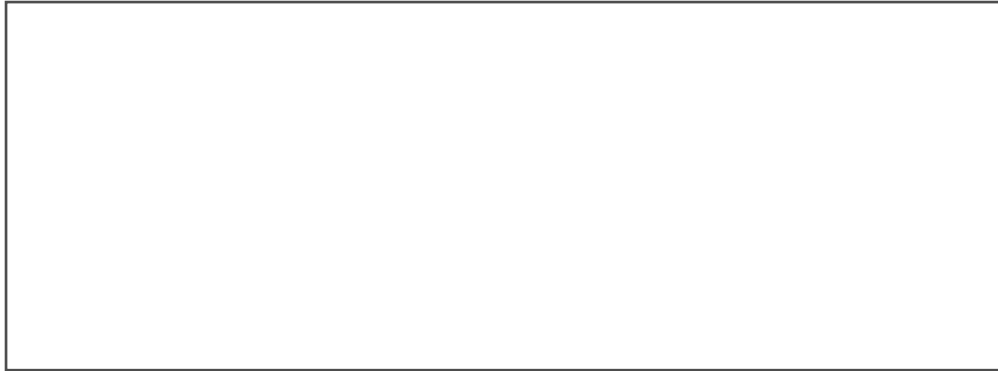


The march of neoliberalism

PRABHAT PATNAIK

|Union Budget 2010-11 has given a forward thrust to the neoliberal agenda|
|in all the crucial sectors where "reforms" had been stalled. |

KAMAL NARANG



Finance Minister Pranab Mukherjee addressing the media after the Economic Survey 2009-10 was tabled in Parliament on February 25.

THE strategy underlying Budget 2010-11 is eerily reminiscent of that of Margaret Thatcher. In pushing her “market-fundamentalist” agenda against the working class and the trade unions, Thatcher had enlisted the support of the affluent middle class. She had wooed the yuppies and the city slickers of London’s financial district, and to this end given direct tax concessions to the middle class, even while jacking up indirect taxes on the poor and the working people in the midst of a raging inflation.

Finance Minister Pranab Mukherjee has done almost exactly the same. For pushing the neoliberal agenda, he has enlisted the support of the affluent middle class by giving it direct tax concessions even as he has jacked up regressive indirect taxes. Until now, neoliberalism in India had been covered by a patina of concern for the aam aadmi. With this Budget it has come of age; the patina is off.

The government claims that this Budget, too, is for the aam aadmi; but that is unsustainable. The suggestion that persons earning in excess of three lakhs of rupees a year, who are the beneficiaries of direct tax concessions, constitute the aam aadmi, while the fisherman who risks his life daily by venturing out to the sea for an annual income of less than Rs.20,000, and who will be hit hard by the diesel price hike, does not, can only be ironical.

There was a time when even as the government increased petrol prices, it would spare diesel prices, since diesel and kerosene prices were linked for technical reasons, and raising the former would necessarily raise the latter, to the detriment of the poor. But such restraint no longer prevails. Diesel prices have been raised and kerosene prices will follow. Indeed, a whole lot of petro-product prices are going to be raised as a consequence of the increase in import duty, that is, a new round of price increases on top of what Pranab Mukherjee has announced is in the offing. And if the Kirit Parikh Committee’s recommendations for linking domestic petro-product prices to world prices are accepted, which is likely, then these prices will be jacked up even further in

the coming months.

Any such linking of domestic petro-prices to world prices makes little sense, since it would mean importing speculation-induced world oil price fluctuations, which can be quite massive, into the domestic economy, and hence making the domestic price-level as a whole a plaything in the hands of international speculators. But the government's commitment to neoliberalism appears to outweigh any concern over this.

Specious argument

This lack of concern is manifest even in Mukherjee's argument for raising the import duty on petroleum and the Central excise duty on petrol and diesel, which is quite specious. Since domestic petrol prices had not been raised adequately even when world crude prices had crossed \$130 a barrel, the government, he argues, has earned the right to raise prices now, that is, the current price hike is a reward for the government's earlier abstinence. This is untenable since it is not as if petrol prices had been lowered earlier and are now being restored to pre-lowering levels. Besides, the biggest component of petrol and diesel prices in the country consists of government taxes; there is no logical compulsion therefore about raising taxes on this commodity any further.

The "cascading effect" of the higher taxes on petrol and diesel, which would raise the prices of these commodities by close to Rs.3 a litre, has been much discussed. The government's lack of concern, however, is not just about the inflationary implications of this move but about inflation in general. Since the food price rise, by the government's own admission, is because of supply shortages (even if these shortages are artificially compounded by hoarding and speculation), the strategy must be to throw government-owned surplus foodgrain stocks (that is, actual stocks minus the minimum buffer stocks), which exceed 27 million tonnes as on January 2010, on the market. These stocks cannot obviously be thrown on the open market, since speculators would then buy them up gleefully, as had happened in 1972-73, and blunt their anti-inflationary impact; they have to be released through the public distribution system. But, going by the Budget figures, the government has no intention of doing so.

The fact that the food subsidy is lower than that for 2009-10 by over Rs.400 crore, suggests that the government does not intend to sell these stocks through the PDS or merely hold on to them (for either of these options would have raised the food subsidy, the latter because of higher interest payments). It intends to do precisely what it should not do, namely, sell them in the open market, which means that it is not too concerned about inflation.

In fact, Mukherjee said as much in his post-Budget television interview. He claimed that his way of combating inflation was by augmenting supplies in the long run, for which he had taken steps in the Budget, such as earmarking Rs.300 crore for 60,000 "pulses and oilseeds villages", Rs.400 crore for extending the "Green Revolution" to the eastern region of the country, and Rs.200 crore for sustaining the gains made in Green Revolution areas through "conservative farming". As for short-run measures, these, according to him, were unnecessary since the inflation rate was coming down anyway.

Self-limiting phenomenon

The fallacy behind the argument about inflation coming down is often not appreciated. Inflation, precisely when it hurts the people, is a self-limiting phenomenon. It can be categorised into two kinds: one caused by excess demand and the other by "cost-push". Cost-push inflation arises when

some input cost (or excise duty as in the present case) rises, which is “passed on” in the form of higher prices; in response to this initial price rise, money wages rise, which, in turn, is passed on in the form of still higher prices, and so on. As long as each component of price keeps rising with the rise in the price, to ensure that its share in total value does not decline, the price rise continues ad infinitum. But if some cost element, typically the wage cost, does not rise in tandem with the price, then inflation eventually comes to a halt. But this also means that the real wage rate comes down because of a cost-push inflation, and this coming down is the reason for the end of cost-push inflation.

Much the same can be said of excess-demand-caused inflation. Such inflation gets eliminated when someone’s demand is curtailed, and typically the demand curtailed is of that group whose money income does not go up as prices rise, that is, whose money income is not indexed to prices. This is typically true of the working people, especially of the vast mass of unorganised workers. Precisely because their incomes are not indexed to prices, inflation hurts them, and eventually comes to an end by squeezing them.

S. THANTHONI



The suggestion that persons earning in excess of Rs.3 lakh a year constitute the ‘aam aadmi’, while fishermen who risk their lives daily by venturing out to sea (in the picture, a group of them in Chennai) for an average annual income of less than Rs.20,000 and who will be hit hard by the diesel price hike do not, can only be ironical.

In Latin American countries where inflation rates in the past have quite often been quite phenomenal, the reason lies in the fact that wages in such cases have been indexed to prices. In India, by contrast, where wages are not indexed, inflation will necessarily always come down, but it will do so precisely by hurting the poor. The whole purpose of government action should be to prevent the elimination of inflation through this odious mechanism, by attempting its elimination in some other way, for example, by de-hoarding (which adds to supply), imports (which do the same), and using the PDS (which insulates the poor against a squeeze on their demand). But if none of these things is done, inflation will still come down, but by squeezing the consumption of the poor.

An example will make this last point clear. Let us start from a situation where the supply of foodgrains is, say, 100 units and equals the demand at a price of Re.1 a unit. The wage bill in the

economy is Rs.80, all of which is spent on foodgrains. Now, suppose supply falls to 95, so that there is an excess demand of 5 units at the old price. The price will rise, that is, inflation will set in. If all incomes are indexed to the price-level, then this excess demand will never get eliminated and hence inflation will continue ad infinitum. But if wages are not indexed but other incomes are, then inflation will come to an end when the price has climbed up to Rs.16/15 (or Rs.1.07), for, at that price, the workers can buy only 75 units of foodgrains from their total wage bill of Rs.80, which means five units fewer than before; and this eliminates excess demand. So, inflation is self-limiting precisely because the poor get squeezed by it.

Hence, when Mukherjee derives satisfaction from the fact that inflation is coming down, even without the government's doing anything about it, that satisfaction is totally misplaced; the inflation coming down in this way shows precisely that the people are being squeezed by it. Likewise, when Mukherjee claims that the effect of petrol and diesel price increases "will get absorbed" over time, he omits to mention that this absorption can occur only by squeezing the poor (as in the above example of cost-push inflation). Inflation's coming down does not mean that the world returns to its pristine state of happiness. This coming down itself, far from being a source of satisfaction, should rather be a cause for concern, because it is necessarily at the expense of the poor.

Coming to Mukherjee's "long term measures" for raising food supplies, what exactly these are becomes an intriguing question. The proposed expenditures on the "pulses and oilseeds villages" and the extension of the Green Revolution are too trivial to matter. The reduction in fertilizer subsidy, which will raise fertilizer prices, will, if anything, have a negative effect on output. The thing he must be pinning his hopes on, therefore, is the opening up of retail trade, which allegedly will help in "bringing down the considerable difference between farm-gate, wholesale and retail prices". This view is attributed to the Prime Minister, who believes that opening up retail trade will increase competition.

"Opening up" retail trade necessarily means the induction of corporate capital, including multinational corporations (MNCs), into this sector, for which they have been clamouring for some time. We are, therefore, being asked to swallow the argument that bringing in monopolists to drive out myriad petty traders will increase competition! Anyone who believes that bringing in monopolies reduces the gap between farm-gate and retail prices should ask the coffee producers of Kerala: they get a pittance for their crop even when retail coffee prices are soaring. If the government genuinely wants the gap between retail and farm-gate prices to close, it should get the public sector to take on a larger role in the marketing of crops, as the various commodity boards used to do before neoliberalism prevented them from doing so.

Corporate hegemony

SHIV KUMAR PUSHPAKAR



Since the food price rise is because of supply shortages, the strategy must be to throw government-owned surplus foodgrain stocks, which now exceed 27 million tonnes, on the market through the PDS. But the Budget figures indicate that the government has no intention of doing so. Here, at the mandi at Najafgarh, New Delhi, a file picture.

Besides opening up retail business, Budget 2010-11 announced a number of other steps, such as private participation in storage, setting up of private cold storage and cold room facility for agricultural and marine products and meat, and the accessing of external commercial borrowing for this latter purpose, all of which entail corporate hegemony over peasant and petty production. And since finance for setting up godowns and cold storage will be counted as agricultural credit, and hence come under priority sector lending, much of the ambitious target for credit support to “farmers” will actually go to large corporate houses, and even to MNCs.

This Budget gives a thrust to the neoliberal agenda in other ways as well. Disinvestment is to proceed apace, and is a major contributor to the so-called “Miscellaneous Capital receipts” of Rs.40,000 crore, even though there is no valid argument for it. Disinvestment is theoretically no different from a fiscal deficit: the latter puts government bonds into non-government hands, while the former puts government equity into non-government hands; they are only different forms of raising finance but with identical macroeconomic effects.

A Financial Sector Legislative Reforms Commission is to be set up to “rewrite and clean up the financial sector laws to bring them in line with the requirements of the sector”, a euphemism for “financial sector liberalisation”. And there is an additional instrument for this particular purpose: a Financial Stability and Development Council, which is to be set up “to strengthen and institutionalise the mechanism for maintaining financial stability”. Add to all this the allocation of coal blocks for captive mining, and you find that in all the crucial sectors where the “reforms” had been stalled, that is, public sector, financial liberalisation and retail trade, this Budget has given a forward thrust to the neoliberal agenda. But then what about the increase in social sector and rural development outlays that the Budget promises? This is a chimera. Central plan outlay on rural

development (all comparisons are Budget Estimate to Budget Estimate) is slated to increase by a mere 6.6 per cent over 2009-10, which means a real absolute decline; and the National Rural Employment Guarantee Scheme (NREGS) outlay is to rise by only 2.5 per cent.

As for Central Plan outlay on social services, the increase provided under the Plan is significantly counterbalanced by a decline in non-Plan expenditure in this sector. If we take the sum of Central Plan outlay and non-Plan expenditure on social services, then the nominal increase in 2010-11 over 2009-10 is only 12.5 per cent, which in real terms means very little.

This is hardly surprising. After all, the total expenditure of the Central government is expected to rise in nominal terms by a mere 8.6 per cent, which means stagnation in real terms. Within this overall stagnation, large apparent increases on specific items are more likely to be results of statistical jugglery or reallocation, rather than matters of any substance.

The pushing of the neoliberal agenda requires inter alia a neutralisation of opposition from State governments, and this can be ensured only if their mendicant status is perpetuated. The 13th Finance Commission, by keeping States' share of taxes under Article 270 at 32 per cent (up marginally from the 30.5 per cent under the previous Commission), compared with the 50 per cent demanded by most State governments, has not helped matters. And the Central government can be relied upon to compress its loans and grants to States, to offset even such increases in revenue transfers that it is statutorily required to make. In Budget 2010-11, for instance, while its statutory transfers increase by 26 per cent over the current year, its loans and advances rise by a mere 8.9 per cent. With such compression, one can be sure that the States will continue to retain their mendicant status.

Neoliberalism is clearly resuming its stalled march, adopting a Thatcherite strategy for doing so. But the United Progressive Alliance (UPA) government miscalculates by ignoring the fact that, unlike in Thatcher's Britain, the affluent middle class it is wooing is a minuscule segment of our society, while those squeezed by neoliberalism, the workers, peasants, agricultural labourers, and petty producers, constitute its overwhelming majority.

<http://www.frontline.in/stories/20100326270600400.htm>