The Offensive against Transfers to the Poor

Prabhat Patnaik

The corporate magnates who have financed Narendra Modi's election campaign (the money spent by him on media promotion alone is estimated to be Rs.5000 crores) are now getting ready to claim their booty. This consists not only in the direct gains they demand, but also additionally in the rolling back of the few relief measures for the poor, such as the MGNREGS, which had been implemented especially during the UPA-I under Left pressure, and which cannot compensate in any case for the damage done to their living conditions by the current inflationary recession.

An intellectual climate is being created in favour of this rolling back by adding to the charges already raised against the UPA government, namely "corruption", "poor governance" and "indecisiveness", an altogether new charge: squandering public money on "handouts". The term "handouts", needless to say, refers only to the paltry provision of relief to the poor, not to the tax concessions given to the corporate sector in successive central government budgets (for that, supposedly, is "development").

All sorts of economic arguments are being advanced against such "handouts". An obvious one is that the "handout" schemes are steeped in "corruption", a point made by BJP spokespersons on several occasions on television. But this argument, even assuming for a moment that it is true, cannot possibly justify the rolling back of such schemes: after all, the incontestable fact that defence contracts are the sites of massive "corruption" has never prompted any BJP leader to ask for a reduction of defence expenditure. So a new argument is being added to the armoury, namely that the economic crisis itself is a result of these "handouts"!

This is a breath-taking argument! In a period when the entire world economy is in the midst of a massive crisis, with southern Europe experiencing hardships unprecedented since the second world war, it presumes that this world crisis has had no impact on the Indian economy, that the Indian crisis is instead a completely self-made affair. And it presumes this to be the case despite the fact that the Indian economy is now linked as never before, since independence, to the world capitalist economy, a phenomenon that all the proponents of this argument have vociferously demanded and heartily applauded!

Moreover, this supposedly self-made crisis in India, according to this view, has nothing whatsoever to do with the functioning of its capitalism; it only has to do with some paltry amount spent on relief to the poor, which incidentally happens to be a mere fraction of what has been "handed out" to the capitalists, but never mentioned by the proponents of this argument.

The intellectual dishonesty involved here is so staggering that one normally would not even take note of this crass argument, based on class hatred against the working poor. But one is forced to do so because of the currency it is acquiring, one indication of which is an article written by William Dalrymple, author and organizer of the Jaipur Literary Festival, in a recent issue of the New Statesman. Since Dalrymple is not known to be part of the right-wing crowd (he once even gave a memorial lecture for Left historian Arvind Narain Das) and since the New Statesman is not known to belong to the right, Dalrymple's acceptance of the "unaffordable-welfarism-is-the-cause-of-India's-economic-crisis" argument is surprising, especially since his article itself discusses with remarkable candour the dangers associated with Narendra Modi's assumption of power. His acceptance of it however only shows how far-reaching the impact of this duplicitous neo-liberal argument has been.

It is worth quoting Dalrymple here at some length: "Since being voted back into office in 2009, Singh has in effect halted the economic reforms that had made him so popular and retreated into a vast programme of rural benefits and agricultural welfarism. This was exactly the sort of well-meant but wholly unaffordable budget-busting handout that has hobbled the Indian economy for much of its post-independence history and which Singh initially won so many plaudits for reversing at the beginning of his ministerial career".

"The result has been that India's annual growth rate has sunk from a peak of 9.3 per cent in the last quarter of 2010-2011 to under 5 per cent this year…Other economic indicators have been equally alarming: public borrowing has quadrupled in the past five years, the national deficit grew substantially, inflation is high and the value of the rupee has plummeted by 20 per cent. Between 2004 and 2013, the wholesale price index for food went up by 157 per cent, vegetables by 350 per cent and onions by 521 per cent, amid accusations of both corruption and mismanagement".

Let us consider first the question of "unaffordability". The National Health Service in Dalrymple's own country Britain was launched, together with several other welfare measures, at a time when the British economy had been shattered by the war, and the entire country had been bombed to resemble the surface of the moon. The question of "affordability" was not raised then, and quite rightly, since "affordability" is a class question, a matter of raising taxes at the expense of the capitalists and the rich, for funding welfare measures for the working poor. To say that welfare measures are "unaffordable" is to take a class position in favour of the capitalists and to pass it off as some objective truth.

And it is extraordinary to say that welfare schemes are "unaffordable" in the same breath as one is hailing 9.3 percent growth. The total expenditure on the MGNREGS for instance, the most significant of the welfare programmes of the UPA government, would be just over 0.3 percent of the GDP, i.e. a thirty-oneth part of the increase in GDP in any particular year. And this is supposed to be "unaffordable"!

Let us now move to the claim that the crisis of inflation-cum-recession is because of this "unaffordable" spending on "rural benefits and agricultural welfarism". There could be some theoretical basis to it, if the inflation had been caused by excess demand in the economy arising out of such "unaffordable" spending (though, even then, a combination of inflation and recession would have been difficult to explain). But the elementary point is that the inflation in the Indian economy is not excess-demand-caused: it is not caused by the fact of demand being too high compared to potentially available supplies. And nothing illustrates this more clearly than the case of foodgrains.

In June 2012, when inflation, including in the open market prices of foodgrains, had been raging for quite some time, the Food Corporation of India had foodgrain stocks amounting to 82 million tonnes. So large were the stocks that the government resorted to exporting foodgrains, and according to the Chairperson of the Commission on

Agricultural Costs and Prices, 40 million tonnes are likely to have been exported during the two years 2012-13 and 2013-14.

Why should a government faced with huge malnutrition among the population which now surpasses the levels of even sub-Saharan Africa and an inflation in food prices, including in foodgrain prices, hold such massive stocks to start with, and then resort to such large exports to get rid of them, instead of distributing them through the public distribution system?

The simple answer to this question is that distributing foodgrains through the PDS would have increased the fiscal deficit. But then, it may be asked, why should that matter, since the money for procuring the stocks has already been paid to the peasants, and any sale of the stocks no matter at what price would rather mean mopping up money from those buy these stocks and hence have an anti-inflationary effect? The reason why the government did not sell stocks through the PDS is not because the increase in fiscal deficit in government accounts would have had any genuinely adverse inflationary effects; but because it would have frightened off globalized finance capital which does not like pro-active governments (except in its own interests) and hence fiscal deficits.

The inflation in India in short has nothing to do with excess demand relative to potential supplies. It arises because of the very reforms that Dalrymple believes that people are impressed with. These reforms have meant the government's holding of excess food stocks instead of distributing them; they have meant raising a whole range of prices, in order to cut subsidies, and so on, all of which cause inflation. The increase in welfare expenditure for the poor has nothing to do with inflation; and nobody can seriously argue this, or has seriously argued this, apart from just creating some noise to persuade the gullible.

Likewise, it is well-known that the decline in the value of the rupee occurred because the current account deficit in the balance of payments, which was just about being financed through capital inflows, could no longer be so financed when the US announced its intention to phase out "quantitative easing". Since then, a combination of declining gold imports and resumption of financial inflows has improved matters; but the government, no doubt deliberately, wants to keep the rupee not too far from the low level to which it had plunged, in order to keep India's exports competitive in a situation of domestic inflation. The question of "handouts" to the poor impinging on the value of the rupee scarcely arises. True, the current account deficit had increased when the rupee tumbled, but this was because of reduced exports (owing to the world crisis) and large gold imports; "handouts" to the poor do not figure in the list of explanations, as the poor hardly spend much on imported or import-dependent goods.

The clearest instance of demand in the economy being deficient rather than excessive is provided by the industrial sector where there has been absolute stagnation (and in recent months even a decline compared to corresponding months a year ago). And in the case of capital goods, whose output is an expression of the capitalists' desire to invest in productive capacity, and hence an indication of the expected growth of demand in future, there has been an actual drop. The government could step in to increase demand but is hamstrung by the fact that it can neither borrow (for that would mean an increase in fiscal deficit to the annoyance of finance capital) nor tax the rich (for that too would sap the “confidence” of finance capital in the economy) to finance larger spending.

The inflationary recession in short is because of the” reforms” not because of the “handouts” to the poor. The “handouts” at best give them meagre relief from the effects of the crisis. Removing them to push for “reforms” in the name of overcoming the crisis is Alice-in-Wonderland logic. But it expresses the class animosity of corporate capital towards the working poor.