4 CPI(M)

CAMPAIGN BOOKLET

15th Lok Sabha Election 2009

The Global Economic Crisis and India: Need for Alternative Pro-People Policies

The 15th Lok Sabha elections in India are being held in the background of a global economic crisis. The adverse impact of the crisis is being felt in India through a downturn in industry and agriculture, massive job losses and plummeting crop prices. This global crisis is nothing but the end result of the imperialist globalisation process initiated in the 1970s under the aegis of the United States and agencies like IMF-World Bank.

The Congress, which had embraced imperialist globalisation and the neoliberal free market policies since 1991 and the BJP, which is also firmly wedded to the policies of privatisation and liberalization, cannot offer any credible solution to this crisis. With these policies getting discredited and being challenged, the quest for alternative policies is gathering momentum across the world.

It is the CPI (M) and the Left, which can offer an alternative policy framework to protect the Indian economy from the adverse impact of the global economic crisis and lay the foundations for a sustainable and equitable path of economic progress for the people.

GLOBAL ECONOMIC CRISIS

Deepening Recession and Growing Unemployment

The global economic crisis being witnessed currently is the biggest crisis witnessed by the capitalist world since the Great Depression of the 1930s. The recession has deepened considerably over the past few months.

~ The latest IMF *World Economic Outlook Update, January 2009* projects that the world economy will grow only at 0.5% in 2009, the lowest since the Second World War.

~ The combined GDP of the advanced capitalist economies taken together is projected to *contract* by 2% in 2009. This will be the first annual contraction, i.e., absolute fall in output, experienced in the advanced economies in the post-war period.

As a consequence of this crisis, job losses are occurring across the world and unemployment is on the rise.

~ All the major capitalist centres – the US, EU and Japan – are simultaneously witnessing recession. In the US, the unemployment rate has shot up to 8.1% in February 2009 with the number of unemployed persons reaching 12.5 million (1.25 crore), an increase of about 50 lakh in the past one year.

~ The latest *Global Employment Trends* report of the ILO concludes that the global unemployment rate could rise to 6.5% in 2009, with the total number of unemployed persons rising from 17.89 crore in 2007 to 21 crore in 2009.

~ The ILO report also says that the number of working poor – people living below the $2 (Rs.100) per person per day, poverty line – may rise up to 1,400 crore, which is 45% of all the world's employed.

Causes behind the Crisis

The global economic crisis is a direct outcome of imperialist globalisation and the neoliberal policies pursued under its ambit by governments across the capitalist world.

~ Globalisation has led to increasing concentration of wealth and assets in the hands of the financial and business elite along with a phenomenal increase in speculative activities.

~ In the US for instance, in 2005 the wealthiest 1% of Americans earned 21.2% of all incomes in contrast to the bottom 50% earning just 12.8% of all incomes.

~ While the earnings and living standards of the working people worsened, the growth process became dependent on speculative bubbles in the financial and property markets and credit-driven consumption growth of the affluent classes.

~ Privatisation and liberalization has meant the withdrawal of state intervention in economic activities and dismantling of market regulations.

~ Financial crisis is an inevitable outcome of such a distorted and unsustainable growth process, which is based upon bubbles rather than on broad-based economic expansion.

Financial crisis has recurred in several countries over the past decade and a half: in Mexico, South East Asia, Russia, Brazil, Argentina and Turkey. What is significant this time, however, is that the financial crisis hit the US itself, which is the leader of the capitalist world. With the collapse of the real estate bubble in the US in 2007, all the big banks, insurance companies and other financial companies, which had indulged in reckless speculation, started suffering huge losses and many of them like the Lehman Brothers and Bear Stearns eventually went bankrupt. Other advanced capitalist countries like Britain, Germany and France also witnessed similar bubbles and meltdowns. Once growth collapsed in the US, the entire capitalist world, which under globalisation has become increasingly dependent on the US market, has sunk into a recession.

Global Policy Response to the Crisis

The initial response of the governments of the US and other advanced capitalist countries was to provide bailouts for the private banks and financial companies using public funds. These bailout packages, however, created a huge public outcry against the socialisation of private sector losses.

Public pressure forced the governments of capitalist countries to partly nationalise the banks and financial companies, which were being bailed out using taxpayers' money. The deepening of the crisis has eventually caused a significant policy shift at the international level. Governments across the world began abandoning fiscal conservatism and expanding public expenditure on a big scale, abandoning neoliberal policies.

IMPACT ON INDIA

Economic Downturn

The Congress-led government has been on a denial mode *vis-à-vis* the economic crisis and its impact on India. Senior ministers and officials have repeatedly claimed that the "fundamentals" of the economy remain strong. The reality is that the Indian economy has already been hit quite severely:

~ GDP growth has fallen to 5.3% in the third quarter (October-

December 2008), with the agriculture and manufacturing sectors witnessing negative growth rates of 2.2% and 0.2% respectively.

~ Exports and imports declined by 15.9% and 18.2% respectively in January 2009 (in dollar terms) compared to January 2008.

Government's Inadequate and Class-biased Response

The Congress-led government's response to the global crisis and its impact on India has been grossly inadequate. The government increased Plan expenditure for the current year by only Rs. 20,000 crore, which is only around 0.5% of India's GDP.

According to IMF estimates, this is the fourth lowest fiscal stimulus package in proportion to GDP among the G 20 countries. China's fiscal stimulus for 2009 amounts to 2% of its GDP, US' 1.9%, Russia's 1.7%, Germany, Canada and South Korea 1.5%, Japan 1.4%, Argentina, South Africa and Indonesia 1.3% and Mexico 1%. (See Table on facing page. Source: IMF Note to the G-20 Deputies.)

~ While the Congress-led government pleaded helplessness in substantially increasing public investment citing the constraints of an Interim Budget, it doled out Rs. 30,000 crore in tax concessions to the big corporates.

~ Even such concessions were not linked to protecting the workers from lay-offs and retrenchment.

~ With international oil prices falling to $45 a barrel, the government reduced the prices of aviation turbine fuel eleven times between September 2008 and February 2009 to bailout the private airlines; but prices of petrol and diesel was reduced only twice during this period and cooking gas only once.

~ The Congress-led government is yet to even acknowledge the serious situation arising out of the plummeting prices of cash crops; the government has taken no initiative in reviving the commodity boards to extend price support to the farmers and provide them tariff protection.

All this exposes the class bias of the Congress, which is refusing to give up the neoliberal policy framework even as it is rejected the world over.

G-20 Countries: Estimated Size and Growth Impact of Discretionary Measures, 2008-10 1/

	Size 2/ (In percent of GDP)			Growth Impact 3/ (In percent)	
	2008	2009	2010	2009	2010
Argentina 4/	0.0	1.3	n.a.	0.3 - 1.1	-0.1 - -0.2
Australia	0.7	0.8	0.3	0.2 - 0.7	-0.1 - -0.4
Brazil	0.0	0.3	0.2	0.1 - 0.2	0.0 - 0.0
Canada	0.0	1.5	1.3	0.4 - 1.3	0.1 - 0.4
China	0.4	2.0	2.0	0.6 - 2.1	0.5 - 1.4
France	0.0	0.7	0.0	0.2 - 0.6	0.0 - -0.1
Germany	0.0	1.5	2.0	0.4 - 1.2	0.3 - 0.9
India 5/	0.0	0.5	n.a.	0.2 - 0.5	-0.1 - -0.3
Indonesia	0.0	1.3	1.1	0.4 - 0.8	0.0 - 0.0
Italy	0.0	0.2	0.1	0.1 - 0.2	0.0 - -0.1
Japan	0.4	1.4	0.4	0.4 - 1.3	-0.3 - -0.7
Korea	1.0	1.5	0.3	0.5 - 1.3	-0.3 - -0.8
Mexico	0.0	1.0	n.a.	0.3 - 1.0	-0.2 - -0.6
Russia	0.0	1.7	n.a.	0.6 - 1.7	-0.6 - -1.7
Saudi Arabia	2.4	3.3	3.5	1.3 - 4.2	0.2 - 0.6
South Africa 6/	1.3	1.3	n.a.	0.4 - 1.3	-0.4 - -1.3
Spain	3.1	1.1	0.3	0.3 - 0.9	0.0 - 0.1
Turkey	0.0	0.0	n.a.	0.0 - 0.0	0.0 - 0.0
United Kingdom	0.2	1.4	-0.1	0.4 - 1.0	-0.4 - -1.0
United States	1.1	1.9	2.9	0.6 - 1.4	0.4 - 1.2
Total (PPP weighted average)	0.5	1.4	1.3	0.4 - 1.3	0.1 - 0.3

Source: IMF staff estimates.

Job Losses

The Congress-led government has deliberately underplayed the massive job losses and pay cuts that are affecting the workers and employees. A sample survey by the central government's Labour Bureau revealed that:

~ About 5 lakh workers have lost their jobs during October-December, 2008.
~ The most affected sectors were Gems & Jewellery, Transport and Automobiles where employment declined by 8.58%, 4.03% and 2.42% respectively during October to December 2008; in the Textile sector 0.91% of the workforce lost their jobs.
~ Total earnings of the workers declined by 3.45% during the period.
~ The January 2009 update of the Labour Bureau survey suggests that another 1 lakh jobs were lost in the month of January 2009.

Even these shocking figures are based upon very thin sample surveys and are gross underestimates. The fact that these are underestimates can be seen from a survey conducted by the Labour Department of the Gujarat Government showing that in the recession-hit diamond industry in Gujarat, 4.13 lakh workers have lost their jobs out of which Surat alone accounts for 2 lakh.

Name of the District	*No. of workers who have lost their jobs (approx)*
Surat	2,00,000
Ahmedabad	58,000
Mahesana	3,780
Banaskantha	10,500
Patan	500
Rajkot	29,000
Amreli	48,000
Junagadh	8,000
Bhavnagar	56,000
Total	4,13,780

Source: Dept. of Labour, Govt. of Gujarat quoted in RBI Report of the Task force for Diamond Sector, February 2009

If over 4 lakh workers have lost their jobs in one sector of a single state of India, it is evident that the total number of job losses across the country would be many more times than 6 lakhs, which has been officially admitted so far. The Congress-led government is not interested in bringing out the real magnitude of job losses since that would puncture its tall claims during the election season. The fact is that if the organised and the unorganised sectors – which accounts for over 92% of India's workforce – are taken together, the magnitude of job losses would run into crores.

Plummeting Crop Prices

With the onset of the global recession, commodity prices have started declining sharply. International prices of cash crops like cotton, rubber, coffee, tea, coconut, copra and groundnut have already fallen below their 2008 averages. Wheat and maize prices have also fallen.

Commodity	*Unit*	*Annual Average Price 2008 (Jan-Dec)*	*Annual Average Price 2009 (Jan-Feb)*	*Percentage Fall (%)*
Cotton A Index	Rs per kg	80.27	63.50	21
Natural Rubber	Rs per kg	144.89	85.48	41
Coffee	Rs per kg	118.37	91.60	22.6
Tea	Rs per kg	115.01	94.04	18.2
Coconut Oil	Rs per quintal	6242.40	3590.40	42.5
Copra	Rs per quintal	4161.60	2356.20	43.4
Groundnut Oil	Rs per quintal	10868.10	6726.90	38

Source: Commodity Price Data, World Bank
Note: 100 cents = $1; 1 mt = 1000kg; $1 = Rs. 51

Huge inflows of speculative finance into the commodity futures markets had led to sharp increases in commodity prices, especially in 2008. Following the financial meltdown, prices are coming down even more sharply. Such sharp fluctuations in agricultural commodity prices affect the peasants very adversely. The peasantry has been exposed to such risks because of the policies of trade liberalization and export-oriented agriculture followed by the BJP- and Congress-led governments at the centre.

LEFT INTERVENTION SAVED INDIA'S FINANCIAL SECTOR

Escaping Financial Collapse

The Indian financial system has remained relatively immune from the devastating financial meltdown afflicting the advanced capitalist countries, mainly due to the existing regulations and public sector domination of the financial sector, which the CPI (M) and the Left parties have struggled hard to defend.

~ The Left did not allow the passage of the Banking Regulation (Amendment) Bill, which would have facilitated the takeover of Indian private banks by foreign banks.
~ The Left defended the insurance sector by preventing the passage of legislation to increase FDI in the insurance sector from 26% to 49%.
~ Pensions of government employees were protected by the Left's steadfast opposition to the PFRDA Bill, which would have led to pension funds being privatized and put in the stock market.

By firmly opposing and preventing these financial liberalization measures, which were being aggressively pushed by the Congress-led government since its inception, the CPI(M) and the Left parties saved the Indian banking and insurance sectors from the catastrophe witnessed in the western capitalist world. Indian people's savings are still safe and secure because of Left's intervention.

The Indian stock markets have witnessed a meltdown, with the Sensex crashing from over 20,000 in January 2008 to below 9,000 now. Had the pension funds been invested in the stock market, as per the wishes of the Congress-led government, government employees would have lost their hard-earned savings. Over $1.2 trillion (Rs. 61 lakh crore) worth of retirement savings has been wiped out in the US since June 2007.

Financial Sector Unsafe in Congress' Hands

The stock market crash in India has occurred because of the Foreign Institutional Investors (FIIs) pulling out huge amount of funds since the beginning of the financial crisis.

~ The FIIs have taken $13.1 billion (Rs. 67000 crore) out of India in 2008 and another $2.3 billion (Rs. 11800 crore) till mid-March 2009.
~ This has caused the rupee to depreciate below Rs. 51 per dollar currently from around Rs. 40 per dollar a year ago.
~ India's foreign exchange reserves have come down from $314 billion in May 2008 to $247 billion in the first week of March 2009.

This only exposes the volatility of the speculative capital flows by the FIIs. Yet the UPA Government was keen on pushing for capital account convertibility by instituting the Tarapore Committee and pursuing its recommendations. Had it not been for the opposition of the CPI (M) and the Left parties, greater capital account liberalization would have been implemented by the Congress-led government which would have made it easier for foreigners and Indian residents to take large sums of money out of the country causing a currency crisis.

The Congress-led government learnt little from the experience of the financial crisis. It continued to push financial liberalization measures even after the global financial meltdown.

~ Restrictions on the Participatory Notes (PNs), which are dubious instruments used by the FIIs to invest in India without disclosing the source of the funds, were removed in October 2008; this happened despite Government's own National Security Advisor saying that PNs are being used by terrorists to invest in the Indian stock markets.
~ In December 2008 the Congress-led government introduced legislation in Parliament to raise FDI cap in insurance.
~ FDI guidelines were revised in February 2009 bypassing Parliament to nullify foreign investment caps across all sectors and allow FDI through the backdoor.

The Congress-led government has tried to lure the FIIs and other speculators through myriad tax concessions, like abolishing the long-term capital gains tax, violating the NCMP which had committed to reduce "the vulnerability of the financial system to the flow of speculative capital". The Congress-led government also failed to plug the Mauritius route, through which FIIs and MNCs evade Indian taxes. Given its proclivity to appease speculative finance, the Indian financial system is not safe in the hands of the Congress.

CPI(M)'S ALTERNATIVE PROPOSALS

The way out of the slowdown in the Indian economy cannot be found unless massive public expenditure is undertaken aimed at creating jobs and increasing the purchasing power of the people. A big increase in public investment is required in employment generation, rural development, agriculture, social sectors and infrastructure. The CPI(M) had released a detailed set of suggestions to tackle the global economic crisis in November 2008. The main suggestions of the CPI(M) include:

~ Enhancing state intervention and increasing annual Plan expenditure amounting to 10% of India's GDP (currently it is below 5%).

~ Adopting specific relief packages for crisis-affected sectors aimed mainly at the small and medium enterprises; preventing job and pay cuts for workers and employees.

~ Increasing public investment in agriculture and irrigation; providing protection against price crashes of crops through price support and increased import tariffs.

~ Expanding the employment guarantee to cover all adults and for as many days as demanded; extending employment guarantee to the urban areas.

~ Universalising the PDS and supplying 14 essential commodities at subsidised rates through the PDS.

~ Providing income tax relief for salaried employees, pensioners and senior citizens; increasing taxes on speculators and the wealthy and crackdown on black money.

~ Strongly regulating the financial sector and strictly controlling the outflow and inflow of speculative finance; maintaining predominant state control over finance and revive development finance.

CONCLUSION

India had embraced the rightwing free market policies in 1991, under the stewardship of a Congress government at the centre in which Manmohan Singh was the Finance Minister. It is therefore not surprising that the present Manmohan Singh-led government has been at a complete loss to deal with the impact of the global crisis, which is a direct outcome of such policies. As the ground shifted under the feet of the neoliberal mandarins of the Congress party, they have conveniently chosen to be on a denial mode *vis-à-vis* the crisis and its impact.

The BJP's economic policies are no different from that of the Congress. Their criticisms of the Congress-led government are vacuous because they have no solutions to offer on how to tackle the crisis differently.

It is the CPI(M) and the Left, which can objectively analyse the crisis and offer concrete solutions. Strengthening the CPI(M) and the Left in the forthcoming elections would bring about the necessary policy break at the Centre and put in place alternative policies to protect Indian people from the global economic crisis.

Vote CPI(M)

Strengthen the Left and Democratic Forces to Ensure an Alternative Secular Government at the Centre.

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for an
Alternative Secular Government

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