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EDITORIAL

Union Budget 2004-05
Much Ado About Nothing

By: Piyush Pant

The presentation of UPA government's first budget by its Finance Minister 'the dream budget presenter' P Chidambaram takes you back to the memory lane and you are reminded of the media hype of NDA governemnt's 'India Shining' campaign and its subsequent derailment by the Indian electorate. In similar fashion, pre-budget hype was created and expectations were generated. An impression was created that the FM of a government, whose philosophy of 'economic reforms with a human face' got amply reflected in the Common Minimum Programme, would again present a 'dream budget', not for India Inc. or market-savy middle class but for that common man who lent his hand (Aam Aadmi Ka Haath) to make it victorious at the hustings; for that farmer whose brethren has been forced to commit suicide due to mounting debt burden; for that qualified young man whose repeated failure to secure job puts him in a depressive mode and for that section of middle class whose only gaurantee for old age has been interest on his savings. It was more so since the present UPA government has the backing of almost all the left parties.

Moreover, the 2004 electoral verdict was a verdict for good governace and was delivered by that miniscule of population which finds no place in the grand designs of successive governments. It was a verdict for people-oriented governance and not the one that has at its epicentre the interests of the capital guzzelers, power-broakers, law-breakers and the lecherous.

But the politician's penchant for taking people for a ride seems to has become a permanent fixture of Indian Polity, Mr. Chidambaram's budget has recieved much applause. It has been variously described as a 'different budget, a 'balanced budget', a budget addressing the agriculture and social sectors comprehensively, and a budget which is farmer friendly and pro-poor. But if you try to catch up with the nuances of the budget text, the picture will no longer appear so rosy. For instance, take the case of the poors or the 'Aaam Aadmi'. Well, if the definition of 'common man' has changed in the governing parlance of UPA government then no scope exists for the argument, otherwise the fact of the matter is that the budget is heavily loaded against the 'common man' of India. If you look at the estimates of revence receipts for 2004-05, this budget too, like previous budgets, makes wider hole into the pocket of common man. To the total tax revenue receipts, the share of direct tax is merely 43.9 per cent whereas the contribution of the indirect taxes (customs, excise duties and service tax) is 55.8 per cent, meaning that the common man wil have to shell out more for his daily consumptions. His plight had been already made worse by pre-budget cabinet exercise of hiking

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appeal Action Programme for People's Economics and Allied Literacy

the price of petroleum products. Morever, the introducing of an education cess of 2 per cent on all categories of taxes; the increase in service tax from 8 per cent to 10 per cent and widening of its net will further put pressure on the domestic economy of the people. Thus the urban poor has been left to fend for himself or herself. As for the rural poor, though the government has increased the allocation for various social and rural development schemes by around Rs. 6,000 crores, it has saved as much as Rs. 5,050 crore by slashing the outlay for the Sampoorna Gramin Rozgar Yojana (SGRY), a food-for-work scheme. The Finance Minister talks about gauranteeing 100 days of employment in a year to one person in every poor household, but he is only playing the tricks as the scheme is merely a rehash of existing schemes like SGSY, SJSRY, REGP, PMRY. Besides, a guarantee of a job for 100 days for every family does not mean much. The real problem is that the rural and unskilled worker is assured of a job for only about 180 days a year and has to sustain his or her faimly without having any work for another 185 days. Setting aside extra Rs. 10,000 crore for the poor does not hold much ground at the moment since the actual money-flow and the details of the schemes will be known only after the Planning Commission decides on its allocations. Similarly, even after extending the Antyodaya Anna Yojana for covering another 50 lakh families, food subsidy bill has been raised by only Rs. 300 crore over the revised estimates for the last fiscal to Rs. 25,800 crores. In some other cases, the Finance Minister has simply announced a pilot scheme with only a token allocation. For instance, he has proposed a pilot project on food stamps under the PDS for which no funds have been provided. Thus only a lip service has been paid to the poor whereas the rich and the corporate world has been given concealed heavy concessions. No major corporate tax has been levied. On the other, long-term capital gains tax has been removed benefitting those dealing in real estate and stock market, particularly the FIIs who take the Mauritious route to the Indian stock excahnge in order to avoid the capital gains tax. Even short term capital gains tax has been slashed from 30 per cent to just 10 per cent. Even then, imposition of a small .15 per cent transaction tax agitated this class so much that it put the stock markets to standstill for one whole day. This is the class of day traders who earn around Rs. 50,000 a day just playing on the terminals and are not ready to part a single paise for the development of the country.

In the rural sector also, despite the hype being created, the budget is loaded in favour of the medium and rich farmers and corporates trading in tractors and other agricultural tools and appliances as well as those dealing in the food processing. Similarly the hike of 23 per cent in the defence budget is going to benefit the manufactures, dealers and suppliers of the capital goods and their political benefactors.

Even if some leeway is granted to Mr. Chidambaram for his intentions, the real challenge for him lies at the level of the implementation. For, so much corruption pervades the bureaucratic system in India that sitll, as per late Rajiv Gandhi, 'for every 10 rupees only 1 rupee goes for the development'.

Food is an essential human need. All cultures involved in settled agriculture have produced food and food production is basic to all culture. The seed used in agricultural cultivation is the product of thousands of years of cultural development. Most of this development of food crops over the millennia has occurred in regions that are now in the periphery of the capitalist world economy. In recent years, however, agribusiness corporations located in the rich nations of the core have attempted to patent various forms of food crops, such as basic grains, and then to monopolize these patented grain varieties, creating dependence on seeds of the agribusiness corporations. When such practices involve, as in recent years, a crop such as rice on which much of the world's population depends for subsistence, the implications are enormous and potentially disastrous for the world's poor.

Highlights of the Union Budget 2004-05

The Union Budget for 2004-05 was presented in the Lok Sabha on July 08, 2004 by Finance Minister P Chidambaram. In his opening remarks, Chidambaram said the verdict in the recent general elections was a vote for a change in the manner in which the government was run and the policies followed.

It also meant a change in the focus of governance, he said adding it was a vote for Sonia Gandhi and the United Progressive Alliance.

The FM said that the Budget would aim seven to eight per cent growth, focus on agriculture and fiscal consolidation.

Taxation

I.T. Exemption limit raised to Rs 100,000

- 1.4 crore tax assessees to go out of the net as a result.
- No change in tax slabs, says FM
- Section 80(DD) and Section 80 (U) will be given to persons suffering from autism, cerebral palsy and multiple disability.
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- Contributions to Contributory Pension Scheme exempted form tax. Terminal Tax to be paid at the time of receipt.
- Loopholes in gift tax exemption to be plugged.
- Encouragement to the automobile sector. Industry to be provided 150 per cent exemption for in-house research and development.
- Rural hospitals with 100 beds to be get 80(I)(B) concessions.
- Capital Gains Tax revamped on securities. Long-term capital gains tax abolished.
- Tonnage tax introduced for shipping industry but will have option to pay either tonnage tax or corporate tax.
- Equity related Mutual Fund will continue to be exempt from Dividend Tax.
- TDS and TCS being extended to more activities.
- Companies doing research on bio-technology to get 100 per cent tax exemption for ten years.
- 0.15 per cent tax on transaction on securities will be levied.
- 20 per cent tax on corporate unit holders of mutual funds.
- Peak rate of Customs Duty to continue at 20 per cent.
- The concession of tax exemption of new industries in J and K extended by one more year to April one, 2005.
- Reduction in customs duty in non-alloy steel from 15 per cent to ten per cent, excise duty raised from eight per cent to 12 per cent.
- Number of concessions on excise duty for agriculture.
- Tractors will be fully exempted from excise duty against existing 16 per cent.
- Dairy machinery also fully exempted. Spades and shovels also fully exempted.
- Health sector to be provided a number of concessions.
- In the health sector, braille, braille typewriters, braille computers fully exempted from customs duties.
- All ambulances to be exempt from customs duty.
- Diagnostic kits for all types of epidemics exempted from Income-Tax.
- Proposed to levy excise duty on contact lens in a bid to promote CENTVAT.
- Complete exemption of excise duty on crutches and wheel chairs.
- All types of hepatitis kits will be exempt from duty.
- For matches made in the mechanised sector excise duty has been raised to 16 per cent without centvat rates from eight per cent with CENTVAT rates.

- Platinum import duty reduced from Rs 550 for 10 gms to Rs 200.
- Full exemption of excise duty for computers.
- Family pension for widows of armed forces and para-military forces killed in operations are exempted from Income-Tax.

Other Highlights

- In addition to gross budgetary support of Rs. 1,31,000 crore provided in the interim budget, the Budget has decided to allocate Rs 3,000 crore.Planning Commission will reorient its approach to planned development.
- Government proposes to wipe out revenue deficit by 2007/08 against 2008/09 target set in the Fiscal Responsibility and Budget Management Act.

No change in existing interest rates on small savings. But senior citizens to get a new savings scheme with a rate of 9 per cent.

- The government would draw a five-year road map for implementing the Common Minimum Programme to achieve growth and equity.
- Government would ensure that a child remains in school for at least eight years and does not go hungry.
- The Government will ensure that adequate funds are made available for universalisation of primary education for all children.
- It will also provide funds ensuring availability of drinking water.
- It proposes to launch new food for work programme to step up employment in rural areas. Rs 6,000 crore is provided under various schemes and more funds would be made available if needed.
- Rs 3,500 crore subsidy for Antodaya scheme under which, foodgrains would be provided for the poorest of the poor.
- Micro finance to be stepped up. Micro enterprises by self help groups to be encouraged.
- Work has started on the national employment guarantee programme to provide 100 days work for one member of family.
- Proposed to increase allocation for checking AIDS and other epidemics from Rs 6,000 crore (Rs 60 billion) to over Rs 7,000 crore (Rs 70 billion).
- Boosting Agricultural growth and diversifying production is one of the aims.
- Sustain an overall annual growth of 7-8 per cent and double the growth of agriculture in three years.
- Proposed to hold each sponsor bank of RRBs responsible for the performance in stepping up agriculture credit to farmers.
- Rs 50 crore (Rs 500 million) additional allocation for providing special attention to minorities education.
- Task Force to be set up to examine the cooperative banking system in the agriculture sector. It would submit its report by October 31 this year.
- Irrigation programmes to be restructured to complete the projects. Rs 2300 crore (Rs 23 billion) provided for accelerated rural development programme.

The Budget aims at doubling agriculture credit in three years.

- While aiming to considerably enhance investment in public and private sector, fiscal prudence and financial discipline would be maintained.
- The cess on education will realise Rs 4000 crore (Rs 40 billion) to Rs 5000 crore (Rs 50 billion) in a year and Rs 3057 crore (Rs 30.57 billion) at this moment.
- To face the "crisis of water", proposal of an ambitious massive scheme to repair, renovate and restore all the water-bodies.
- All water bodies to be restored to original health using assistance from multi-lateral agencies.
- For farmers belonging to scheduled castes and tribes, the government will start a massive nationwide water-harvesting scheme.
- One lakh irrigation units will be revamped using assistance from NABARD. Fifty per cent subsidy will be provided for such schemes.

VAT to be implemented on Apr 1, 2005

- There will be a food security system for the poor.

- On scheduled castes welfare programme, an allocation of Rs 1,180 crore has been proposed, marking an increase of Rs 1,137 crore.
- For welfare programmes of Scheduled Tribes, allocation of Rs 1,146 crore has been proposed. It marks an increase of Rs 1,087 crore.
- Drinking water for all. Minor irrigation, water harvesting to be encouraged.
- More housing for the poor.
- Electricity for all.
- More ITIs to be set up. Government proposed to launch a programme to upgrade 500 ITIs in the country.
- The now operational Universal Heatlh Insurance Scheme, which is skewed against the poor, is proposed to be redesigned.
- Budget proposes to increase the subsidy under the Health Insurance Scheme. For individuals it has been raised to Rs 200, Rs 300 for a family of five, and Rs 400 for a family of seven.
- Foodgrain production to be stepped up to 300 million tonnes by 2011-12.
- A new health insurance scheme being launched. Premium will be Rs 120 for Rs 10,000 cover.

The allocation for prevention of AIDS will be Rs 259 crores.

- Fiscal instruments will be used to enhance investment in agriculture.
- Allocation of Rs.1,000 crore provided for utilisation of biotechnology for agriculture development.
- Commercial banks have now agreed to waive the requirement of collateral upto Rs 750,000 from the existing Rs 400,000.
- Task force to examine reforms in cooperative sector. It would submit its report by October 31.
- National Agriculture Insurance Scheme to be redesigned by LIC.
- Rs 8000 crore for Rural Infrastructure Development fund to be provided.
- Proposal to launch National Horticulture Mission on the Anand model of cooperatives.

Airports, sea ports and tourism would be the focus of growth in the infrastructure sector.

- Weather Insurance Scheme to be implemented on a trial basis in 20 districts.
- Rs 40,000 crore to be provided by major banks for rural development programme. Necessary additional capital to SFAC for encouraging agri-businesss. The M S Swaminathan Research foundation has identified 13 districts for implementation.
- Allocation for Accelerated Rural Development Programme stepped up to Rs 2,600 crore against Rs 2,226 crore previously.
- Government proposes insurance cover for both farming and lifestocks.
- Equity support of Rs 14,194 crore and loan of Rs 2132 crore to be given to the PSEs including the Railways during 2004-05.
- Investment Commission will be established to make India an attractive destination for investment.
- Investment commission to suggest measures to woo domestic and foreign investment.
- Proposed to raise sectoral caps on FDI on telecom from 49 per cent to 74 per cent, civil aviation from 40 per cent to 49 per cent and insurance from 26 per cent to 49 per cent.
- Basic health care, Sarvashiksha Abhiyan, investment in agriculture, science and technoogy including bio-technology would be given priority and additional funds.
- A board for reconstruction of Public Sector Enterprises to be set up. This will cover those where divestment is also being considered.
- Government to divest five per cent of stake in NTPC.
- 85 items to be removed from the reserved list of SSIs.
- A compensation formula for any loss of revenue to states with the introduction of VAT will be worked out.
- Commerce Minister will soon introduce a Bill to regulate Special Economic Zones. The New Trade Policy to be unveiled by this month-end will contain strategy for boosting exports including SEZs.
- Bihar to be provided a package of Rs 3,225 crore for development.

Poor to have first charge on Plan panel resources

- Rs 5,823 crore to be invested in schemes in North-Eastern states and Sikkim.
- Government to provide special assistance to J and K. Grant of Rs 300 crore to transit from the current

overdraft facility with the J and K Bank for Baglihar project.

- Rs 100 crore (Rs 1 billion) fund to be set up for encouraging cottage industries and the disbursal of this fund will be done in consultation with the concerned industries.
- PPF/GPF and Special Deposit scheme will have eight per cent interest.
- National Institute of Public Finance and Policy has been asked to prepare a report on better targeting of subsidies.
- States share of Union duties will go up to Rs 82,000 crore (Rs 820 billion) from Rs 63,752 crore (Rs 637.52 billion).
- Loans to states from the Centre will attract an interest rate of 9 per cent from 10.5 per cent.
- Backward state grant fund to be set up with a corpus of Rs 25,000 crore to be provided over a period of five years. Fund will be operational from 2005-06.
- Defence allocation to be raised to Rs 77000 crore as against Rs 65300 crore in budget estimates 2004-05. Capital expenditure increased to Rs 33,403 crore against
- Rs 20953 crore Budget estimates of 2004-05.
- Non-Plan expenditure lowered to Rs 3,32,239 crore as against Rs3,49,785 crore.
- Revenue deficit pegged at 2.5 per cent of GDP as against 3.5 per cent last year. Fiscal deficit pegged at 4.4 per cent of GDP at Rs 1,37,407 crore.

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Budget 2004-05
No Clarity on Delivery

By: S. Narayan

There are several positive signals in this Budget. The relaxation of sectoral caps on telecom, civil aviation and insurance, allowing banks greater latitude for investment in the capital market, liberalisation of FII limits, and the commitment to settle the issue of brokers fee are all market-friendly measures. On the investment side, the promised equity support to public sector undertakings, the setting up of an Investment Commission and the National Manufacturing Competitiveness Council and tax concession for automobile, textile and shipping sectors are pro-industry. These measures have been well-integrated with the articulation of activities from the Common Minimum Programme (CMP) to give the Budget a sense of balance.

The responsibility of programme formulation and resource allocation has been put on the Planning Commission. Within the governmental system, this will result in engaging the Planning Commission with the individual ministries on an extended battle with regard to ongoing and new schemes from which the finance ministry can distance itself. This is quite clever, and also offers a plausible explanation to the strategy of merely outlining intent without having to flesh out the programmes. It also leaves open resource management for the proposed employment guarantee scheme.

The focus on agriculture, primary health and, most importantly, on irrigation and water supply are not only to be welcomed but are quite in the direction that planned development should follow. **The regret is that several of the concepts outlined, like repairs and renovation of water bodies, nationwide water-harvesting schemes, focus on oilseeds and horticulture, are all initiatives which have been tried out several times in the past. Delivery of primary education and mid-day meals and providing access to health facilities has never been lacking for intent or resources. There is no clarity on how the existing obstacles to delivery can be overcome. As much as 25 per cent of the primary school-teachers are absent everyday. There is no mechanism for providing cooked mid-day meals in nearly 20 states; primary health centre doctors do not attend dispensaries, which are always short of medicines. These are basic state government functions and it is difficult to perceive how any statement of intent in the Budget can make these things happen in the remote corners of the country.**

An area of major concern is the mismatch between the roadmap of the economic survey and the announcements in the Budget. According to the *Economic Survey*, GDP growth of 7-8 per cent can be sustained primarily through growth in industrial

production of over 10 per cent (which will lead to employment creation), rapid development of infrastructure and improvements in agriculture. Apart from the concessions given to some selected sectors, the strategy on incentivising industrial investment is not clear.

Even on infrastructure, the power sector investments mentioned have been under consideration for several months — much more needs to be done. The Vallarpadam Port Scheme in Kochi is an old chestnut, and there is very little new for the shipping, airports, roads and rail sectors. **So, where is the employment going to come from? It appears as though increase in employment has to come out of rural wage labour being used for various irrigation, water-harvesting, village road-building kind of schemes, which is a throwback on the earlier models of planned development that we have seen between the Fourth and Sixth Plans.**

Even in agriculture, mere doubing of credit may not convert subsistence-level farming into a viable business model. Thus, while agriculture, manufacturing industry and infrastructure remain crucial issues, one would have liked to see new ideas. In particular, it is interesting that there is very little mention of technology upgradation in agriculture through provision of inputs, production and management techniques as well as processing and marketing.

Turning to the fisc, the slippage of the fiscal responsibility management target from 2007 to 2008 is worrying. Not much relief has been given in taxes except the long expected raising of zero income tax ceiling to Rs 1 lakh per annum. There is some rationalisation of custom duties on inputs but little movement on the Kelkar Committee Report on removal of exemptions. The Budget states that the fiscal deficit will be 4.4 per cent of GDP next year. Revenue receipts have not been adequately clarified. Receipts from income tax are expected to increase from Rs 40,269 crore in RE 2003-2004 to Rs 50,929 crore in 2004-2005 — an increase of 25 per cent. Given that more than 1.5 crore tax assessees will go out of the tax net, it is not clear whether this target is realistic. Similarly, corporation tax is expected to increase from Rs 62,986 crore to Rs 88,436 crore — an increase of 40 per cent! If receipts figures are apparently overstated, then the fiscal deficit would be much more. There is also some lack of clarity in the excise proposals. What is the impact of the new textile sector regime? Will it add or reduce revenues and, if so, by how much? It is important that these numbers are given out transparently.

In summary, the finance minister has managed to incorporate the CMP into his Budget without actually explaining the activities for implementation. There are some movements on the reform agenda, but several areas have not been addressed. On balance, the Budget is careful and correct but could have been much better.

(Courtesy: The Indian Express)

(Mr. Narayan is former Finance Secretary)

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Budget 2004-05

Farmers are the New Untouchables

By Devinder Sharma

For the BJP-led National Democratic Alliance, and now the Congress-led United Progressive Alliance, farmers have become the new untouchables. If the two Budgets presented in 2004 are any indication – first the interim Budget by the outgoing Finance Minister Mr Jaswant Singh, and then the Budget 2004-05 presented by his successor Mr P.Chidambaram – agriculture has become a burden on an ungrateful nation.

The writing is clearly on the wall: farmers can go on committing suicide.

Amidst the rhetoric of *strengthening* agriculture or *emphasis* on agriculture to make villages *smile*, Mr P Chidambaram has followed the age-old principle: repeat the promise a hundred times and it will be taken as truth. With the ignorant electronic media, and the print journalist latching on to the right vocabulary that Mr Chidambaram used, an impression is being given that the Budget 2004-05 promises to 'tax India, fund Bharat'. In reality, it has failed Bharat.

"We've shown that we are a caring government by addressing agriculture, rural economy and infrastructure," the Finance Minister was quoted as saying in one of his routine post-Budget interviews on the television. **In reality, Mr P. Chidambaram did not provide any additional outlay for agriculture or the allied sector. Nor did he provide any indication of a road map for boosting agriculture growth. Such is the insensitivity to agriculture that he did not even make a mention of the growing crisis on the farm front that was forcing farmers to take their own lives.**

It is true that agriculture sector requires massive investments. To say that such investments have to be made through credit-enabled private investment and enhanced public investment (for which no indication is available) shows the step-motherly treatement being

doled out for agriculture. **When it comes to industry and corporate sector, the government never shies away in making a direct investment in the name of boosting efficiency and competitiveness but for agriculture it has to be through enhanced credit !**

Doubling the flow of agricultural credit in the next three years is not the answer to the blood bath that is being enacted in the ravaged farm sector, a direct fallout from the green revolution equation going wrong. A majority of the thousands of farmers who continue to take the fatal route to escape the humiliation that comes along with increasing indebtedness, are actually dying because of their inability to repay the loans. Credit is therefore part of the problem, and how the policy makers think of solving the problem (inability to repay the loans) by extending more loans surely defies any sensible logic.

What the farmers need is an assured income. Like everyone else who lives in the urban centres, he too needs an adequate monthly package that takes care of his family needs and leaves him with a little surplus to sow the next crop. Successive governments, through the process of annual Budgets, have actually ignored the plight of the farming community thereby acerbating the agrarian crisis. Such was the contempt against anything rural, that for the BJP-led coalition, *Bharat* had simply disappeared from the economic radar screen. Unfortunately, the UPA too is following the same model of economic growth.

Studies by the Ministry of Agriculture have clearly demonstrated that farm incomes have fallen in the past five years. Rice farmers in West Bengal for instance earn less by 28 per cent in 2002-03 than what they earned in 1996-97. Incomes of sugarcane farmers decreased in Uttar Pradesh by 32 per cent and in Maharashtra by 40 per cent. Farm incomes of north Indian farmers eroded by 10 per cent on an average. The sharp decline in farm incomes is happening at a time when incomes in the urban areas is on an upswing.

If nothing better, Mr Chidambaram could have at least extended the crop insurance cover. For the past 20 years, the government has been talking of introducing crop insurance. It hasn't gone beyond the pilot testing stages. Even at times when insurance has become a strong planck of globalisation, this service industry refuses to touch the farm sector. Instead of saying that the crop insurance scheme will be extended on a trial basis to 20 rain gauge stations in the currect crop season, Mr P. Chidambaram should have learnt a lesson or two from the newspaper industry. Some newspapers had announced a life insurance cover of Rs 2 lakh to each of their subscribers if they buy the newspaper for three months.

If only Mr Chidambaram had extended this cover to the farm sector, thousands of farmers who sacrificed their lives at the altar of development could have been saved from the gallows. All that the government needed to do was to provide them with a newspaper subscription for three months.

Doubling horticulture production in the next ten years, and launching a National Horticulture Mission is a faulty prescription. The fault is further compounded by the assertion that horticulture production will be enhanced by following the cooperative dairy structure. First, it has to be known that India is amongst the world's top producers of fruits and vegetables. The average availability of horticultural products is around 780 grams per day. However, against the prescribed minimum nutritional norms of 90 grams to be consumed daily, an average Indian only manages to eat 40 grams.

Increasing horticulture production therefore is not the answer. The challenge is to see how to increase the consumption of existing horticultural produce. Add to it the declining consumption of cereals in real terms, the message is crystal clear. For bulk of the population, the capacity to buy food is eroding fast. This is leading to worsening of poverty and thereby leading to acure malnutrition. The Economic Survey, presented a day before the Budget, clearly stated that cereal consumption within a year had fallen drastically, from Rs 1,58,621 crore in 2001-02 to Rs 1,24,560 crore in 2002-03, indicating worsening poverty levels.

Moreover, if the dairy cooperative system is such a wonderful mechanism to boost production, there seems to be no justification for all the efforts being made to dismantle the Amul cooperatives. The milkman of India, Dr George Verghese, is unhappy today, tired of pleading with the bureaucrats not to tinker with the Amul cooperatives. Isn't it therefore surprising that on the one hand the government is increasing joint ventures in dairy cooperatives thereby taking away the spirit of cooperation and on the other the same system is being advocated for another new thrust area.

Exemption granted to the tractor industry by scrapping the excise duty of 15 per cent comes only few months after the industry reaped in a bonanza by the lowering of the bank interest rates for farm sector. **What is being hailed as a right step for modernising agriculture is in reality emerged as the biggest killer on the farm front. Aggressive tractor marketing has lured small and marginal farmers to buy tractors on easily avilable loans. Since th majority land holdings fall much below the viablity criteria of at least ten hectares of land needed to maintain the machine, a majority of them get into a debt trap within a year of buying a tractor. A large number of such farmers end up committing suicides.**

Tractor avalability has already crossed the thresh-hold

limit. It is time the government makes tractors out of the reach of the farming community despite the industry crying foul. **Too much is also being made out of the new scheme promised for water harvesting. There are already 70-plus scheme for water harvesting operating in the country, another scheme with an additional outlay of Rs 100-crore is not going to make any difference unless we remove the structural flaws in cropping pattern that leads to water crisis.**

It seems the policy makers and planners have exhausted all other options to prop up the farm sector. It reminds me of the five blind men and the elephant. No wonder, crop diversification has become the easy escape route to those who are trying to find ways to help agricultrure. This is exacly what the World Bank.IMF have been telling the developing countries to do, and this is exactly what is being perpetuated under the free trade regime being enforced through the World Trade Organisation. The developing world is being repeatedly asked to stop growing crops that are being negatively impacted by monumental subsidies that the rich and industrialised countries provide for their agriculture. Let us therefore first understand the politics behind the emphasis on diversification

The World Bank/IMF have under the Structural Adjustment Programmes (SAP) very clearly tied up credit with crop diversification. It continues to force developing countries to shift from staple foods (crucial for food security needs) to cash crops that meet the luxury requirement of the western countries. It has therefore been forcing developing countries to dismantle state support to food procurement, withdraw price support to farmers, dismantle food procurement, and relax land ceiling laws enabling corporates to move into agriculture. Farmers need to be left at the mercy of the market forces. Since they are 'inefficient' producers, they need to be replaced by the industry.

The same prescription for farming has never been suggested for the rich and industrialised countries. Let us be very clear, one part of the world that needs to go in for immediate crop diversification is the industrial world. These are the countries that produce mounting surpluses of wheat, rice, corn, soybean, sugar beat, cotton, and that too under environmentally unsound conditions leading to an ecological catastrophe. These are the countries that inflict double the damage – first destroy the land by highly intensive crop practices, pollute ground water, contaminate the environment, and then receive massive subsidies to keep these unsustainable practices artificially viable. These are the countries that are faced with the tragic consequences of massive farm displacements, and are in the grip of food calamities arising from industrial farming.

If India or for that matter other developing countries fail to understand the prevailing politics that drives the agriculture trade agenda, the world will soon have two kinds of agriculture systems – the rich countries will produce staple foods for the world's 6 billion plus people, and developing countries will grow cash crops like tomato, cut flowers, peas, sunflower, strawberries and vegetables. The dollars that developing countries earn from exporting these crops will eventually be used to buy foodgrains from the developed nations – in reality, back to the days of 'ship-to-mouth' existence.

All this is being attempted in the name of growth and development. All this is being pushed by the corporate sector, which has shown no responsibility towards the social sectors, including agriculture. This is where the economic thinking has gone wrong. And this is where the media has fallen an easy prey to the glamour and glitter that the corporate world provides.

This reminds me of what the former Finance Minister of Pakistan and the author of the UNDP's Human Development Report, the late Mahbub-ul-Haq (who was a personal friend of Dr Manmohan Singh) had once remarked, "We were wrongly taught that we should take care of GDP and it will automatically take care of poverty. Let us reverse it. We need to take care of poverty and it will automatically take care of GDP". And the World Bank reluctantly acknowledged, though belatedly, "the gap between some of India's largest and poorest states exhibit slow progress in human development indicators; low growth rates particularly in the agricultural sector. If the present trends continue, the bulk of the poor in these states will be unable to participate in future growth."

Like Mr Chidambaram, Mahbub-ul-Haq too refused to accept the stark reality – economic growth will not reduce poverty and deprivation. He too believed firmly in the conviction that the real purpose of development was to increase savings and attract foreign investments. As Pakistan's Finance Minister in the 1960s, he was able to generate a GDP growth rate of seven per cent. "And still people voted us out," he told me once, adding "it was a rude awakening for me. I realised that economic growth is no indicator of human development."

The Stock Market Menia

By: Swaminathan S Anklesaria Aiyar

Roughly two major illusions pervade our society. The smaller illusion is that the stock market is the best indicator of the country's health. The bigger illusion is that our stock market depends on what Indian politicians do.

In fact, in this globalised world, Indian stock markets dance mainly to the tune of international events. What Chidambaram or Sitaram Yechury say matters only up to a point: global events are the clinching factor.

Remember 1997? The stock market skyrocketed after Chidambaram's dream budget. But the dream proved irrelevant when the Asian financial crisis struck six months later, and Indian markets crashed along with other global ones.

When Chidambaram was lauded for his budget, few in India saw any warning signal in the imminent collapse of Thai banks. Yet that proved to be an infinitely stronger trigger of economic events than Chidambaram's dreams.

In subsequent years, the dependence of our stock market on global events has, if anything, increased. In 1998-2000, Indian markets suffered the same dotcom boom-and-bust as in the US.

They collapsed in tandem with the US market after 9/11, and later, both recovered in tandem. In 2003, low US interest rates induced global money to pour out of the US into all emerging markets, including India.

The BJP suffered from the illusion that foreigners were sold on India. In fact, India was just getting a slice of a global money shift: all Asian markets skyrocketed, including that of Pakistan (where there

Chidu Ki Nayi Duniya

By: Suresh Nair

The night before it was tabled in Parliament, Shah Rukh Khan laughed when asked about the Budget. "I understand so little of it," he joked. "Remember, I've only just graduated from middle class to upper class!" Post-Budget, the Bollywood Badshah might agree that this kind of graduation is a costly affair. To put the Budget in showbiz lingo, the Finance Minister stood in the Balcony and made the Upper Stall tax free while hiking rates for the Dress Circle.

Now let's look at the Budget through the eyes of Little Chidambaram, an eight-year-old paiyyan, who watched his namesake on TV spinning spiel on service tax and subsidies. For starters, Little Chidambaram can't understand what in the name of Lord Murugan is this Education Cess. He wonders if it's actually a cesspool that he will sink into if he entertains any ambition of growing up and growing rich. In fact, he entertains ideas of dropping out of school and looking for a job where he can negotiate his salary for less than Rs 1 lakh.

Otherwise, if he were to follow his Appa's advice and become a graduate earning a five-figure salary, he would pay a heavy price for trying to improve his lifestyle. After all, he can't buy a car or a flat due to the hike in excise on steel. In fact, even a steel cupboard might be a luxury.

Of course, he could buy a personal computer, that's cheap, but he can't afford its maintainance due to service tax. Closer home, he could buy vegetables but Amma might boil them for dinner because cooking oil is costly due to import duty. So he might have to consider the option of turning non-vegetarian because packed meat and poultry is cheaper.

That apart, Little Chidambaram can no longer afford to impress his girlfriend by buying her imitation jewellery. Worse, his marriage plans seem to be under threat, considering outdoor catering, pandals and shamiana services all attract a 10.2 per cent service tax.

And if he does get married, the honeymoon is a problem because he has to pay a price for flying to Goa through service tax on bad airline food and careless baggage handling.

All this makes Little Chidambaram wonder if it would be better to stick to rail travel, as he watches the Railway Minister yawning, digging his nose and looking like a derailed locomotive during the Budget speech. By the way, he seems to have made his contribution to the education cess and dropped the twin letter 'o' from Laloo and become Lalu.

But coming back to Shah Rukh Khan, he might want to levy a personal entertainment tax on the Finance Ministry for using his film titles for comic relief during Budget speeches. It was Kabhi Khushi Kabhie Gham last time, this year it's Main Hoon Na .

(Courtesy: Times News Network)

was no Infosys or Vajpayee).

In early 2004, it became clear that US interest rates were going to rise again, and so money began pouring out of emerging markets back into the US. All Asian markets fell, and India was no exception.

Illiterate political commentators thought the Indian market had fallen entirely because the BJP lost the election. Rubbish. The market would have fallen — possibly to a lesser extent — even if the BJP had won.

What happens in our stock market is essentially a global story, modified only to a modest extent by local events.

So, what are the critical international issues today? First, the speed at which US interest rates rise. Second, whether the Chinese economy suddenly slows down, slowing the world with it.

Third, whether terrorist attacks disrupt oil production in Saudi Arabia, raising oil prices to $100 a barrel and causing global recession. Fourth, fresh terrorist attacks in the US, a la 9/11.

This last factor has the biggest potential for disaster for all markets, including India's. The CIA expects a major terrorist attack before the US election in November.

An attack on Spanish trains just before Spain's election caused the humiliating defeat of Spanish Premier Aznar. Maybe something similar will happen in the US.

Experts are unanimous that Al-Qaeda will not replicate the plane bombs of 9/11, and will instead try a new approach. The one most mentioned, because it is easiest to pull off, is the dirty bomb.

This is an ordinary bomb into which is mixed low-level radioactive waste, the sort easily available from any nuclear reactor waste (including used clothes and gloves of workers in such facilities). Making these bombs is easy, so they could be exploded simultaneously in dozens of cities on the same day.

The aim of such a bomb is not to destroy buildings or people but to deposit radioactive debris over a large area in city centres. This radioactivity will be too mild to kill humans.

But it will create a long-term health risk which ensures that nobody wants to live or work in such an area. This will have a huge financial impact. A dirty bomb will kill property value in city centres, wiping out billions of dollars. This, in turn, can kill banks that have lent against mortgages of supposedly valuable property that has suddenly become worthless.

The US economy has long been sustained by consumer spending based on massive borrowing against rising property values. If property values crash, so will consumer spending, and so will the whole basis of the US boom.

Remember that a crash in the financial sector and consumer spending caused the Great Depression of the 1930s.

Let me not exaggerate. We have learned from the Great Depression, and can better control the after-effects of a financial crash. Maybe cities can be scrubbed clean after a dirty bomb, though I doubt that will restore property values.

Overall, the risks are high enough to make my spine tingle. No matter what Chidambaram's budget contains, we can be spiked by global events beyond our control. Globalisation has risks as well as advantages.

(Courtesy: The Time of India)

World Bank Finds Sense in CMP

New Delh, June 10, (PTI): Finding "sense" in the Common Minimum Programme of the UPA Government, the World Bank said India could at least grow by six per cent over the long term, but containing fiscal deficit was important.

Taking cue from the upswings in international markets, another multilateral lending institution Asian Development Bank said India could achieve seven per cent growth over the next two years if there were non "unprecedented"shocks.

CMP makes good sense. The implementation (of CMP) is the critical issue," World Bank Country Director Michel Carter told reporters here on the sidelines of a seminar jointly organised by it and ICRIER.

India's high growth could be the "key" underlying factor behind the regional performance, Carter said, quoting the World Bank's Global Development Finance Report 2004.

He said 'reform with human face' showed that the United Progressive Alliance Government attached "high emphasis"' on infrastructure, especially on investments in education and public health but the problem of rising fiscal deficit could not be wished away.

"There can be no miracle to tackle fiscal deficit," he said and stressed that it has to be done either by increasing revenue base or re-allocation of expenditure. However, he said the balancing will be known only in the Budget for 2004-05.

Need for an Indian Consensus

By: M. K. Venu

The UPA'S common minimum programme (CMP) has found support from an unlikely quarter. Noted American economist Jeffrey D Sachs has praised the core approach of the CMP in an interview to a newsmagazine.

Sachs, an avowedly pro-market economist and professor of economics at Columbia University, has asserted that the refocusing of reforms as outlined in the CMP is needed urgently to shape India into a modern economy.

Sachs should know: he has had personal experience of how mindless imposition of the "Washington Consensus", based on the unidimensional cocktail of privatisation/liberalisation/ globalisation, had played havoc with some emerging markets like Russia in the '90s.

Sachs, who had been advising some of those emerging market governments, has gone beyond this formulaic approach to reforms, and is now intellectually closer to the likes of former World Bank chief economist J Stiglitz who also believes that GDP growth cannot be an end in itself.

Growth must be accompanied by equity, and the state needs to re-invent itself to deliver equity within the market framework. Efficiency and equity are not necessarily opposing objectives. In fact, the core of Prime Minister Manmohan Singh's maiden address on Doordarshan had sought to stress this very point.

Interestingly, the author of the 'Washington Consensus', John Williamson, had told this writer some years ago that the East Asian crisis had prompted him to review, and go beyond, his own original framework.

But unfortunately, the intellectual progeney of Williamson are still wildly protesting at the contents of the CMP. They say CMP is taking us back to the heyday of Indian socialism. This is not surprising as the progeney everywhere are typically some years behind their mentors in realising the truth as it evolves.

Truth always has multiple dimensions. But the trick lies in knowing which dimension must be stressed in the current context. Therefore, there is a need for some pluralist thinking. The Chinese, for instance, have a much better appreciation of such dialectics. So when they coin the term Market Socialism, it tends to baffle the empiricist. An article in The Financial Times has described the Chinese experiment in "controlled capitalism" as the Beijing Consensus.

Similarly, it is not difficult for our policy makers to evolve an "Indian Consensus" that calibrates policy as per our needs. There is no real contradiction between the private sector charting its own independent course with minimal state interference, and the government focusing its attention on delivering public goods and services.

In the Indian context, this could include water, education, health, roads, power generation and so on. The UPA government has reiterated this but sceptics say it cannot deliver this within the existing fiscal framework. The scepticism is somewhat justified because every government has spoken of this without showing the political will to deliver. For that reason alone this is a rare opportunity for the UPA to prove the sceptics wrong. But how?

There must be a two-pronged approach. One is to widen the tax net substantially by improving tax administration. And the second is to review all subsidies being handed out to the better off among the middle class and redirect them to create social assets targeted at the very poor. On the revenue side, there is an opportunity waiting to be tapped. If this government manages to put together a comprehensive central and state Value Added Tax regime, accompanied by a new legislation to tax all goods and services, a large number of small businesses currently avoiding excise payments will automatically become part of the official VAT chain.

This has the potential to create a quantum leap in tax collections. Today, a huge number of small businesses under-report or split their turnovers to below the excise payment threshold. A VAT regime, with reasonable and uniform tax rate, will instantly bring the bulk of these businesses in the net. And mind you, SSIs contribute 39% of our industrial production. This alone could increase tax to GDP ratio by about 2 to 3% over some years.

The second course is to retarget subsidies to the really deserving. In his earlier tenure as finance minister, P Chidambaram had commissioned a study on merit and non-merit subsidies. This had revealed a whopping 14% of GDP being spent on subsidies. The non-merit subsidies were the ones received by groups which did not deserve them. For instance, the better off among the middle class can well pay the market price for LPG or higher college fee at the graduate and post- grad level.

The Left has a problem with retargeting food subsidies to the very poor for fear that the existing system which is working well in states like Kerala may get jeopardised. The Congress-led alliance should be open to alternative mechanisms if it really wants a New Indian Consensus to work.

(Courtesy: The Economic Times)

By: B. S. Raghavan

Purposeful implementation of the CMP will be possible only if Dr Manmohan Singh does not end up as a pawn in the hands of political manipulators.

But inclusion in the Cabinet of persons charge-sheeted by courts for serious criminal offences only shows that even a person of the stature of Dr Manmohan Singh, enjoying the highest public esteem for professional eminence and personal integrity, is unable to resist political compulsions.

Compared to the version of 1996, the current CMP is no doubt more comprehensive and exhaustive, but it suffers from some avoidable drawbacks. For many important courses of action promised, there is no mention of specific time-frames and modalities. This will make monitoring of implementation problematic.

Having had to accommodate within its purview the susceptibilities and preferences of dauntingly diverse political goals and interests, the CMP could not but be a smorgasbord meant to tickle every taste.

Apparently, the alliance partners and the Left do not want the CMP to be a binding agenda, but a set of guidelines and approaches to be improvised in the light of experience before being adopted as policies.

A noticeable and positive feature of the CMP is that it has made a good job of delineating the "human face" of economic reforms. Prof. Richard Jolly in his book, Poverty and Adjustment, pointed out as long ago as 1990, that economic reforms and the consequent structural adjustment can become a noose round the necks of the poor, if they cannot be tempered suitably.

The loud and clear message of the voter in the recent election also was that reforms, in whatever sector, are not ends in themselves, nor are they to be allowed to be exploited by business, commercial and consumerist interests to their advantage.

From this perspective, the substance and direction of the measures contained in the CMP are in tune with the current situation.

From whichever side of the political spectrum it might come, there is great force in the demand to tailor the reforms to serve their primary purpose of raising the quality of life of the poor and the downtrodden.

It is the failure to grasp this essential truth on the part of those who are pre-occupied with stocks and shares and view the world through the blinkers of the bottomlines of balance-sheets that has been at the root of the turbulence at the bourses.

One size cannot fit all.

Any headlong rush towards exotic prescriptions, unmindful of the country-specific ethos and genius, in any one front, will eventually nullify the gains on all fronts.

Copious literature — including the seminal book by the Nobel Laureate, Dr Joseph Stiglitz — exists from which the flip side of globalisation must be evident to the worldwide community of businesspersons, foreign investors, academic scholars, media pundits, Bretton Woods denizens and government officials. It ought to know that one size cannot fit all in the matter of resolving socio-economic issues.

And, yet, improvident solutions are thrust down the throats of gullible or pliant governments badly in need of capital and technology by whatever means and from whatever source.

In their eagerness to attract them, they ignore the following crucial factors bearing on the success of reforms: Careful preparation of the ground in advance; participatory and consensual decision-making involving all stake-holders, especially the people affected; holistic vision; resource mobilisation and utilisation based on realistic calculation of investment and return, input and output, cost and time and cost and benefits; moving forward in a phalanx in line with priorities; and regular monitoring, evaluation and review.

Power sector and disinvestment are cases in point illustrating how failure on all these counts has vitiated such worthwhile efforts as had been made.

As regards power, the Dabhol project in Maharashtra has turned out to be a catastrophe, while submission to the World Bank's unthinking imposition of its judgment has led to the electoral debacle in Andhra Pradesh.

Further, in the absence of a National Electricity Policy, each State was entering into tie-ups widely differing in scope, cost, return, rate structure, debt-equity component and the like. Altogether it is a sickening mess.

There is certainly the need to give an once-over to the Indian Electricity Act, 2003, to determine whether the provisions relating, for instance, to delicensing of generation, induction of private licensees in transmission and distribution, open access in

transmission from the outset and in distribution by phases, and the unbundling and winding up the State Electricity Boards have in any way contributed to the present predicament.

The CMP's call for a review of the Act is, therefore, not only unexceptionable but ineluctable.

The CMP has done a service by turning the spotlight and triggering a healthy national discourse on the relevance of the public sector and the scope of privatisation and disinvestment in the era of liberalisation and globalisation. The UPA's viewpoints on public sector and disinvestment are measured and defensible, free from a dogmatic or theoretical approach, such as what many free-market votaries on the one side and Leftist ideologues on the other routinely tend to adopt.

Buttress and bulwark

There can be no question that the public sector has been the buttress and bulwark of the country's economy at a critical period in the early years of Independence when the private sector did not have the capital or the technology needed to provide the goods and services and the capacity to take them to far-flung, especially backward, areas.

The expansion of the private sector and its financial and technical clout in the years since have no doubt given it sufficient range and reach, but it is yet to convincingly demonstrate its capacity to cope with the exacting demands of competitive economy in respect of product quality, attention to complaints, prompt service, social responsibility and ethical dealings.

The public sector units (PSUs), standing out in scale and size of operations, technological innovations, professional competence and profitability and serving the country's strategic interests, provide the necessary safeguard against the social fabric being torn apart in a free-for-all, plunging the country into economic colonialism. From this standpoint, the UPA's commitment to a strong and effective public sector achieving its commercial objectives with a social conscience, and its declared policy of proceeding with disinvestment/privatisation on a "transparent, consultative" case-by-case basis cannot be faulted.

If the PSUs are really to provide the underpinning for the economy and hold their own in a competitive environment, the Government should give them a free hand in formulating their schemes and programmes.

Successive governments have been categorical in promising full managerial and commercial autonomy to PSUs, but, in practice, old habits of interference in day-to-day affairs die hard. The CMP too undertakes to follow a hands-off policy, and it is essential for the UPA to live up to it.

Vital criteria

A similar power to levy an education cess exists in the various Municipal and Corporations Acts in force in States, but almost always, the total amount of cess collected is not kept apart and gets mixed up with the general revenues of the local bodies and misused for other, often wasteful, purposes. **In view of the permissive and profligate nature of public expenditure, the UPA Government should put in place a stringent fool-cum-knave proof system to keep the additional money thus collected in a special reserve pool and submit to Parliament a proper account of its utilisation.**

Internal security and foreign policy — two of the vital criteria by which the domestic and external standing of any Government is judged — get somewhat cursory treatment in an otherwise painstakingly drawn up document.

The force of its assertion that there will be no compromise in the fight against terrorism is diluted by the decision to repeal the Prevention of Terrorism Act (POTA), on the ground that it had been "grossly misused". All one can say is that the chances of its repeal being made up by strict enforcement of existing laws, as mentioned in the CMP, are remote, given the nature of the soft state that India is.

A puzzling omission in the section of the CMP dealing with foreign policy is the absence of any reference to the UN and the importance of strengthening it by restoring its authority under the charter as the arbiter of international issues.

Considering that the only brake on the US brand of unilateralism running amok is the UN, the CMP could have given at least an indication of the concerted effort India proposes to take for reviving it from its present moribund condition.

Curbing evils of Indian brand of democracy

The CMP is also singularly reticent on the measures to combat corruption in high places. There is just a cryptic sentence that "The Lok Pal Bill will be passed into law", which does not amount to any sort of reassurance whatsoever, if one remembers that successive governments and Lok Sabhas during the last 40 years have been going through the motions of introducing the Bill only to let it languish and lapse. People have become so cynical about it that they cannot bring themselves to believe that its fate will be any better under this Government.

Similarly, there is not a word about vesting in the Central Vigilance Commission and the

Central Bureau of Investigation powers and authority that would enable them to function totally independent of the government. Nor has the tragedy of Satyen Dubey stirred the UPA sufficiently to include in the CMP a vow to enact a law affording protection to whistle blowers.

While the UPA Government promises to take a "leadership role" to drastically cut delays in the disposal of cases in courts, and to give a "fresh momentum" to judicial reforms, the urgent need to set up a National Judicial Commission on the model that had already been debated and finalised has escaped its notice.

It is only through the establishment of such a Commission will it be possible to rid the system of appointment of judges of its vagaries and enforce some degree of accountability and respect for norms of conduct on the part of the judiciary at all levels. Finally, the CMP's only reference to electoral reforms is by way of a pronouncement to "initiate steps to introduce State funding of elections at the earliest". If this is carried through regardless of the fuzziness about how early is early, it will be a landmark in India's history in its own right. But this is not enough.

The UPA Government should also enact a law giving statutory backing to the model code of conduct, barring persons charge-sheeted by Courts for heinous offences from contesting elections, expelling legislators indulging in unbecoming behaviour in legislative fora and obstructing proceedings and debarring them from standing for elections and making non-publication of their annual audited accounts by political parties punishable by de-recognition by the Election Commission. The UPA Government should also order the income-tax authorities to go into the sources of movable and immovable assets declared by candidates where they bear no relation to their ostensible means of livelihood.

(Courtesy: the Hindu Business Line)

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Economic Consequences of the CMP

By: S Venkitaramanan

THE Common Minimum Programme of the United Progressive Alliance is admittedly a successful exercise in political compromise, reflecting the complex, but ideologically compatible, composition of the coalition that the Alliance embraces.

There had been some concession to the pressures of the Left on the formulation of CMP, but broadly the impression is one of a Congress manifesto with a few indirect bows to the pressures of the Left and regional allies.

The CMP is on the right lines even when it incorporates the concerns of the Left parties insofar as it stresses the priority of rural investment and job creation — which, no doubt, are shared by the Congress.

It does not sacrifice the objective of fiscal stability where it adheres to the goals of the Fiscal Stability and Budget Management Act.

Nor does it surprise one where it states its preference for privatising PSUs that are loss-making. That is the position taken by Prime Minister, Dr Manmohan Singh, himself for a long time and the Congress from early on.

The CMP may be idealistic when it wishes to limit privatisation to loss-making enterprises and when it refers to the need for a case by case analysis of the others. The need for privatisation is not so much based on ideology as the appetite for resources.

The question remains, "Who will bid for the PSUs which are loss-making?" It is even more intriguing that the CMP is defining the target units for privatisation as those who have settled their dues to labour. This will itself mean a burden on the fisc before even starting to privatise. It must be conceded that the door is kept open for the "navaratna" PSUs of this category raising funds from the capital market, presumably through equity offerings.

The CMP is a wish-list of various goals — all good and desirable in themselves. But the CMP also turns out to be a costly minimum programme. The costs of reaching the goals set have not been fully worked out, but that is a task of the budget-makers.

At least in respect of one of them, the increase of expenditure on education to 6 per cent of GDP, the CMP outlines a proposal for a cess on existing revenue receipts. This is not such a bad idea, especially if one considers that the previous Government had resorted to such a cess for funding road development.

The education cess is not an unbearably high levy and it is to be welcomed as a measure to find the funds for a very desirable activity — that of expanding

the spread of education

The CMP ventures boldly into the field of rural infrastructure. It has suggested a number of initiatives in irrigation and roads. It has also indicated that the flow of credit for infrastructure will be enhanced.

At the root of this problem is the ignored question of recovery of user charges. Irrigation systems have suffered in the past for want of funds. But this is because adequate user charges for water were not being levied and the system of governance in rural areas was breaking down.

Improved maintenance of irrigation systems is at least as important as higher investment outlays. More investment is purposeless if existing facilities are allowed to fall into disuse. All this calls for a continued focus on both maintenance and investment in irrigation.

Time was when State governments used to spend considerable resources on maintenance of irrigation sources, especially minor irrigation. This emphasis needs to be recaptured if the rural economy is to prosper.

The CMP has excited considerable attention in respect of its proposal for guaranteed employment. Obviously, the CMP bases itself on the example of the Employment Guarantee Scheme (EGS) of Maharashtra.

The presence of a clutch of possible public works which can be offered to jobseekers in the countryside demands considerable preparation by the State Administration. The success of the EGS in Maharashtra was also due to the full-scale involvement of local organs of democratic decentralisation, such as Zilla Parishads, in the selection and implementation of the EGS.

The introduction of the EGS on an all-India basis would call for a careful study and follow-up of the lessons of the Maharashtra experience. The guidelines for an all-India scheme should allow for local variations on a State-wide basis but, above all, care should be taken to ensure that EGS does not deteriorate into a programme for private profiteering by local bureaucracy and the political class.

The CMP's announcements in regard to the critical areas of public finance are not as radical as apparently feared by the "markets", which tended to demonise the Left. It is comforting to know that it repeats the usual ideas regarding foreign direct investment and portfolio investment. It makes some noises about rectifying abuses on double-taxation front, but that is not anything new.

The Government has always been keen on plugging the loopholes. The question, however, is whether the "markets" — meaning the investors, like what they see in the CMP. It behooves the Finance Minister to set at rest their imaginary grievances, not to threaten them with fire and brimstone.

The dithering on labour reforms is not so alarming, as is made out by pundits of the markets. After all, India has achieved a comfortable rate of economic growth — including a robust boom in the markets and that too with a measure of FDI in spite of existing unmodified labour laws.

The plea for instant labour reform is perhaps overdone. Existing foreign investors, like the Korean and Japanese auto majors as well as American corporates, have not so far made any serious protests about the present state of labour law implementation.

The right to close a unit after giving due compensation to workers has been exercised in actual fact by many investors, both in the domestic and foreign entrepreneurial community. The promise in the CMP of a further dialogue with trade unions and industry is a welcome indication of a flexible approach without abandoning the rights of labour to security.

The CMP has addressed the issue of poor credit flows to small and medium industries. Unfortunately, for this long persistent problem, the remedy is not too obvious. The situation of small and medium industries and their credit flows have been gone into by a number of committees and task forces.

SIDBI was created to address the question of small industries. Whether it has failed for reason of non-cooperation of SFCs is a matter for debate.

Unless and until the issue of sick small industries is handled through a proper Bankruptcy Act or a version of corporate debt restructuring, SFCs cannot become viable. They become a perpetual drain for resources into a bottomless pit.

The Government and the RBI have to address the task of reviving SFCs and putting them on a legally and financially sound footing so far as clearance of SSI dues is concerned. A comprehensive approach to the reorganisation of SSI finance is absolutely urgent if the CMP's expectations are to be realised.

Critics abroad have been quick to point out that the CMP is a triumph of hope over experience. The Financial Times of May 28, 2004 editorialises: "The CMP errs not because it is a minimalist platform which all nine members accept but because it verges on optimistic fantasy." This is a fear that lurks in most Indian minds as well. Can the Government find the resources and the managerial skill to implement what the CMP visualises?

The goals are ambitious and the path to reach them is full of hurdles. Let not the CMP become a costly and muddled project. The legendary wisdom and patience of Dr Manmohan Singh will be sorely tested by the problems that the CMP presents. But India will be a better country if and when its goals are realised.

The CMP provides a reasonable roadmap for the country. It is to be hoped that the coming budget will indicate how the UPA Government proposes to meet its desirable but costly goals. Common maximum performance is, however, an uncommon feature of coalition politics!

It is also essential that UPA Government retains the flexibility of revisiting the CMP in the light of experience.

It should not be treated as cast in stone. It has to be a living document, which can be revised in the background of problems faced in its actual execution.

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CMP Falls Short of Tribal Expectations

By: R. K. Rao and S. R. Sankaran

The UPA government deserves congratulations for including in its Common Minimum Programme a policy statement on some of the forest related issues agitating tribal society, though it falls short on the crucial land issue. The tribals in occupation of over 1.5 million hectares of forest land across the central tribal belt, for periods varying from several decades to last ten years, are agitating for regularisation. The previous government, belatedly, issued hasty instructions for regularisation to mollify tribal society on the eve of the general elections but They were challenged in the Supreme Court where the matter was sub judice and their orders were stayed. The present rulers can shy away from a decision only at the risk of alienating the tribal communities and increasing unrest and discontent. What is the way out from this conflict of interests between ecology and equity?

Unrest in Tribal Tracts

The troubles of the tribals started with the introduction by the British of scientific (colonial?) forestry. Realising the value of the forest wealth for their naval and commercial needs, they declared extensive forest areas as Reserved Forests (RFs) making them out of bounds for tribals whose livelihood depended on them. That very large areas in tribal land were brought under the regime of RFs would be evident from the fact that according to the Forest Survey of India (FSI) status report (1999), 60 per cent of the 77 million hectares of the nation's forests is in the tribal districts which form 30 per cent of the land area of the country. This was the beginning of unrest and discontent in tribal society. There were over a hundred tribal revolts in the last 200 years of forest administration and all centred around tribal access to forests. It is one of the greatest tragedies of free India that it continued the forest policies of the colonial power, and the unrest in tribal tracts continues. In the last two years there were attempts by the Ministry of Environment and Forests to evict tribals from encroached forest lands — allegedly under directions from the Supreme Court — and in the ensuing conflict several tribals lost their lives to police bullets.

The edifice of forest conservation in the country, for the last 50 years, rests on a national forest policy directive that the country should keep 33 per cent of the land area under forests. Unfortunately, this prescription has no scientific basis whatever, and is based on a wrong premise. Forestry is one form of land use; according to the Land Capability Classification (LCC), which prescribes sustainable use of land based on soil, slope, rainfall, etc., lands above 65 per cent slope have to be under permanent vegetation or forests, and below this gradient, lands can be used for agriculture, horticulture and other uses with appropriate soil conservation measures like contour trenches, bench terraces, etc. Applying this scientific principle will release considerable forest lands to meet tribal needs as the tribal population has increased from 30 million at the time of Independence to 70 million now and over 40 per cent of tribal lands were alienated to non-tribals since the Fifties.

The other obstacle to regularisation of forest lands is the Forest Conservation Act which is a child of the `33 per cent under forests syndrome'. As per the FSI report there are over 25 million hectares of degraded RF areas in the country which will take 25 years to afforest. At one million hectares a year; it beats all reason why compensatory areas are to be provided under this Act, when extensive legally secure degraded RF lands are crying for reforestation; another extremely adverse side effect of this policy is in making poor farmers landless — the industries procure the lands of the poor at low prices, making marginal farmers landless. Once the mindset of 33 per cent under forests and compensatory land is given

up it will make forest policy more humane.

The next step is to excise the forest lands (RF) in occupation of tribals; the Fifth Schedule of the Constitution makes special provisions for administration of tribal areas of the central tribal belt. It is a constitution within the Constitution. It empowers the State Governors, on the advice of the tribes advisory council, to amend or set aside in the interests of the tribal community any Act or rules passed by Parliament or the State legislature. The time is ripe for invoking this provision to set aside the rules of the Forest Act and Forest Conservation Act coming in the way of regularisation of forest lands under tribal occupation.

The forest estate of India of 77 million hectares is equal to the area of the Gangetic plains from West Bengal to Himachal Pradesh! This forms 23 per cent of our land area. If we are to increase it to 33per cent, we will have to add the States of Rajasthan and Madhya Pradesh and Maharashtra! It is not the quantity that matters, but quality. The most important benefit that forests give society is water; they are Nature's gift to provide clean water. But a forest with several canopies of trees, ground cover of shrubs, herbs, grasses and a thick layer of humus alone will function as a giant sponge to trap rain water and recharge the aquifers below ground. If forests are not enabled to fulfil this role all the linking of rivers will not help. Foresters and environmentalists should focus their time and attention on this, instead of annexing territory.

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Chidambaram's Hike in Defence Outlay

Finance Minister Palaniappan Chidambaram's Budget would probably prompt Pakistan to prepare a much stronger brief this year.

The reason: The Budget has set apart the biggest ever allocation to defence — Rs 77,000 crore — for 2004-2005. It is an increase of 27 percent or Rs 11,700 crore over the Rs 65,300 crore that the previous Vajpayee government had allocated for defence last year.

Chidambaram says the phenomenal increase in the defence budget allocation is born out the government 's 'determination' to eliminate all delays in the modernisation of the defence forces. 'Having regard to the trend of defence capital expenditure in recent years, it has become necessary to make a higher allocation this year,' the finance minister reasoned.

How much has been allocated in the defence budget to buy new weapons?

A whopping Rs 33,483 crore out of the total Rs 77,000 crore defence outlay will go to buy new weapon systems this year. Last year, the money allocated for defence purchases was only Rs 20,953 crore. So it is a nearly 60 percent increase in funds for defence modernisation.

What are the new weapons that the defence forces can buy with this new allocation?

India is currently negotiating some big ticket arms deals. The defence ministry has already fine-tuned proposals to acquire French Scorpene submarines and 125 multi-purpose fighters for the Indian Air Force to replace aging MiG-21s. India has signed a deal with Britain's BAe Systems to buy 65 Hawk Advanced Jet Trainers.

Early this year, the country also inked a multi-million deal with Russia to acquire the aircraft carrier, *Admiral Gorshkov*. India has also agreed to buy three Phalcon airborne early warning radar systems from Israel. In fact, of the 3,414 tanks in the Indian Army's possession, 1,200 are obsolete. Seven hundred of them are vintage Russian T-55s.

India has been introducing T-90s phase-by-phase. Almost Rs 4,000 crore will be set apart for a project to increase the firepower of the infantry.

How has the Indian defence budgetary allocation been all these years?

From 1966-1967 to 1985-1986, India's defence budget remained over 3 percent of GDP. It peaked at 4.04 percent and 4.06 percent in 1986-1987 and 1987-1988. Since 1991-1992, the Indian defence allocation has remained below 3 percent of GDP.

Attracting Private Investment: Is It Worth the Cost?

"The 1990s presented many opportunities that were missed to ensure that rural energy, energy efficiency, and social and environmental benefits are addressed as reforms are put in place."

World Bank, 2003

"The upshot is that if governments fail to correct this exclusion of the poor through specific policies, the poor will be as excluded post-privatization as they were before."

World Bank economists, 2000

A common argument for privatizing public enterprises is that private access to these sectors will increase efficiency and expand access through increased productivity. However, evidence of previous privatizations of the energy sector in Latin America demonstrates the opposite. Prodded by the World Bank and the IMF, most Latin American countries began to open their energy sectors in the 1980s. Some countries, such as Argentina, Chile, and Panama implemented sweeping reforms, while others – Brazil, Costa Rica, and Venezuela – allowed only restricted participation of private companies. Argentina and Bolivia opened their natural gas markets to private investment, while oil-rich Mexico and Venezuela have remained more guarded.

The touted benefits remain questionable, and the case of the Dominican Republic is a useful example. In 1998, the World Bank loaned the government of the Dominican Republic US$ 20 million to privatize the power sector. Foreign private corporations – specifically Enron and AES –purchased stakes in the generation and distribution capacity of the Corporación Dominicana de Electricidad (CDE), the country's previously state-owned power company. **After the CDE was privatized, and the private companies took over, electricity rates nearly doubled, forcing the government to absorb most of the rate increase in order to avoid leaving poor consumers without power. In just a few years, the government had amassed a strangling debt of US$ 217 million, over half of which was owed to the private companies. When the government was unable to pay, the new owners shut down the power, causing long blackouts that sparked frustration from the public. As the situation continued without resolve, widespread discontent triggered public protests, which at times were violently countered by the police.**

Examples of the sometimes-deadly consequences of World Bank reform prescription abound. Opponents of the FTAA and GATS fear that once these types of policies are codified through free trade agreements, situations like that in the Dominican Republic will become the norm instead of the exception throughout Latin America. Other arguments for privatization of state owned enterprises are technological modernization, existing service inefficiencies, and the need for private investment. These are at best, dubious arguments, given that past experiences with capitalization or privatization of public energy sector companies has yielded little significant private investment in new services. Neither has it shown to result in more efficient provision of services.

In Bolivia, for instance, capitalization of the oil company, YPFB, has resulted in little benefit for the majority of the country, though it has sparked massive protests from disgruntled citizens. After the now deposed president, Gonzalo Sanchez de Lozada, opened Bolivia's gas sector to private participation, Enron took over the entire gas network in that country. Together with Shell, Enron built a series of gas pipelines – despite strong opposition from the communities in the pipelines' path – to export Bolivian gas to Brazil. After the company's infamous demise, Enron continued to receive public financing for its operations, scoring a $132 million loan from the IDB, less than a year after its implosion.

Liberalizing the energy sector involves considerable cost for the host government by having to borrow to develop its resources or by guaranteeing private sector loans, thus contributing to the increasing debt of most developing countries. Similarly, countries neglect other revenue potential by becoming dependent on one source of export (energy resources), which makes them vulnerable to price drops or market shocks. Additionally, lending institutions like the IMF and the World Bank actually contributed to inefficiency problems by forcing restrictions in public expenditures as conditions for loans and as part of their structural adjustment programs for developing countries. Governments strapped for cash had to choose among the many necessary public-spending programmmes, which in some countries contributed to the subsequent neglect in modernizing and adequately maintaining public utilities or power companies.

The Stock Market and the Real Economy

By: Jayati Ghosh

The mainstream press was almost unanimous in its hysteria. "Bloodbath" and "carnage" screamed the front page headlines in the English language press, while editorials sermonised disapprovingly of the apparent irresponsibility of politicians. Was this all fury about mob frenzy or state-sponsored riots on the scale of the Gujarat pogrom of two years ago? No, it was simply that the stock market indices had fallen sharply for the third day, after it became clear that a Congress-led formation, supported by the Left parties, would constitute the government at the Centre.

So much of the presentation of economic news, especially in the financial press, is oriented around the behaviour of stock markets, that the uninitiated can be forgiven for thinking that their movements actually reflect real economic performance. Such an interpretation is not exclusive to India. Across the world, ordinary citizens have been conned by the media into believing that the relatively small set of players in international stock markets really do comprehend and correctly assess the patterns of growth in an economy, and that their interests are broadly in conformity with the economic interests of the masses of people in those countries.

This is not simply a deeply undemocratic position. It is also a completely false argument, since it has been abundantly clear for some time now that stock markets are very poor pointers to real economic **performance. Stock market indices are indicators of the expectations of finance capital, and they can move up and down for a variety of reasons, most of which**

The Martket vs. The People: A Tale of Two Mandates

The message that has been delivered by the "markets", and sensationalised by the media ever since the exit poll results suggested that an NDA victory is not certain, should be dismissed as undemocratic and unacceptable. But the matter is not as simple as it may seem. The real difficulty arises because, enticed by the lavish returns that the policies of the NDA government promised, foreign institutional investors have poured investments into India and come to occupy an influential presence in the markets. These investors are known to have brought in over 10 billion dollars into India's stocks markets during the last financial year. When they choose to sell out, convert their rupee gains into dollars and exit from the Indian market, the demand for foreign exchange tends to increase. In India's liberalised foreign exchange market this weakens the value of the rupee, as seen in the significant decline over the first fortnight of May 2004. Movements of this kind can trigger a speculative attack on the currency and threaten a currency collapse. That possibility has substantially increased over the last one year because, drunk with the hype that India's rising foreign reserves generated, the NDA government has significantly liberalised capital account transactions and allowed Indian residents to legally and otherwise transfer their wealth out of the country. Hence, if a speculative attack on the rupee results in capital flight, domestic wealth holders may join the herd and help precipitate a crisis. A currency crisis of this kind can have damaging consequences for the real economy, necessitating painful adjustments even in countries where the real economy was initially doing well.

Thus, it is not the losses suffered by investors in the market as a result of their unwarranted expectations that are the problem. It is really the fact that FII investors whose expectations had fuelled the speculative highs the markets had reached can damage the real economy to an extent greater than what was achieved under the NDA. To boot, it appears that even a mere restatement of the well-known positions of individual parties that would be associated in some form with the post-poll government can trigger a market collapse.

This has some lessons for policy in the days ahead. The patently irrational behaviour of finance cannot be allowed to influence policy making, since that would amount to allowing the authoritarian "mandate" of a miniscule minority of speculative wealth-holders to overturn the democratic mandate of the majority. Since the actions of the minority of wealth-holders threatens to diminish the manoeuvrability of the new government and undermine its ability to fulfil the people's mandate, the authoritarian threat from finance needs to be met. The response should not be to dilute the thrust and efficacy of a new economic programme, but to bolster it with controls on currency and capital movements that restrict speculative activity and restore power to the levers of economic policy. There is a large menu of polices to control speculative capital flows and stall speculative attacks on a currency that is available in the books. At the time of the Asian financial crisis President Mahathir of Malaysia experimented with some of these in a small way with much effect. There is no reason why the new government cannot use similar means, with greater vigour, to deliver on the promises that won it a mandate and demonstrate the vitality of Indian democracy.

C. P. Chandrasekhar

are not related even to the current profitability of productive enterprises. They are prone to irrational bubbles and sudden collapses which reflect all sorts of factors, ranging from international forces to domestic political changes, and may have very little relation to economic processes within the economy.

Consider the latest fall in the Indian stock market. While it is true that some of it is clearly a reaction to the uncertainty created by the unexpected and remarkable defeat of the NDA government at the polls, it also should be noted that across the world, financial markets have been in downswing in recent weeks. The New York Stock Exchange composite index fell by 4 per cent between 5 May and 14 May, and other markets across Europe and Asia have shown similar or even larger falls. Much of this is because of rising oil prices, the failure of the economically and politically expensive US military occupation in Iraq, and fears of interest rate hikes in the US.

It is true that the Bombay Sensex index fell by more than 10 per cent and the Nifty index by 12 per cent over the same period, but this is still part of a more general worldwide trend of decrease in stock values, and some market analysts have even described these as necessary "corrections" of the earlier inflated values.

For the past year, Indian stock prices had been pushed up by large inflows from foreign portfolio investors, who had recently "discovered" India as an attractive emerging market that has not yet had a financial crisis. This meant that, despite the fact that very little had changed in the so-called "fundamentals" of the economy, there were substantial inflows from financial investors that also caused the rupee to appreciate.

Foreign investors use emerging markets like India to hedge against changes in other markets; they also like to focus on particular countries in any one period, where herd behaviour creates a boom and the countries concerned become the temporary darlings of international capital. In India in the recent past, the numerous concessions provided by the NDA government to such mobile capital also allowed for large super-profits to be made through such transactions.

Because the Indian stock market still has relatively thin trading, these foreign institutional investors made a big difference at the margin, and were responsible for pushing up stock values well beyond what would be "sensible" values according to standard international norms of price-equity ratios. This is typical of the bubbles that have been created by internationally mobile finance in various developing countries, especially since the early 1990s.

It is inevitable that such bubbles must eventually come to an end, whether through a sharp burst in the shape of a financial crisis or through a slower and more managed shrinking of values. When this happens, it is true that a lot of players who have put their bets on continuously rising share values will be affected, but this need not mean that there has been any other bad news in the economy.

Of course, it is always difficult to attribute causes to stock market movements, since financial markets are notoriously prone to "noise" and irrational behaviour. However, more than the actual causes, the implications of such falls are what matter to most of us, and this is where the mainstream media have been the most misleading.

It is usually argued that stock market behaviour is a reflection of "investor confidence" and this in turn affects important real variables such as productive investment in the economy, which is critical for growth and development. This is not really the case, and has become even less true in the recent period. Especially since the early 1990s, the stock market has experienced huge increases and wild swings, while investment has not shown any such volatility and indeed has barely increased in real terms.

This is evident from the chart below, which shows the index of stock market capitalisation in India since the early 1980s. Stock market capitalisation increased by around 4 times in the decade 1991-92 to 2001-02, with very large fluctuations in between. By contrast, total gross fixed capital formation in the economy increased much less even in current prices, and in constant prices it barely doubled.

More to the point, the large swings in market capitalisation were not associated with any commensurate changes in investment, suggesting that the financial markets dance to a bizarre tune that is all their own, and do not have much impact on real investment in the economy. This is very important to underline, because the reason that we are all supposed to be concerned about stock market behaviour is because of its supposed effect on investment. In fact, it is really only those agents who are dependent upon the return from finance capital who are affected, while real investment depends upon many other factors.

The other impact that movements in the stock market have nowadays is on the exchange rate, especially since so much of the change is caused by the behaviour of foreign institutional investors. Their movements over the past year have helped to build up the RBI's foreign exchange reserves to an almost embarrassing amount, partly because their inflows are not being used to increase productive investment, and partly because the RBI kept buying dollars in an effort to keep the rupee from appreciating even further.

While the large forex reserves may have provided

a macho feeling of false confidence to some, in reality they were a reflection of huge macroeconomic waste, since they implied that the capital inflows were not being productively used. They were also expensive for the economy to hold, since the interest received on such reserves by the RBI is typically very low, whereas the external commercial borrowing by Indian firms in the current liberalised environment was at significantly higher interest rates.

In this background, some dilution of the forex reserves may even be welcome. Of course, if the current outflow turns into a capital flight which is also joined by Indian residents, then clearly the situation can become more serious. Such a possibility is now more open because of all the recent measures liberalising capital outflow that the NDA government brought in during the closing months of its rule. **The new government may have to address some of these measures quite quickly, to prevent excessive capital outflows which can then become another means of pressurising the government on its economic policies.**

But otherwise, the current downslide in the stock markets is really not a matter of serious concern for most Indians, and it should certainly not be much of an issue for the new government either. The mainstream English language media, whose business interests increasingly coincide with those of finance capital, may continue to shout itself hoarse about it. But then, as the recent electoral cataclysm has shown, media does not reflect the interests of the Indian people, nor does it even understand them.

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Energy Privatization: Lessons Learnt

The effects of energy sector liberalization under existing free trade agreements are indicative of the problems that will only be exacerbated in Latin America if the FTAA goes forward. NAFTA, for instance, opened Canada's energy sector to transnational energy corporations. In the ten years that NAFTA has been in force, the trade regime has accelerated the rate of exploitation of Canadian energy resources, mainly for export to the U.S. According to Maude Barlow, author of "The Free Trade Area of the Americas: the Threat to Social Programs, Environmental Sustainability, and Social Justice", the energy provisions in NAFTA:

…led to a spectacular increase in the sale of natural gas to U.S. markets; in a decade, exports have more than quadrupled to over 8.5 billion cubic feet a day. About 55 percent of total Canadian gas production is exported to the U.S. where American distribution, companies, supplying a much larger population, have been able to sign long-term contracts at rock-bottom prices. Canadian consumers are left to compete for their own energy resources against an economy ten times bigger with rapidly dwindling reserves and accelerating demand.

In the case of oil, the results are the same: Canada exports over half of the oil it produces to the U.S.

Latin American countries – especially those with significant energy resources like Venezuela and Bolivia, and those with increasing energy demand, like Brazil – should be aware of the implications this rapid opening of their energy markets will have on them. It will infringe on their national sovereignty, as they will lose the ability to regulate those private actors; once they have access to previously public oil and gas markets, corporations will be free to make decisions about price, production quantity, and destination. It will also be increasingly difficult for countries to safeguard future supplies; in the case of Canada under NAFTA, it had to dismantle its "vital-supply safeguard," which required the Canadian government to maintain a 25-year supply of natural gas.

Mexico has not fared much better since becoming part of NAFTA. Mexico was able to retain some protections for its vibrant oil industry – mainly in oil exploration and production – because of Constitutional restrictions, and strong nationalist feelings from the public over the country's energy resources. However, NAFTA's government procurement rules required Pemex, the state-owned oil company, and the Federal Electricity Commission (CFE) to extend procurement contracts to U.S. companies,24 thus taking initial steps to open the sector to foreign participation. The biggest oil services companies in the world, particularly Halliburton and Schlumberger, have rushed in, often with World Bank, Inter-American Development Bank, or U.S. government financial support. Recent analyses of the impacts of NAFTA on the energy industry in Mexico show an alarming increase in environmental degradation, depletion of natural resources, and decrease in economic growth in the country.

The Wretched of the Earth

By: Fred Magdoff

The number of people living a precarious existence has been increasing in many countries of the world, with hunger all too widespread. There are approximately 6 billion people in the world, with about half living in cities and half in rural areas. Between the poor living in cities and those in rural areas, a vast number of the world's people live under very harsh conditions. It is estimated that about half of the world's population lives on less than two dollars per day, with most of those either chronically malnourished or continually concerned with where their next meal will come from. Many have no access to clean water (1 billion), electricity (2 billion), or sanitation (2.5 billion).

Of the 3 billion inhabitants of cities, a recent United Nations report indicates that close to 1 billion live in slums—that number vastly expanded during the so-called boom years of the 1990s. It is estimated that over the next 50 years the number living in slums will increase by about 300 percent (The Challenge of Slums—Global Report on Human Settlements 2003, UN Human Settlements Program).

The other half of the world's population—about 3 billion people—live in rural areas. Most of them are producing food for themselves and/or to sell to others. Many rural inhabitants live in difficult conditions, but those with access to land can usually provide food for their families.

The situation is far from static. A continuing mass migration of people from rural regions into the cities of the third world is underway. Some 20 to 30 million people leave their villages each year, swelling the ranks of urban populations. People move to the cities in response to difficult conditions in rural areas (thinking that there are better prospects in the cities) or because they are pushed off their farms when an expanding capitalist farming sector takes over land or mechanizes production.

What is occurring today in the third world, beginning in the late 20th century, is something very different. It is the migration of farmers, peasants, and landless rural families to cities that do not have sufficient jobs to absorb the newcomers productively. Although some manage to migrate to the core capitalist countries, this outlet for "excess" population has been effectively closed to the masses of people. The result has been the explosive growth of slums in the third world, accompanied by misery and hungry people without access to land to grow their own food.

One of the most important human issues of our time is the future of the vast number of people around the world who are living by producing food and what will happen to them when forced off the land. It is also an issue that gets all too little attention from mainstream and left academics.

Why Are So Many Hungry?

While hunger certainly exists in the countryside, it can be an even more challenging problem in cities. Removed from the land, people can't grow their own food and must find some source for income. When economic development doesn't provide sufficient jobs for those forced into the cities, people try to scrape by in the "informal economy"—frequently purchasing items and reselling them in smaller quantities—or resort to crime.

There is enough food produced globally to meet the basic nutritional needs of the world's people. The same is true within most countries. **Chronic malnutrition and food insecurity are caused mainly by poverty and not by lack of food production. One has to go no further than the United States to see that hunger can exist side-by-side with an agricultural system that produces more than enough food to nourish the entire population adequately. Twelve million U.S. families are considered "food insecure" and in close to 4 million families—containing over 9 million people—someone skipped meals because of lack of food. The United States Conference of Mayors reported that "...during 2002 requests for emergency food assistance increased by an average of 19 percent, with 100 percent of the cities registering an increase" (A Status Report on Hunger and Homelessness in America's Cities 2002.**

The coexistence of surplus food and hunger also occurs in the third world. India is one of the success stories of the "green revolution," where a combination of improved varieties and a number of agronomic techniques led to much greater national food production. However, India now has "excess" food at the same time that it has widespread hunger. A newspaper headline tells it all, "Poor in India Starve as Surplus Wheat Rots" (New York Times, December 12, 2002). This surplus food rots, is eaten by rats, or is exported at low prices while people in India go hungry.

In general, people are chronically hungry because they are poor and don't have enough

money to buy food. It is as simple as that! Under capitalism, food is just another commodity—like a pair of shoes, a television, or an automobile. People have no more legal right to food than they have to any other commodity.

Let Them Eat Free Trade

The answer of the governments of the core capitalist countries—as well as the various international organizations such as the IMF and World Bank—to almost all problems of development, including poverty and hunger, is a one-size-fits-all approach. **Disregarding the needs and desires of a country's people and its concrete situation, this general approach begins with eliminating tariffs and other trade barriers on goods and allowing the free movement of capital into and out of countries.**

The neoliberal theory goes as follows. The removal of barriers to the flow of goods and capital permits a country to concentrate on developing the areas in which it has a "comparative advantage." That is to say, the country should focus on mining, growing, or manufacturing the products for which it has an advantage due to climate, natural resources, a skilled labor force or other factors. Then it can purchase whatever else it needs with the currency earned by exporting these products. In addition, the theory goes, these steps overcome one of the main hindrances to development of the countries of the periphery—a lack of investment capital to build factories, communication systems, roads, and ports. It follows, according to the neoliberal logic, that making conditions more attractive to foreign corporations (for example, by allowing them to repatriate all of their profits) means that they will invest more, leading to greater economic development and prosperity. Markets for goods and capital, freed of government control, will work in ways that magically create optimum conditions for all—a win-win situation with no losers!

There are many problems with the neoliberal market-oriented "free trade" approach, which I will not go into here. However, one in particular has haunted countries in the periphery for a long time. The very process of investing capital from the core in the periphery tends to generate debt and currency crises—caused by excessive borrowing by the periphery countries as well as the repatriation of profits on invested capital to the countries of the center. Many countries are continually short of sufficient foreign currency to escape their predicament. This causes them to stimulate export-oriented industries and agriculture in order to earn foreign currency to pay off loans or allow the movement of capital out of the country. Government programmes stimulate the growth of crops with export potential, such as oranges, cotton, soybeans, specialty vegetables, tropical fruits, and coffee because of their potential to earn hard currencies.

Another part of the neoliberal approach, encouraged or mandated by the IMF and World Bank, is to decrease government budgets. This is usually accomplished by eliminating subsidies that help the poor, such as those for fertilizers and food, and by privatizing various governmental functions.

Rarely mentioned, of course, is the fact that the wealthy capitalist countries have developed by protecting industries and only later—as their economies strengthened and capitalists required greater access to other markets and resources—called for less restrictive trade with other countries. Also rarely discussed is the fact that U.S. agriculture developed with massive government involvement—beginning with capturing land from native peoples and transferring it to European immigrants, and going on to develop transportation infrastructure, irrigation, research, extension, subsidies for farmers, export incentives, and so on. **Not the least concerned with the hypocrisy of the situation, governments of the wealthy capitalist core continue to use a variety of means to protect and favor the businesses of their countries while espousing free trade and free markets.**

The Devastating Results

Following the standard prescription—opening up countries of the periphery to the free flow of goods, services, and capital as well as decreasing government support programmes that help the living conditions of the poor—can be devastating. **There are numerous recent examples of how such policies have hurt the poor. Taking the advice of the World Bank and various aid organizations, the government of Malawi reduced assistance to agriculture and at the same time let its currency float. This led to a devaluation of their currency and a five-fold increase in the cost of imported fertilizer—putting this essential ingredient of agriculture out of the reach of most farmers (New York Times, July 13, 2003).** The use of fertilizers is one of the keys to enhanced agricultural production on the ancient and nutrient depleted soils of Africa. Even though aid agencies have helped some

farmers obtain modest amounts of fertilizer, the market-oriented "solutions" recommended by experts have led to widespread and more persistent hunger, even when the climate is favourable. In Ghana, the government, "pressured by its Western creditors to keep its fiscal house in order, doesn't supply fertilizer subsidies, crop-price supports, or any other equivalent of cheap financing..." (Wall Street Journal December 3, 2002). With the relatively high prices of fertilizers, which need to be imported, a lack of subsidies means that farmers use little or no fertilizer, thus food production and opportunities for earning extra income are well below easily attainable levels.

The effects of the transition to "free markets," "free trade," and decreased government support for food production have been even more damaging to Ethiopia. The government, heeding aid organizations that advised a "free market" approach with decreased government "interference," decided that after they had stimulated agricultural production they needed to reduce the state's assistance for agriculture. Better seeds and easier access to fertilizers were made available to farmers and production increased. As prices received by farmers fell dramatically in response to a glut on the market, there were few storage facilities to allow farmers to store grains and wait for prices to rise. Funds were not available for those wishing to build grain storage structures. Farmers responded in a completely logical way to record low prices in 2001. They reduced the amount of land they planted the following year. This decrease in planted area, together with unfavorable weather in 2002, created conditions for widespread hunger and even starvation in 2003.

Laura Carlsen, an analyst with the Americas Program of the Interhemispheric Resource Center (IRC), in a June 2003 speech before the Committee on Industry, External Trade, Research, and Energy of the European Parliament, explained what has happened in Mexico, one of the early participants in the rush to liberalize trade relations:

In sum, two decades of agricultural trade liberalization in Mexico have led to: an increase in rural poverty, malnutrition, out-migration, and instability; increased workloads, particularly for women; increased consumer prices; increased profits and market control by transnational traders and processors at the cost of smallholder farmers; lost national revenues that could have been applied to development programmes; and severe risks to the environment and biodiversity.

The situation that has occurred with coffee—once a crop that provided modest but reasonably dependable income for many small farmers—should be a caution to those championing export-oriented production. Coffee is a crop that employs some 25 million people, many working on relatively small farms. However, over a relatively short period of time, both Vietnam (once a minor player in the international coffee market, but now accounting for about 12 percent of the total world exports of coffee) and Brazil greatly increased their coffee plantings in hopes of taking advantage of this "high value" crop. Because production has gotten so far ahead of demand, the prices received by farmers have plummeted by around 50 percent, creating a disaster for the world's coffee growers. This price drop has, of course, created significant corporate profit opportunities, for prices of finished agricultural products rarely decline much when there's a glut of raw material on the market.

False Hopes about Subsidies

The breakup of the Cancun WTO meeting may prove to be an important turning point in the relations between the periphery and core countries, making it more difficult for transnational corporations to set the entire international trade agenda. However, the emphasis of the Group of 20 on subsidies to farmers in the core countries as the major stumbling block to greater prosperity for farmers in the periphery may be misplaced. There are two reasons that eliminating the subsidies and allowing free markets to operate might not have the imagined positive effects on the periphery. First, farmers don't necessarily behave as economist's models predict. Second, there are other issues that are probably more important than the subsidies.

It is believed that if subsidies were eliminated, in effect reducing the revenues farmers receive, U.S. farmers would decrease production by planting less land or by switching to other more lucrative crops. However, this scenario bears little relation to what really happens in the short to medium run. A conversation I witnessed in the late 1990s helps to illustrate the point. While meeting with five dairy farmers in his office, the chief economist of the U.S. Department of Agriculture was astonished to hear one farmer explain that as milk prices declined he added more cows to his herd and when prices went up, he would sell a few. This is exactly the opposite of what conventional economic theory would predict. When asked why, the farmer explained that when prices decreased he had to produce more milk to meet his fixed costs (such

as property taxes and building maintenance). As prices increased, he would sell a few cows (instead of adding more, as theory holds) to make his life easier. The decision made by each farmer—increasing production in response to falling prices—makes absolute economic sense for the individual, even though when many do the same it harms them all by stimulating overproduction and lowering prices even more.

In addition to the general tendency of farmers to produce more as prices decrease, there are other obstacles to the ideal behavior pictured by conventional economists. For example, because many crops require specialized machinery and different management than the farmer currently uses, it is not always easy to switch rapidly from one crop to another. In addition, farmers frequently manage to produce for quite a few years while receiving less than the cost of production by deferring maintenance and taking out more loans. Finally, farmers never know what the weather will be on their farm or in other places around the world where a particular crop is grown. Low prices in one year, because of a glut on the market, may be followed by higher prices the next year as yields decline because of poor growing conditions in a major growing region.

The mechanization of agricultural production, as a strategy to help farmers in the periphery compete internationally, may actually pose the greatest threat to the food supply of people in the third world. As I have pointed out previously, while mechanization of agriculture does increase labor productivity it does not necessarily result in higher amounts of food produced per hectare or acre (Fred Magdoff, "Pros and Cons of Agricultural Mechanization in the Third World," Monthly Review, May 1982, 33–45.). In addition, when mechanization occurs without the availability of work in the other sectors, unemployment and hunger are the normal results. Although conditions in the countryside may be harsh, having some land on which to grow food provides a degree of protection against hunger. Samir Amin has estimated that 20 million large scale and highly mechanized capitalist farmers could produce all the food needed in the world. Yet, there is no realistic possibility that anywhere near the sufficient number of jobs will appear to provide employment to the mass of humanity displaced by advanced capitalist agriculture, wherever those large farms are located. What will be the fate of those "unneeded" billions of people if that actually happens?

What Are the Critical Obstacles

Lost in the discussion of subsidies to farmers in the wealthy capitalist core countries are other more important issues undermining agriculture and the conditions of the poor in the periphery. For example, competition among the countries of the periphery under truly free trade is as much a potential threat to their agriculture and farmers as subsidies to farmers in the United States and Europe. Decisions to increase coffee production in Brazil and Vietnam are having severe repercussions for coffee growers in Latin America, Africa, and Asia. Eager to reduce its crop stockpiles, India has exported rice at very low prices, adversely affecting farmers in other countries. Imports of "high value" crops from China, Taiwan, Thailand, and Vietnam have undermined the position of Philippine farmers.

The drive to privatize state-owned agribusiness infrastructure and reduce government budgets is also part of the problem, not the solution. Privatizing state cotton enterprises in Africa—which sold inputs to farmers, purchased their crops, ginned the cotton, and pressed cottonseed to make cooking oil—created its own problem. A large portion of the African cottonseed crop is now exported to Europe for use as an animal feed, leaving the cotton oil factories running at 25 to 30 percent of capacity. As discussed above, government subsidies for fertilizers have been reduced or eliminated in a number of African countries, reducing food production and rural income. **The Noble Peace Prize-winning agronomist Norman Borlaug has worked in Africa for a number of years, showing that simple techniques can increase yields on the lands of small farmers. However, he is frustrated by the lack of government programs to implement and maintain a support system for farmers. "I'm a biologist, not an economist, but even I can see [Western and African] policies aren't working. It's time to face up to reality" (Wall Street Journal, December 3, 2002).**

Perhaps the greatest threat to farmers in the periphery is the growing corporate control over the world's food supply. The agriculture of the periphery is under assault by the forces representing agribusiness in the countries of the center—grain trading corporations, input suppliers (especially seed and chemical companies, which are now intertwined), processors, and distributors. The attack has been carried out under the guise of promoting "free markets" and "free trade." The real profits in agriculture are not made by growing

commodities such as wheat, corn, rice, cotton, or apples. The profits of capital are generated by agribusiness at both sides (before and after) of farming. At the beginning of the 20th century, about 40 percent of the value of food purchases in the United States went to farmers; by the end of the century they received only 10 percent. The remaining money went to input suppliers (25 percent) and transportation, processing, and marketing (65 percent). Agribusiness transnationals are already well established in the periphery. For example, the giant Cargill Corporation operates in 18 Brazilian states, and has more than 120 units including its plants, warehouses, offices, port terminals, and farms. It is a major exporter and processor of soybeans (originating seven million tons annually), has one of the largest citrus processing plants in the country, and has an exclusive port terminal in Guarujá—the only automated port terminal in Brazil, for shipment of sugar products, in bulk or bags.

Are there any ways for the countries of the periphery to get out of this devastating situation? There are some general approaches that should be considered. Trade arrangements that are better than those originally developed before many understood the implications of the "free trade" agreements can certainly help protect farmers and the poor in the periphery. But better "free trade" deals are no solution to these issues. Although out of fashion these days, governments in the periphery need to take an active role in assisting the transformation of their agriculture—not only to use environmentally sound production techniques, but also to be able to support large numbers of farmers. Until sufficient numbers of jobs are available in the cities, keeping people productively employed on the land as well as subsidizing the production of at least the basic foods may be prerequisites to alleviating poverty and hunger in the periphery. This may require many initiatives, such as meaningful support for ecologically sound and productive farming practices and better transportation and storage facilities. **Land reform is desperately needed in many countries of Latin America, Asia and Africa. It also makes no ecological sense to have a world with food transported thousands of miles when it could have been produced close to where it is needed. Agricultural efforts should concentrate on food production for consumption within the country. On this, there is much that can be learned from the Cuban experience following the disintegration of the Soviet Union. It has led the way in the extensive development of urban agriculture (and also organic agricultural practices), where the raising of crops in cities contributes significantly to the well-being of the people.**

It is, of course, not an issue of whether to trade or not, but rather to trade on terms that will help the mass of the people and encourage development. It is also not a question of whether or not to borrow money or seek technologies that may only be available abroad. However, it is important for countries to control the direction of investment—how much money will be borrowed for what uses (and under what terms). Technologies should be selected that do the most economic good while minimizing potential environmental problems. **Enhancing the well-being of a country's poor depends on development based primarily on the nation's own human and natural resources and directed in a way to benefit its people—even though in most cases this will go against the wishes of international capital.**

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Inequality in income and wealth (and all of the social indicators which are linked to these inequalities) are a profound contradiction of the capitalist mode of production. Workers and their employers presumably meet as equals in the labour market, each free to make a bargain. Yet the results of this bargain favour the employers to a striking degree.

In capitalist economies, everyone is free to make money, but it is remarkable how few do. Capitalist economies espouse egalitarian values, but the consequences of their normal operations are extraordinarily inegalitarian. The same contradiction is apparent in relationships among nations. Countries enter into free trade relationships, but the consequences of this trade are enormous disparities in per capita GDP.

Declaration of the
Via Campesina's Fourth International Conference
June 14-19, Itaici, Sao Paulo, Brazil

Joao Peschanski

We, members of Via Campesina, a world-wide organization of rural women, peasants, small farmers, rural workers, indigenous people and afro-descendants, from Asia, Europe, America and Africa, met in Itaici, Brazil, from 14-19 June 2004, for our 4th International Conference. We were welcomed warmly, fraternally and in a combative spirit by our hosts, the member organizations of Via Campesina in Brazil.

We gathered to confirm our determination to defend our cultures and our right to continue living as peasants and peoples with our own identity. We had the participation of over 400 delegates from 76 countries, representing millions of peasant families. We also had the joy of convening the Second Via Campesina Women's World Assembly and the First Via Campesina Youth World Assembly, which emphasized our commitment to continue our struggle in future generations. We had the participation of more than 40 peasant organizations that joined Via Campesina during this conference as well as members of more than 80 civil society organizations which the Via Campesina recognizes as friends.

The Fourth International Conference reviewed our history, from our initial intention to organize ourselves, up to the present. From the beginning it was clear that we positioned ourselves in radical opposition to the neo-liberal model that kills and destroys cultures, peoples, and peasant families throughout the world. We have witnessed the growth and strengthening of our organizations and movements which successfully put the peasant movement at the core of peoples' struggles. In Cancun, the Vía Campesina was a key protagonist in the peoples' mobilizations. A week of continuous protests and the sacrifice of Comrade Lee Kyoung -Hae -- who offered his life to the peasants of the world to keep alive the struggle and the absolute rejection of the WTO -- provoked the greatest defeat on the WTO to date.

Through our struggles and the strengthening of our movement, we have seen how the economic model under which we are suffering continues to be unscrupulously imposed. Since our last conference, we note that:

- The number of peasant families continues to decline at an alarming rate. With each minute that passes, agricultural policies and the agro-industrial model cause the disappearance of one family farm in the newly expanded European Union. The situation is equally dramatic in Canada and the United States. Massive and forced displacements of people, and overt and covert wars, are also causes of the disappearance of peasants in Africa, Asia, the Caribbean and Latin America. In some regions the increase in peasants' suicides is a growing tragedy.
- The number of forced migrations has increased dramatically as a result of war, misery, the concentration of land ownership and the destruction of peasant families.
- United Nations agencies, such as UNCTAD and FAO, have joined the IMF, the World Bank, and the WTO, in their role as guardians of capital.
- The number of Free Trade Agreements has increased. Together with other international agreements, these have imposed legal changes that have destroyed basic principles used to protect human and social rights and which serve to create the conditions in which transnational companies can maximize their profits.
- It is extremely alarming that the systematic violations of human rights have increased, that the war against the peoples of the world has been legalized, and that protest and social mobilization have been criminalized and how attempts are made to criminalize the lives of peasants and indigenous peoples. We have also seen the increasing use of preemptive repression.
- Women and youth continue to be the most marginalized of all, and they are increasingly subjected to criminal violence. They are also the main victims of the privatization of basic services, the concentration of land ownership, and the destruction of local markets and local forms of food and agriculture as well as the exploitation and slave labour imposed by the transnationals.

We reaffirm that the permanent existence of peasant agriculture is fundamental for the elimination of poverty, hunger, unemployment and marginalisation. We believe that peasant agriculture is the cornerstone of food sovereignty, and that food sovereignty is essential for peasant agriculture to exist. There will be no autonomy nor peasant agriculture if we do not posses our own seeds.

We will give special priority to the right of peasants throughout the world to demand government policies that promote sustainable peasant agriculture. We will continue our struggle for genuine Agrarian Reform, the defence of our seeds, and food sovereignty.

We totally oppose GMOs and we will fight it everywhere. We once again express our total opposition to genetically modified crops. We denounce and reject the recent FAO report "Biotechnology, addressing the needs of the poor?". This report only seeks to legitimize the imposition of genetically modified crops and the use of the technology of death -- "terminator" or sterile seeds -- with the single goal of ensuring the profits of transnational companies in the agricultural sector.

We reaffirm our complete opposition of neoliberalism and the policies of the WTO, IMF and World Bank. We totally reject their most important recent instrument - bilateral free trade agreements. We reject the use of embargoes as a political and economic tool, and we are committed to building peace in all countries.

We are equally committed to the struggle against the patriarchal system that only accentuates the aberrations of capitalism. Within Via Campesina, we will work hard to ensure that the numerical gender parity that we have reached is translated into real changes in the power relations between by men and women in our movement. In addition, we are now committed to advance the struggle for the Human Rights of Peasants. Together with our peasant organisations, we will draft an International Peasants' Rights Charter.

Another new commitment is to fight against the causes of migration and their destructive effects. We will demand an improvement in and strict compliance with the ILO conventions on agricultural workers. We will continue our efforts in the area of political education at all levels.

We call on social movements to join us in the immediate actions decided by the Conference. We will carry out a Week of Struggle Against the WTO and Transnationals between 19-24 July. We have declared September 10th as the International Day of Struggle Against the WTO. This year we are committed to mobilize in the streets, especially in Seoul, to pay homage to Comrade Lee in a day of mobilization for food sovereignty. We will organize a series of coordinated actions on November 25th, the international day against violence against women. We will hold our conference on Agrarian Reform from the 4-8 December, 2004. We call on the social organizations to remain mobilized to impede the ministerial meeting of the WTO in Hong Kong in June of 2005.

All of the participants of the Fourth International Conference of the Vía Campesina are committed to continue struggling for the well-being and the dignity of our peoples. We will link all the struggles and movements from the global to the local, and create new forms of alliances that will strengthen us to demand the respect and protection of our rights and our cultures.

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Duty Changes to Hit Textile EOUs Hard

Export oriented units (EOUs) in the cotton textile sector are facing the grave prospect of completely losing out to DTA units in domestic sales, because of the new indirect tax regime announced in the Budget.
The EOUs will now have a disadvantage of 4.1% in cotton yarn and 12.3% in cotton fabric in the domestic market against DTA units, thanks to the excise exemption for cotton yarn and fabric manufacturers in the DTA, which the Budget provided for, while the duty regime for the EOUs continues unchanged.
EOUs are allowed to sell 50% of their exports, that is one-third of their total produce, in the DTA.
"The new tax regime in the textile sector would be catastrophic to EOUs. While cotton textile industry is free from excise duty payment in the new regime, the EOUs, under a different dispensation, will have to continue to pay the duty on sales in DTA," said Sharad Jaipuria, MD, Ginni Filaments, a textile EOU.
When an EOU sells cotton yarn in the DTA, the duty payable will be 4%, along with the 2% education cess on that, resulting in duty incidence of 4.1%. When the EOU sells cotton knitted and woven fabric in the DTA, the excise duty payable is 50% of the import tariff of 24% plus the education cess, which works out to be 12.3%.
EOUs account for around 57% of cotton yarn exports exceeding Rs 6,000 crore. Most of the units in the textile spinning industry are EOUs , including Nahar Textiles, Vardhman Spinning, Ginni Filaments, Maral Overseas, GTN Textiles and Century Spinning.
Most of these EOUs, however, sell their produce in the domestic market too, fully utilising the DTA window.

Europe

Norway oil workers expand strike

On June 23, oil workers in Norway expanded their six-day strike that resulted in a cut in output of 715,000 barrels per day (bpd) of the country's 3-million-bpd oil output. There has been speculation that the Norwegian government is considering invoking emergency laws to end the strike.

The strikers, members of the OFS trade union and sister union Lederne, are demanding better pension plans and labour rights for offshore workers.

A spokesman for the Norwegian Oil Industry Association (OLF) said that the organisation was considering locking out those workers who are on strike. Such a move would effectively halt all Norwegian oil production. During the last large-scale oil workers' strike in Norway, in 2000, a lockout was announced after 10 days. The government intervened, invoking emergency laws that ended the stoppage after 13 days.

Norway is the world's third-largest oil exporter, with exports accounting for some 20 percent of gross domestic product. The industrial action has led to an increase in international oil prices, with London Brent futures 27 cents higher at $35.88 a barrel.

Coal miners go on hunger strike in Maritime territory of Russia

Some 82 coal miners at the Rakovsky pit in the Russian Maritime (Primorye) territory announced a hunger strike on June 21. On June 19, 69 miners held a protest in the mine's administration building. Later that day, another 14 miners joined them.

The workers are in dispute over unpaid wages dating back to August-November 2003 and April-May 2004. The miners are demanding all wages be fully paid and that their labour record certificates, currently being held by their employer in Vladivostok, be returned to them.

Rakovsky miners also held a hunger strike in May over unpaid wages and won a partial wage arrears payment.

French power workers continue dispute

On June 16, after 24 hours, the unions Confederation General du Travail (CGT), Confederation Francaise Démocratique du Travail (CFDT), Force Ouvrière (FO) and Confederation Francaise des Travailleurs Chrétiens (CFTC) agreed to continue their dispute against the proposed government privatisation of the Electricité de France (EDF) and Gas de France GDF energy companies.

The same day, Finance Minister Nicolas Sarkozy reiterated the governments' determination to carry out the privatisation. Earlier, Prime Minister Jean-Pierre Raffarin appealed for the unity of the government and warned that workers in the strikes who had been involved in cutting electricity supplies were "behaving illegally" and should face sanctions.

On the afternoon of June 16, the electricity supply of the Elysée-palace, the Champs-Elysées and the Eiffel Tower was interrupted for 15 minutes. The power of some 52,000 customers, including the headquarters of the employers' organisation UMP, and the ministries of the interior, of agriculture, and of employment and solidarity, were affected.

Other Paris regions or buildings were affected for one hour, including Madeleine, Concorde, Quai d`Orsay, the embassies of the United States and Great Britain, and several shops and offices. Several dozen gas and electricity workers occupied a facility providing current to the north of Paris from June 15 to June 16.

France's power market is 37 percent open to competition, enabling the country's 3,100 largest companies to choose their power supplier. From July 1, all businesses, or about 3 million customers, become eligible to do the same. EDF will retain a monopoly on households until at least 2007. It sells more than 90 percent of France's electricity, with 27 million customers in France out of around 42 million worldwide.

Siemens's German employees protest threat to jobs

Around 10,000 Siemens AG workers demonstrated June 18 to protest plans by Germany's largest engineering company to shift some production abroad to help cut personnel costs.

Employees at factories from Berlin, where Siemens assembles gas turbines, to Bocholt, where the world's fourth-largest mobile-phone company makes handsets, are staging marches against a relocation plan that Siemens has said may affect 5,000 German jobs. Marches took place in many of the major cities including Cologne, Dusseldorf and Krefeld.

Following the growing trend of German manufacturers—shedding jobs in Europe's largest economy while creating them in the east—Siemens, which employs 167,000 in Germany, is believed to be looking at Hungary as a new location for factories producing phones. Wages in Hungary are at least 30 percent lower than in Germany.

Unemployment in Germany rose for a fifth month in May, and the adjusted figure was 10.5 percent.

Middle East

Israeli workers protest hospital closure

Hundreds of employees of HMO Kupat Holim Clalit took over the management building of the company on June 26 in Tel Aviv. The workers were protesting against the decision to shut down Sharon Hospital in Petah Tikva and against the recovery programme initiated by CEO Ze'ev Vurembrand.

Chairman of Clalit's union, Prosper Ben-Hemo, said: "Vurembrand is acting aggressively. We demand of him to keep the Sharon Hospital open and to commence negotiations with the workers."

Marry Pinto, union chairman at Rabin Medical Centre in Petah Tikva said: "Our struggle is for the sake of the patients and those insured by Clalit. We have no room to admit patients in our hospital so what would we do if the Sharon Hospital shuts down? The whole health system is being destroyed."

Israeli bank workers protest merger plan

Investec Israel employees stopped work on June 29 for an hour, leaving the bank's headquarters on Rothschild Blvd. in Tel Aviv for a protest demonstration.

The bank workers decided to demonstrate after a meeting the day before with First International CEO David Granot, who told them that supporting staff with no connections to customers would have to leave the bank. (First International Bank of Israel recently acquired Investec Israel.) This is the first time that employees at Investec Israel have taken strike action.

Palestinian workers march against unemployment

On June 22, Palestinian trade unions staged a march that included hundreds of unemployed workers in various Gaza Strip districts. The demonstrators marched in front of the Palestinian Authority's cabinet building in Gaza City.

Union chairman Rasem Al-Bayari said that the march was meant to display the workers' suffering as "a result of the Zionist arbitrary measures" that closed work opportunities before them and to demand a Palestinian Authority solution to their problems.

Africa

Ugandan high school staff strikes over pay

Fifty-five teachers at City High School in Kampala, Uganda, held a sit-down strike on June 21, leaving the school's 1,000 pupils without lessons. The teachers were demanding an increase in their allowances.

The teachers told New Vision (Kampala) that they needed a "top-up" because last year's PTA increment of sh100,000 had been reduced by one fifth after tax. One teacher told the paper, "There is no reason why we should not be paid well when the deputies are getting eight-fold (about sh600,000) more than us. The money is there."

Four hundred Kenyan tea workers on strike

Four hundred workers are on strike at the Mau Tea Farm in Kenya. Their employer, the Multipurpose Savings and Credit Cooperative Limited, has declared that the workers will have to reapply for their own jobs after they refused to comply with a return-to-work notice. It has brought in 200 casual workers from a neighbouring company.

Latin America

Striking teachers in Honduras block highways

On June 24, tens of thousands of Honduran teachers set up barricades threatening to effectively cut off the country's cities from each other. Security forces assaulted the strikers with tear gas, however, and managed to clear the roads. The protest lasted nine hours. The strike by 60,000 teachers began on June 7.

The protests were directed against President Ricardo Maduro. The strikers have rejected his offer of $US4.7 million and insist on $17.6 million. Currently teachers are paid US$3,500 a year.

Paraguayan teachers on strike

Ten thousand public school teachers began a strike across Paraguay on June 21 over wages. Despite continuing negotiations, most observers expect a long strike. The instructors, members of two teachers' unions, initially demanded a 35 percent wage increase. This was rejected by the government, which offered a seven percent raise.

Retired workers protest in Ecuador

On June 23 hundreds of pensioners took over social security administration buildings in Quito, Guayaquil and other cities, demanding decent pensions. The retired workers, who had been protesting for seven days, carried on with their protest despite a government decree to increase the budget for pensions by 250 percent. While it appears significant, the increase is still woefully inadequate because pensions were very low to begin with and their value has been eroded by inflation.

The lowest pension check, currently $12 per month, would increase to only $30, nearly one-tenth of what a family needs to live above the poverty line. The retirees are demanding monthly pensions that average $140.

United States

New Jersey health workers end strike

Workers represented by the Health Professionals and Allied Employees union (HPAE) ended a three-week walkout June 21 at the Bergen Regional Medical Center over staffing levels, wages, and pension funding. Wages were increased to parity with other

area hospitals, but the union conceded to management demands, including freezing the hospital's contribution towards pension funds and deferring the issue of staffing levels to a union-management committee. The union also agreed to a three-year contract, putting Bergen Regional on a different contract negotiation schedule than other area hospitals that generally have two-year contracts.

The day after the contract was approved testimony was given to a committee of the New Jersey state assembly about the management company that runs the hospital, Solomon Health Group LLC, which has left a trail of poorly managed and understaffed hospitals in other states. In addition, Bergen County lent the company $33 million as "working capital"; not only was this not in the contract, but it may be unconstitutional as the New Jersey Constitution bars the lending of public money for private use. Much of this money came out of funds that were earmarked for Medicare and Medicaid.

Bay Area health care union calls of strike threat

The union representing health care workers at Alta Bates Summit Medical Center in Oakland and Berkeley said last week it had called off a planned one-day strike scheduled for July 7, following the hospital's decision to let an employee suspended for passing out union leaflets back to work.

The local Service Employees International Union 250, the California Nurses Association, the Health Care Workers Union and Caregivers and Healthcare Employees Union, which represent more than 3,000 workers at the hospital, said they would strike to protest what they alleged were unfair labor practices.

Union members voted early this month to reject a contract offer from the hospital to cover its 1,200 members. The SEIU has said that the hospital has refused to negotiate over elements such as giving front-line workers a voice in staffing and a training fund, provisions other hospitals have included in recent contracts.

Con Ed union agrees to contract

Management for Con Edison, New York's central electrical utility, and the union representing 8,600 Con Ed union workers have reached a tentative agreement on a new contract. Officials of Local 1-2 of the Utility Workers Union of America say the four-year agreement will increase wages and improve pensions and medical benefits. Union officials say the agreement will go before the union's executive board for approval before union members vote on ratification. A Con Ed spokesman says the company is pleased to have reached an agreement.

Union workers had planned to strike at 12:01 a.m. Sunday unless a new deal was reached. The deadline had been extended twice so Con Ed officials and the Utility Workers Union of America could continue negotiating.

Canada

Aliant strikers march in Halifax

About 2,500 striking employees of Atlantic Canada's largest telecommunications company, Aliant, took part in a march through the streets of Halifax on June 23. They went on strike two months ago in defense of job security and pensions. The workers, who are represented by the Communication, Energy and Paperworkers Union (CEP) and the Atlantic Communication and Technical Workers Union (ACTWU), are seeking to bring pressure on the company to meet their demands.

Wildcat garbage strike in Montreal

About 80 workers in the district of Notre Dame de Grace (NDG) in the west end of Montreal walked off the job last week to protest the suspension of fellow workers. Their union has not commented on the walkout, which began June 22, but local politicians are promising to suspend the strikers as well if they don't return to work.

Asia

Sri Lankan doctors on indefinite strike

Some 1,550 Assistant Medical Officers (AMO) and Registered Medical Officers (RMO) began indefinite strike action on June 7 to demand a scheduled salary increase. Their demand is in line with a Ministry of Health circular issued a few months ago designed to resolve salary anomalies among health workers. The AMOs and RMOs claim they have been dropped from the various categories listed on the circular.

The striking doctors held pickets with other health workers on June 9 and established a Satyagraha, or sit-in protest, outside the health ministry. The Health Service Trade Union Alliance (HSTUA) has endorsed the doctors' struggle.

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