fate that consumed the NDA.