LOK SAMVAD

JULY 2013

EDITORIAL

Corporate Takeover of Indian Agriculture

- Piyush Pant

Our country, whose sixty percent population still lives in the villages and which is still known as the agricultural country, is being gradually pushed by her corporate-friendly rulers to become a grazing ground for the profit-hungry Indian corporate and multinational companies who are out on a spree to take over the Indian agriculture, pushing Indian farmers to a state of penury. Corporatization of agriculture is nowadays the buzz word in India. It is also the agenda of neo-liberal policies being forced in India. The thrust of neo-liberal policies is so intense that of late a synchronized voice is being raised by all and sundry (be it a section of political class, bureaucrats or technocrats) for public-private-partnership (PPP) in agriculture which envisages a dominant role for the corporate sector from production to marketing. Right from planning commission's deputy chairman Montek Singh Ahluwalia to the Prime Minister Manmohan Singh, agriculture minister Sharad Pawar and many state-governments in India have been championing the cause of corporate farming. In December 2012 their voice got a shape during the National Conference on Agriculture sponsored by Confederation of Indian Industry and addressed by President Pranab Mukherjee. The clear message coming out from this conference was that a second Green Revolution through Public-Private-Partnership is set to take place in India. The guidelines for Public Private Partnership for Integrated Agriculture Development under the Rashtriya Krishi Vikas Yojna issued by Agriculture Ministry in August 2012 and changes brought into Agricultural Produce Marketing Committee Act are all aimed at corporatizing the farm sector in India. As part of these processes, all Government support that has been given during Green Revolution period to promote farm production, especially to the small farms, is being withdrawn, either fully or partially. Withdrawal from research, extension, fertilizer subsidies in a phased manner, introduction of seed subsidy in a big way in the name of improving seed replacement rate (to inculcate the habit of using the corporate/ private produced seed, thus handing over control of farm production to these entities in a phased manner), weakening of genuine peasant cooperatives, weakened institutional farm credit(specially to small producers but showing on paper increased credit supply by showing all sorts of credit given to other purposes as part of farm credit) are best examples to understand the ongoing process to handover Indian agriculture to private players. This is part of the broader agenda of globalising Indian agriculture. For this, goods have to be produced at the cheapest in order to compete in the world market. Earlier, production was based on self reliance and self sufficiency, which now has been abandoned and restructured to suit global markets.

However, the initiative was taken way back under NDA rule in the year 2000 when the then Agriculture Minister Nitish Kumar brought out a National Agriculture Policy which rang death knell for the Indian farmers but brought cheers to US camp. Says agriculture expert Devinder Sharma-"For over a decade, the American government, either through its deft manipulation of the World Trade Organisation (WTO) or simply through its arm-twisting diplomacy, had wanted the world's second biggest agriculture economy to forgo its unwritten but inherently applicable policy of self-reliance in agriculture. It had all along wanted the Indian government to shift the emphasis

In This Issue

from food self-sufficiency to food dependency, from sustainable agriculture to corporate agriculture, from the famine-avoidance strategy so assiduously built over the ages to head towards a market-oriented agriculture thereby acerbating the process of marginalisation of the farming community."

The Government of India's National Agriculture Policy declares that "private sector participation will be promoted through contract farming and land leasing arrangements to allow accelerated technology transfer, capital inflow and assured market for crop production, especially of oilseeds, cotton and horticultural crops". This is to be remembered that the NDA government at that time had already drafted a model law on agricultural marketing to provide, among other things, legal support to contract farming agreements. Similarly several state governments, particularly in Andhra Pradesh, Gujarat, Karnataka, Punjab and Tamil Nadu, were actively promoting contract farming, changing laws to enable and support it, and providing companies interested in it with a variety of incentives, including lifting of land ceilings, subsidies and tax rebates.

Before reverting back to UPA government's fresh impetus to promote the corporatization of Indian agriculture, let us understand what exact is the contract farming? Contract farming is defined as a system for the production and supply of agricultural or horticultural products under forward contracts between producers/ suppliers and buyers. The essence of such an arrangement is the commitment of the cultivator to provide an agricultural commodity of a certain type, at a time and a price, and in the quantity required by a known and committed buyer, typically a large company. According to the contract, the farmer is required to plant the contractor's crop on his land, and to harvest and deliver to the contractor a certain amount of produce, based upon anticipated yield and contracted acreage. This could be at a pre-agreed price, but need not always be so. Typically, the contractor supplies the farmer with selected inputs and technical advice. The typical contract is one in which the contractor supplies all the material inputs required for cultivation, while the farmer supplies land and labour. However, the terms and nature of the contract differ according to variations in the nature of crops to be grown, the agencies or companies concerned, types of farmers, and technologies and the context in which they are practised. Thus contractors (the big corporate houses) achieve domination over the market by combining vertical and horizontal integration. Says leading economist Prof. Jayati Ghosh-" Cargill for instance, to begin with has been involved in the agriculture system right from supplying seeds, fertiliser and other farm inputs, to the procurement and processing of food grains and other farm produce. In 1998 Cargill embarked on a joint venture with the Monsanto. As a result it got accesses to bio-technology and the genetically engineered products, which it marketed through its extensive worldwide network. With this joint venture Cargill successfully integrated all aspects of the food production system. Being present at each stage of the process, the company owns the product at all stages of its processing, and dictates everything from what will be produced where and in what quantities, all with a view to maximize profits. Joint ventures and merges of these type are fast becoming the norm and are not restricted to just two companies but involve more than two companies leading to the emergence of what are termed as 'food chain clusters'." This in a way leads to the decrease in the autonomy of farmers. Contract farming also leads to the shift towards mechanisation and high-value crops such as fruits, vegetables and flowers. Such a shift adversely affects the need of the locally produced labour-intensive goods and services which are a major source of the rural non-farm economy.

There is also no substantial evidence to buttress the argument that farmers will get additional price in corporate/contract farming. The experience worldwide shows that in the initial stages some margin is transferred to the farmers so as to establish a monopoly but once it is established, the corporate exert downward pressure on the producer and on the labour. In india, this was widely witnessed in the state of Punjab. In the words of Jagjit Singh, a farmer of Laadowal village near Ludhiyana-"One company got us into contract farming saying it would give us Rs.1,000 a quintal for basmati rice, but it gave us only Rs.800 citing low quality of the crop. We could not do anything as there is no minimum support price for basmati rice. We had to sell it to them." Says another tomato growing farmer from Jalandhar-"We earned a lot in the first two years. But the company left our village. And this happened when we started demanding better prices as the market price of the tomatoes had increased."

Says Prof. Sukhpal Singh of Centre for Management of Agriculture at IIM, Ahmedabad-" Production costs in contract farming are higher as the standard expected is higher. No company offers protection from crop failure. No crop insurance is given and thus production risk is not covered most of the time. Many companies take advantage of the clauses in the contract in case the harvest does not meet their requirement, they tend to buy it at a lower price or reject it altogether. Thus, the market risk is also not covered fully, especially when the contract prices are based on market prices as we know that the market prices vary substantially during the season or even during the day."

However, instead of dumping the corporate farming as an exploitative model, the central and state governments continue patronising and promoting it.

Calling in the Corporates

By: Venkitesh Ramakrishnan

When India's only National Commission for Farmers (NCF), headed by the renowned geneticist M.S. Swaminathan, published its fifth and final report in October 2006 after functioning for two years, its key findings and recommendations were the following: "The major causes of the Indian agrarian crisis are: unfinished agenda in land reform, quantity and quality of water, technology fatigue, access, adequacy and timeliness of institutional credit, and opportunities for assured and remunerative marketing. Adverse meteorological factors add to these problems. Farmers need to have assured access and control over basic resources, which include land, water, bio-resources, credit and insurance, technology and knowledge management, and markets."

In the seven years since the publication of the report, there has been no indication of a careful follow-up by the political leadership or the administrative machinery for the effective implementation of these recommendations. However, over the past few months, sections of the political class, bureaucrats and technocrats in the agriculture sector at the Centre and in several States have embarked on a policy blitz of sorts on public-private partnership (PPP) in agriculture that seeks a paramount role for the corporate sector in production and all the way up to retail marketing.

The advocates of this policy thrust, including Prime Minister Manmohan Singh, Union Agriculture Minister Sharad Pawar and the political leadership of over a dozen State governments as also trade and industry bodies such as the Confederation of Indian Industry (CII), have no qualms about presenting this as the answer to the country's agrarian crisis. The NFC, too, had seen some value in PPP initiatives, but only in a role subsidiary to key initiatives such as land reforms and institutional credit. But the current joint offensive of governments and the corporate sector on the PPP concept shows no such calibration. This so-called panacea is being promoted through a flurry of activity on the ground in several States aimed at setting up PPP ventures. They include conducting specific programmes mooted by different arms of the government and its agencies to facilitate and strengthen these exercises and the organisation of high-profile conferences with the objective of creating awareness. An overview of these exercises points to a systematic and time-bound unfolding of the agenda.

'Framework' for Integrated Projects

A formal beginning to all this was through the CII-sponsored national conference on agriculture in December 2012. The conference, inaugurated by President Pranab Mukherjee, had the proclaimed aim of ushering in a second Green Revolution in India through PPP. The groundwork for this proclamation had been laid a few months earlier, in August, through the "framework" devised by the Union Ministry of Agriculture to facilitate large-scale integrated projects led by private sector players in agriculture and allied sectors. In this framework, schemes were to be developed "with a view to aggregating farmers, and integrating the agricultural supply chain, with financial assistance through the Rashtriya Krishi Vikas Yojana (RKVY), under the direct supervision of State governments and supported by national-level agencies". The framework also stated that "overall, a collaborative effort between the government, farmers and corporates in agriculture is likely to raise the rate of agricultural GDP growth, thereby directly impacting rural poverty".

The deliberations at the CII-sponsored meet were immediately followed up, in January 2013, with administrative measures to formalise the role of the Small Farmers Agribusiness Consortium (SFAC) as the national nodal agency for advancing PPP initiatives. The Agriculture Ministry's PPP framework had also stated that the SFAC would "provide technical support and facilitation to States and corporates". Since January the SFAC has been active across large parts of the country in trying to set up Farmer Producer Companies (FPC) as visualised in the framework.

The framework stated as follows: "Eighty-three per cent of landholdings in the country are now marginal or small and unless there is urgent intervention in aggregating producers through farmers' institutions, we are unlikely to achieve scale in production and leverage it to the advantage of all stakeholders, especially primary producers. The PPP in agricultural development (PPPIAD) has been conceived of as an alternative mode of implementation under the RKVY, using the technical and managerial capabilities of the private sector in combination with public funding, to achieve integrated and sustainable outcomes, as also to achieve value chain integration and additional private investment in agriculture."

It went on to add that the main features of the PPPIAD allowed corporates to propose integrated agricultural development projects across the spectrum of agriculture and allied sectors and also gave them complete flexibility in design. It also stated that State governments would provide financial assistance directly to corporates through the RKVY window after a project had been approved, subject to a ceiling.

The Farmer Producer Company

The primary interface between corporates and farmers in this exercise would be the FPC. The objectives of the FPC include enabling the incorporation of cooperatives of primary producers as companies and the conversion of existing cooperatives into companies. The FPCs would function as tools for corporates to be part of or to be associated with PPP schemes and programmes. As stressed in the PPPIAD framework, corporates would have complete flexibility in designing a scheme or a programme. The structure and its parameters also mean that many of the FPCs, despite the presence of big corporate players in them, would be eligible, technically, for a number of the privileges and concessions that only cooperative societies were entitled to earlier.

Field reports from different States and reports in SFAC publications themselves point to concerted efforts in the past six months to set up FPCs all across the country. SFAC documents for the early part of 2013 show that the institution has initiated a drive to facilitate the registration of more and more FPCs and that the drive had a significant response in about 20 States.

'Contract' Farming

While the FPC model is being advanced as the primary instrument to promote the PPP programmes, government agencies and institutions involved with agriculture are also making use of long-standing practices in the farming sector, such as contract farming. A large quantum of contract farming is based on oral "contracts" and not on registered documents. Even international corporates involved in contract farming in India reportedly take recourse to this informal contract system, often through intermediaries. So, while a structure is sought to be put in place through a number of initiatives, all available traditional and informal channels are also being used to promote the so-called panacea.

Obviously, the drive to create more and more FPCs and to facilitate PPP programmes through contract farming is loaded heavily in favour of corporate players. Farmer organisations in Andhra Pradesh and Maharashtra have listed complaints of farmers being forced to join FPCs and being made to sign documents in English, a language they do not understand. Even long-standing contract farmers in the relatively advanced and well-off farming community in Punjab have recorded how corporates ultimately dictate terms and cause them many types of losses (see separate articles).

Officials at the SFAC were not able to give exact figures for the number of PPP projects that have been advanced at present for "want of a proper feedback from the States". However, the listings in 2012 record that as many as 17 State governments initiated PPP schemes in association with more than 25 corporate players. Prominent among them were Reliance, Essar, Bharti Enterprises-Del Monte Pacific Ltd, the Adani group, ITC, Godrej, Marico, Tata Chemicals and Nestle.

In the assessment of a number of senior officials in the Union Ministry of Agriculture, Maharashtra, Andhra Pradesh, Karnataka and Gujarat have shown greater intent to advance PPP programmes in agriculture. The listed programmes mainly cover vegetables such as potato and tomato, which go into the condiment-confectionary industry; tobacco; sunflower; cotton; and dairy products. The overall trend shows that PPP initiatives are very few in the cereal production sector.

The PPPIAD framework, too, indicates this tendency. It said: "Agriculture GDP is heavily weighted in favour of high value produce (horticulture, animal husbandry, dairy, poultry and fish products); as much as 75 per cent of agri GDP value today is contributed by these products. Recent evidence suggests that this segment is increasingly favoured by small and marginal producers as it is labour intensive, offers quicker returns and can engage a higher proportion of women (especially dairy activities). Thus there appears to be immense potential to leverage high returns from non-cereal subsectors, especially for small producers." The framework seems to suggest that corporates are only facilitating a felt-need of small and medium farmers.

The CII-McKinsey Report

Apart from the August 2012 framework, the thematic structure for the efforts to advance PPP in agriculture is provided by the CII-McKinsey report, Food and Agriculture Integrated Development Action (FAIDA). In fact, the two institutions have brought out five-yearly FAIDA reports since 2003, and every report championed the cause of PPP in agriculture. While the 2003 and 2008 reports were rated within the CII itself as not having generated enough traction and momentum, the current context is perceived as promising.

The latest FAIDA report, released in April 2013, suggests a 12-point plan of action to take PPP forward. The suggestions include creating scalable farmer-industry partnerships to encourage various emerging models such as FPCs. The report stresses that private capital and world-class expertise will ensure the adoption of latest technologies and practices in all parts of the agriculture and food value chain.

It also calls for a favourable policy regime to improve agricultural marketing mechanisms so that farmers can decide to whom and where they will sell their produce and to ensure incentives for strategic industry initiatives. It also calls for the setting up of a "National Agricultural Technology Mission" and a "National Agricultural Sustainability Mission" to create high-yielding, disease-resistant seed varieties and to "map and test soil health, ensure integrated nutrient management and sustainable cropping practices". "These suggestions," avers Rakesh Mittal, chairman of FAIDA 3, "form the blueprint for the completion of the much-needed second Green Revolution in Indian agriculture." By all indications, the Ministry of Agriculture and the SFAC are addressing these suggestions seriously and are bound to come up with "concrete and positive responses" by mid-August. As these efforts and plans continue apace, the repeated failure of earlier PPP models, such as the fruit and vegetables programme of Tata Chemicals and Sunil Mittal's Bharti Enterprises' horticulture programme, both in Punjab, are being overlooked.

The Landgrab Experience

The grabbing of land and property of farmers by corporate firms during and after the functioning of the joint stock companies has been a recurring story from the time of the first contract farming experiment in the late 1990s, in Kuppam in Chittoor district of Andhra Pradesh, up to the early 2000s. Experiences as recent as five years ago in Uttar Pradesh and Punjab, too, underscore this aspect. These experiences show that in the larger neoliberal, corporate-driven economy plan, PPP in agriculture could end up as yet another landgrab programme as the special economic zones (Frontline, June 17, 2011).

A number of agricultural specialists who have long experience working with farmers in the field in advancing innovation in farming practices and creating sustainable and environment-friendly technology pointed out to Frontline that it would be costly to overlook the pitfalls of the past and the warnings from the larger socio-economic scenario.

"It is all very well to talk about the second Green Revolution, but those who say this must also think whether the first Green Revolution was driven by a PPP mechanism," pointed out the agricultural scientist Raj Gupta of the Borlaug Institute for South Asia (BISA). In his view, even in PPP the farmer and the farming community's interests and the sustainability of agriculture and nature should be the foundation on which it is built. "The government needs to be strong, committed and imaginative to build up clear and definite parameters for this. Leaving it to corporates in the private sector will only bring the profit angle above everything else," he said.

Subhas Deswal, a colonel-turned-farmer in western Uttar Pradesh, has had several brushes with corporate players as he built up Sunshine Farms in Sikandrabad in Bulandshahar district, and these experiences, he says, have filled him with doubts whether the big corporates can imbibe the farm-oriented work culture and that too in the specific manner in which it exists in Indian conditions. "If the government wants to do something for farmers, it should concentrate on building up agricultural infrastructure, especially in terms of building up technology that is suited for local conditions," Deswal said.

Even as this context and the varied opinions on it develop, it is not clear whether the suggestions of the country's only NCF so far on evolving PPP-based structures for technology development and dissemination with a pro-nature, pro-poor and pro-woman orientation will be considered seriously by those in government. If the track record on the NCF's central recommendation on land reforms is anything to go by, there is little doubt that these suggestions will also remain unaddressed.

(Courtesy: Frontline)

By: Jayati Ghosh

The United Progressive Alliance government's touching faith in the power of private corporate activity appears to be undiminished despite large and indeed growing evidence to the contrary. As in so much else relating to the productive sectors of the economy, the Central government appears to believe that most of the problems in agriculture can be solved not through active public intervention but simply by letting large private corporations handle things. The National Agriculture Policy declares that "private sector participation will be promoted through contract farming and land leasing arrangements to allow accelerated technology transfer, capital inflow and assured market for crop production, especially of oilseeds, cotton and horticultural crops."

Contract farming is a system of cultivation and supply of agricultural goods that is based on forward contracts between producers/suppliers and buyers. The essence of such an arrangement is the commitment of the cultivator to provide a certain quantity of a crop to a committed buyer (typically a large company). The contract usually requires the farmer to plant a specific crop on his or her land and to harvest and deliver to the contractor a certain amount of produce, on the basis of anticipated yield and contracted acreage. This could be at a pre-agreed price but need not always be so.

Quite often, the contractor supplies the farmer with selected inputs and technical advice. The typical contract is one in which the contractor supplies all the material inputs required for cultivation, while the farmer supplies land and labour. However, the terms and nature of the contract differ according to variations in the nature of crops to be grown, the agencies or companies concerned, the types of farmers, and the technologies and the context in which they are practised.

This system has historical roots. There are those who will find obvious analogies with the system of what became known as "forced commercialisation" under the aegis of the East India Company in the 18th and early 19th centuries, when indigo and opium cultivation was introduced by European planters into Bengal. However, modern contract farming has been developed in the United States, where corporate penetration of agriculture is now the most advanced as multinational companies have come to dominate the entire chain of agricultural production and distribution.

Pepsi Foods and After

The recent spate of contract farming in India effectively began with the case of Pepsi Foods Ltd (hereafter PepsiCo), which entered India in 1989 by installing a tomato-processing plant at Zahura in Hoshiarpur district of Punjab. The company intended to produce aseptically packed tomato pastes and purees for the international market. However, before long, the company decided that the investment in agro-processing plants would not be viable unless the company also had greater control over the yields and the quality of the tomatoes produced locally. In consequence, PepsiCo followed the contract farming method described earlier, whereby the cultivator plants the company's crops on his land, and the company provides selected inputs such as seeds/saplings, agricultural practices, and regular inspection of the crop and advisory services on crop management.

As it happened, PepsiCo subsequently abandoned tomato procurement, and since then its contract farming model began to focus on potatoes for making processed potato chips. It currently has contracts with around 24,000 farmers, mainly in Punjab, and also in West Bengal, Gujarat, Uttar Pradesh, Maharashtra, Karnataka and Bihar.

However, PepsiCo's involvement with contract farming has gone through many ups and downs. After an initial phase of much excitement when its model was considered a success in terms of diversifying cultivation in Punjab and improving the incomes of farmers, there was a lull and even decline in the 2000s. This reflected a growing dissatisfaction among the farming community affected by these contracts, especially when lower market prices led the company to effectively reduce the output prices through a variety of means such as quality control.

More recently, there has been a revival, with the amount of potato procurement by PepsiCo doubling to 240,000 tonnes in the past five years. Further, the company has once again declared its ambitious plans for expansion and extension to other crops such as foodgrains (basmati rice and oats), spices (chillies) and oilseeds (groundnut) as well, apart from other vegetable crops.

One major problem that was evident in the past is parties reneging on contracts depending on market conditions. Thus, when market prices are low, companies (not just PepsiCo, but others, too) have rejected the produce on the grounds of quality, forcing farmers to sell at lower prices to them or other buyers. It is also true that there have been instances of side-selling by farmers when market prices have been higher than those contracted.

It has been observed that the private companies that were to provide extension services in the contracted areas did not do their job properly. (This is after all a

labour-intensive and expensive service to provide, with many positive externalities, which suggests that it would typically be underprovided by private suppliers in any case.) Issues such as proper agronomic practices, regular visits to farmers and the emphasising of the quality norms were inadequately addressed. In the non-traditional basmati areas, which were under contract farming, cultivators resorted to large-scale use of harvesting machines, which resulted in high percentages of broken grains. Contractors wanted to pay lower prices for such grains, which the farmers were not willing to accept.

When PAFC Steps In

As a result, the State government agency that designed the contract farming programme in the first place (the Punjab Agro Foodgrains Corporation, or PAFC) has on several occasions been forced to step in and buy basmati rice that was being rejected by the contracting companies. The PAFC has become the guarantor of last resort for buyers and farmers in case the transaction does not go off smoothly, which is increasingly the case.

In Punjab, successive State governments have argued that contract farming is the best means of crop diversification, in a region where there is a real question of ecological survival and sustaining natural resources such as water and soil in a reasonably healthy state. Traditional crops such as wheat and the more recent paddy are seen as excessively reliant on water, so agronomists suggest reduction in the acreage of these crops by around 30 per cent. However, since contract farming is based on private corporate interests that are inherently profit-driven, there is no reason why these should coincide with the ecological requirements of the region. Indeed, much of the recent corporate interest in Punjab agriculture has been in basmati farming, which is one of the biggest water-guzzlers. Crop diversification can be more effectively encouraged through a system relative pricing policy accompanied by a supportive system of public agricultural extension services. It is the decline of such public services that has opened up the field for the entry of private corporations.

The Punjab government apparently feels that shifting to contract farming will ease the pressure on state finances by eliminating both subsidies and farm support prices. But it is likely to do so only at the more significant medium-term cost of corporatisation of agriculture and marginalisation of farmers. Already, around 100,000 acres (one acre is 0.4 hectare) is under contract farming in the State, with both multinationals and domestic companies involved. The system that is increasingly in vogue involves the tie-up of a marketing company with an input producer with a bank that agrees to provide credit.

The Government of Punjab is not alone in encouraging this greater corporate activity in agriculture. A 2006 study by Sukhpal Singh ("Corporate Farming in India: Is it Must for Agricultural Development?", Indian Institute of Management Working Paper 2006-11-06, Ahmedabad) describes how governments in Gujarat, Madhya Pradesh, Andhra Pradesh, Karnataka and Maharashtra have allowed agribusiness firms to buy and operate large land holdings for research and development and export-oriented production purposes. Sometimes the explicit purpose is to encourage cultivation on wastelands. Thus, the governments of Maharashtra and Gujarat have also enacted laws to allow corporate farming on government wastelands by providing large tracts of these lands (up to 2,000 acres each) to agribusiness companies on a long term (20-year leases). The Chhattisgarh government has made available about 20 lakh ha of land for jatropha cultivation (the seeds of the plant are processed to produce biofuel). The Government of Gujarat has offered up to 2,000 acres of wasteland for horticulture and jatropha cultivation on a 20-year lease to big corporate houses and resourceful farmers at the rate of Rs.500-an-acre interest-free security deposit.

Quite apart from various concerns expressed about the rights over wastelands and the denial of such rights to local dwellers, including women, there are also concerns about common lands and pastures being classified as wastelands and handed over to corporations on that basis. An even bigger concern may relate to water rights. Since groundwater in India is effectively privatised (in that whoever can dig a deeper well can appropriate more of it), there are dangers of corporations taking the lions' share of the water resources, affecting neighbouring cultivators and adversely impacting the water table in the area. Various studies of other experiments with contract farming (such as the famous "Kuppam" project which was implemented in Chittoor district of Andhra Pradesh in the electoral constituency of the then Chief Minister N. Chandrababu Naidu in the 1990s, and other instances in States such as Madhya Pradesh) have indicated that such schemes have at best mixed results and that they also lead over time to displacement of small farmers. Several problems relating to the sustainability of that pattern of production and the unsuitable ecological practices associated with such contracts have been noted.

A study, by D. Venkateshwarlu and Da Corta (2001), of contract farming of hybrid cottonseed in three districts of Andhra Pradesh found large-scale use of the labour of young girls, at the expense of employment of adults. Most of the cross-pollination work, which

accounted for nearly 90 per cent of the labour time, was being done by young girls who worked daily from July to February. Generally, 10 to 15 children were hired for 100 to 150 days an acre of cottonseed production. Children as young as six years worked from 8-30 a.m. to 6.00-7.00 p.m. The cottonseed production calendar was standardised by companies for seed certification and marketing. This resulted in the regimentation of children's work schedules so that they were continuously employed for six to nine months a year. Girls were preferred in cottonseed production because their wages were lower than those of adults, they worked longer hours and more intensively, and they were generally easier to control. It was reported that one girl could do the work of three adults. Though the agreements typically obliged these female children to work for only one season (six to nine months), in practice they tended to work for several years for the same contractor.

The Case of Andhra Pradesh

The case of Andhra Pradesh may deserve some more elaboration because of the extreme agrarian crisis evident in that State after a period of systematic encouragement of private corporate agriculture and neglect of the conditions of viability of small farmer cultivation. The Commission on Farmer's Welfare set up by the State government in 2004 (the report can be downloaded from http://www.macroscan.org/pol/apr05/pdf/Full_Report_Commission_Farmer_AP.pdf) found that the economic strategy of the previous decade at both Central and State government levels systematically reduced the protection afforded to farmers and exposed them to market volatility and private profiteering without adequate regulation; reduced critical forms of public expenditure; destroyed important public institutions; and did not adequately generate other non-agricultural economic activities. While this was a generalised rural crisis, the burden fell disproportionately on small and marginal farmers, tenant farmers and rural labourers, particularly those in dryer tracts. In these circumstances, farmers' distress was reflected not only in extreme forms in suicides but also in loss of land by small owner-cultivators, migration and other related tendencies.

The Andhra Pradesh government did not play a central role in ensuring the provision of high-quality inputs at affordable prices at the right time to all cultivators both by direct intervention and by appropriate regulation. Nor did it provide sufficient extension services, such that most knowledge was effectively provided by private input suppliers with clear conflicts of interest. This was one of the reasons why farmers sought contractual relationships with buyers who also promised greater access to agricultural knowledge and inputs.

The report also found that the marketing of agricultural produce had become one of the critical areas where farmers were exploited, largely because of inadequate and sometimes faulty forms of public intervention. Thus, marketing infrastructure was found to be inadequate, and there were numerous procedural problems in the market yards. This is not an insurmountable problem: it is possible to provide adequate and non-exploitative arrangements in the market yards, especially using new technologies, which will reduce the exploitation of direct cultivators by private buyers. Similarly, timely and adequate procurement operations by Central and State government agencies could ensure remunerative prices to cultivators and arrest distress sales. Market Price Stabilisation Funds (along the lines proposed by the National Farmers' Commission) will prevent excessive volatility of prices faced by cultivators and also reduce their need to enter into contracting arrangements, which promise dubious stability.

It is evident from the cases reported here, as well as from other evidence available, that contract farming holds numerous problems for agriculture in developing countries such as India. It tends to displace labour quite substantially; marginalises direct cultivators who lose control over the production process and, often, even over their land; encourages more capital-intensive and less sustainable patterns of cultivation; can result in greater insecurity and lower incomes for farmers because of the use of quality control measures to lower the effective output price being paid by contractors; can even deny farmers the benefits of higher prices, which could instead be absorbed by corporate contractors with local monopsonistic power; propagates monoculture, which reduces food security and the possibility of livelihood diversification through livestock; relies excessively on the use of lower-paid women workers and child labour; and increases and accelerates the process of casualisation of labour. Given these problems, it is surprising that contract farming is still being promoted so assiduously by various forces, including the government at the Centre.

The case for contract farming has emerged largely because public institutions have failed to provide farmers with the essential protection and support required for viability on a sustained basis. What cultivators in rural India need most today is the following combination: a basic price support mechanism that ensures that costs are covered; efficient extension services that provide information about possible crops, new inputs and their implications, new agricultural practices relevant for the particular area, and so on; and the availability of reliable and

assured credit at reasonable rates of interest. These features were certainly planned for Indian agriculture, and in some regions they were also delivered in some periods. There is no reason why they cannot be delivered by the public sector.

This necessarily requires a revival of agricultural extension services and the provision of agricultural credit across rural India, as well as a rejuvenation and strengthening of the minimum support price system for important cash crops. There is no reason to expect that private corporate firms will deliver these requirements since their interest will be to maximise profits in the short term, and they are not necessarily interested in the long-term sustainability of cultivation. Indeed, if private corporate involvement is unstable, it will generate demands for the renewed involvement of public institutions.

The argument that the combination of price support, credit provision and extension services is no longer possible for State governments to deliver because of their current fiscal crunch and that is why they are forced to encourage contract farming is specious at best. If private corporations can borrow to undertake these activities, there is no reason why the government cannot do the same, especially when public involvement is likely to take a more socially desirable form. If State governments are prevented from undertaking such borrowing, then that is where the battle must be fought, by mobilising all the State governments to challenge the restraints placed by the Centre, rather than succumbing to pressures and looking for private-sector alternatives in an area with high-positive externalities such as this.

What is clear is that relying solely on contract framing to solve the current agrarian problems facing the country is futile. If contract farming is not properly controlled and regulated and if it adds to the tendency of state actors reneging on their responsibility, it is likely to intensify the agricultural crisis.

(Courtesy: Marco Scan)

• •

The Conspiracy of Corporatisation of India's Agriculture

By: Sachin Kumar Jain

During the initial four days of April, 2011, when the entire nation was reeling under the intoxication of the semi-finals and finals of the Cricket World Cup, when the prime minister, president, ministers and bureaucrats were gripped in its fever and cricket was indiscriminately splashed across the media (which can now be considered blind and anti-people), the Government of India issued Circular 1 of 2011 relating to its Consolidated Foreign Direct Investment Policy, opening up the floodgates for 100% FDI in the agricultural sector. Usually our government takes such decision when our society and media is busy with some kind of mania.

Any foreign company can now exercise direct control over the production, research and development of seeds, plants, flowers, vegetables, tea, mushrooms and other agro- products. Animal husbandry and pisciculture have also been included in its purview. The government will now provide exemptions in import-export taxes and duties to profit making companies, allowing them to play around with whatever is left of India's agricultural resources (its land, seeds, agricultural techniques and produce, horticulture, floriculture, pisciculture, animal husbandry, etc).

Even without this policy of 100% FDI, thousands of farmers have already committed suicide. Now this number will increase unimaginably. The suicide rate will now climb because local producers of coconuts, tea, mushroom, fruits, flowers as well as those in dairying and fish production will now have to compete with large corporations with ample economic resources who are being protected by government policy and international financial institutions.

The Multidimensional Corporate Threat

In India, there has always been a close relationship between farmers and their produce, with the network of wholesale Krishi Upaj Mandis (state controlled agricultural produce markets) serving their needs for the past four decades. Over the past 10 years companies like ITC and Cargill have set up their own parallel network for purchasing agricultural produce directly from these producers. Economists like Montek Singh Ahluwalia feel this gives farmers a better system of services that fetches them better prices. He is among those who think that it is better to set up a parallel system if the government system does not work rather than improve it.

On April 4, 2011 a farmer died in a Krishi Upaj Mandi in Raisen district of Madhya Pradesh. He had been waiting eight days to sell his produce but couldn't do

so because he did not have the requisite gunny bags. The tension proved too much for him to bear. In majority of mandis, long queues of farmers waiting to sell their produce can be seen all across. In Madhya Pradesh, a crisis of packing bags (Baardaana) is created every year. State allocates 6.7 million bags for packing agriculture products in mandis, but only 3 million are used and this results in long waiting lines of farmers. This increases the cost of production, as transportation expense goes up every day.

The situation in mandis is far from satisfactory nowadays. It has become a very important uncomfortable place for farmers. Farmers are often not paid for up to 8 to 10days after selling their produce. That's why they are now looking to other avenues. The question is why isn't it possible to set up an effective payment system in mandis? The answer may be found in the way they function. For example, mandis demand six types of documents from farmers who come to sell their produce. Is this necessary? Should the system be so complicated that it drives farmers to desperation? On 7April 2011, because of untimely rains, 1000 metric tons of grains got wasted as it was lying in open. The point is why all mandis have no proper shelter facilities.

It is such factors that are weakening the mandi system, creating an environment in which private companies flourish. Today, three companies have captured 30% of the market even as the government is slowly moving towards dismantling the mandi system.

Eagle Eyes on Systems

Companies like ITC and Cargill treat farmers with a modicum of respect today because they know the mandi system is still available as an alternative. Once the system degenerates, they will begin to bare their fangs, showing their true colours.

Our analysis tells us that large corporations have infiltrated and taken control of every facet of agriculture (resources, production, marketing, supply, even consumer behaviour and consumption patterns). Till now they were involved in producing canned goods and packaged food but the situation is changing and they are now taking control of the production of raw materials. They produce groundnuts, tomatos, potatos, chilli, rice, fruits etc. As a result, farmers can no longer decide what they want to grow and it is becoming increasingly unclear what kind of protection the government policies will provide for them.

This is not the end. They have also almost controlled 37% of supply and marketing chains, which gives them an authority to decide who will sell and what! The corporate infiltration covers the entire value chain right down to the consumers. Retail giants like Carrefour, Wal Mart, Reliance, Bharti Enterprises, Future Value Retail and Spot Hypermarkets have formulated plans to add another 510 supermarkets and malls to their already extensive retail network.

This is, indeed, the irony of the situation today. One cannot get a few hundred square feet of land in Delhi, Bengaluru, Kolkata, Mumbai and 2 other cities to build a house but according to a Knight Frank India report 'India Organises Retail Market 2010', these cities will make available 55 million sq ft of land between 2010 and 2012 for the retail trade. Where this land came from? Obviously by displacing slum and pavement dwellers!

The Political Economy of Organic Food

One new development in the agricultural sector is the growing interest in organic farming as the chemicalization of agriculture products moves apace. In India, organic produce has traditionally reached people directly from the farms, coming into the markets with labels like local tomatoes or local bottle gourd. However, this is no longer the reality.

As the demand from consumers for unadulterated and chemical-free food gains momentum, giant global multinational corporations are taking control of organic farming and the trade in organic foodstuffs. The argument they offer is that it doesn't matter who owns the proprietary right to this market, given the growing dangers of large-scale chemical use in agriculture.

These mammoth, financially strong corporations know that the market for organic foods is growing rapidly. According to the Organic Trade Association, it had already grown to US$ 28.4 billion in 2009. That's why these corporations took over as many as 363 small local production units across the world from 1997 to 2007. For example, Coco Cola has taken over Honest Tea.

This underlines the growing dangers of economic colonialism in food trade as the market for organic foodstuffs continues to expand.

The danger is magnified because it is no longer possible to trust these corporations considering that it is they who, to a large extent, are responsible for the presence of dangerous levels of pesticides in cold drinks, the use of unacceptable chemicals in canned foods and the spraying of endosulphan in agricultural fields, no monitoring of dangerous chemicals usage in agriculture field etc. The world can no longer believe these companies that are poisoning our grain and food in their willingness to go to any length to earn a profit.

That's why, as a matter of policy, most of them have continued to trade in the local brand names of the companies they take over to ensure that their tainted reputations do not impact on their new trade in the market. Muir Glen and Cascadian Farm are being run under the name of Small Planet Foods, which is in reality a General Mills company. But people still remain

skeptical about whether such companies will actually make organic food available to them.

We firmly believe that it is essential to stop the entry of multinational companies into this sector as farmers increasingly move from chemical-based farming to organic farming as a long-term solution. Farmers are switching over to organic farming and it is gaining momentum, as seen from the example of Andhra Pradesh, where farmers in 23districts have switched to organic farming but there is no policy to protect them from corporate giants.

However, there is no policy formulated to protect these farmers from the predations of monster corporations. In such a scenario, the most important thing we need to remember is to ensure that the production of foodgrains remains decentralised, people-oriented and transparent, especially since 67% of India's population depends on agriculture. It is a matter of survival of moral policies and attitude in agriculture sector.

What's required today is to develop a complete organic farming ecosystem that produces a diverse range of food-grains, conserves livestock resources and incorporates traditional practices, nutrients and organic insecticides.

It is doubtful that multinational companies would be interested in developing such an ecosystem. Instead, there is every fear that they will use genetically modified seeds and continue using chemicals in some form or other. They only believe in manipulations and corruption in practice and in policies. These are the new fears facing organic farming in today's world.

Agriculture for Money, Not for Food Justice

Now foods corporates are looking towards ensuring their monopoly over all section of agriculture system. The food production system is important in the administration of food security. As important is the market system. In India, 29 million people are engaged in food and related material trade. They do not trade for profit alone but play a central role in ensuring 'access', which is a vital element in the concept of food security.

However, predominantly food-trading companies are now seeking to establish their collective authority over this 'market to get control over accesses. They include Wal Mart, Reliance, Bharti Enterprises, Glaxo SmithKline Consumer Healthcare, Nestle, CavinCare, Field Fresh Foods, Del Monte, Buhler India, PepsiCo and Coca Cola. According to a new report from market analyst RNCOS, India's food market is growing 7.5% annually and will be worth US$330 billion in 2013.

The Agricultural and Processed Food Products Export Import Development Authority (APEDA) estimates that India's exports of agricultural products could touch US$22billion by 2014. The country's exports of flowers, fruits, vegetables, animal products, processed foods and fine grains were worth US$7,347.07 million in 2009-10.

The Indian government is spending Rs 1.5 lakh crore to usher in a second green revolution through food processing. According to India's Minister for Food Processing Industries, the government will invest US$21.9 billion in this sector over the next five years. As far as foreign direct investment is concerned, it is expected to rise to US$264.4 million.

These astronomical figures are like a time bomb, with the potential to wreak devastation.

Market analysts predict that the share of the food processing sector will in all probability rise from the current 6% to 20%, taking India's share in the global food processing market from 1.5% to 3%.

Initially big food companies took control over research and development of seeds and pesticides. In fact they were successful enough in grabbing India's best agriculture universities and institutions; now they directly farm lands in hundreds of thousand hectares and producing what they need for processing and packaging; they have marketing and supply chain, that ensures their access directly to consumers, so how they control the consumer science as well. Now look at their reach in the India's government system. The 18 officers of big companies like Coca-Cola, PepsiCo., Nestle, ITC, Hindustan Unilever, Marrico, Britania, etc have been appointed in the scientist panel of Food Security Standards Authority of India. These panels are empowered to suggest policies and amendments in system relating to Functional Food and Nutrition Products, Sampling and Analysis, Flavoring, Pesticides and Antibiotic components in Food, Labelling, Advertisements and Claims etc. You may like to imagine what kind of systems and regulations would be framed and enacted and who will benefit from them!

Farmer's Agriculture Vs Corporate Agriculture

However, the focus of this new green revolution is not the farmer and his field but multinational corporations, to whom the government is progressively handing over control of natural resources and the production system. The government wants to create a suitable environment for these companies and financial institutions through its massive investment and other concessions.

Just eight companies (Cavin Care, Nestle, Glaxo SmithKline, Yum! Restaurants India, FeelFresh Foods, Buhler India, PepsiCo and Coca Cola) had been investing US$1,200 million in the food production industry during 2011-13. In addition to other exemptions, they are enjoying 100% exemption from tax on profits for the first five years and 25% exemption for the next five years. Excise duty will be reduced by 50%. In fact, the budget decided these benefits for them even as all concessions and subsidies to farmers were withdrawn.

India's Planning Commission and economic advisors

have been playing the role of agents of these multinational companies, deciding that the country will industrialise its agriculture through their intervention within 10 years. That's why it permitted the demand of other companies to purchase foodgrains directly from farmers in 2005, as a result of which the Indian government ended up importing 5.3 million tonnes of foodgrains first time in last 10 years from Australia, Canada and Ukraine at twice the price to meet the country's needs.

Over the past four years, prices of foodgrains have risen 70% to 120% in the open market but the government has raised the minimum support price for farmers by only20% during this period. It has failed to formulate any policy for controlling prices despite knowing that it is the agents and traders who are cornering the benefits of rising prices. Instead, it lowered the poverty line so it can trim the public distribution system, thereby lowering the quantity of foodgrains it needs to buy in the open market.

This move gave companies the licence to purchase foodgrains from farmers at arbitrary prices. These foodgrains are being exported or used for food processing. The priority is obvious - to shift wheat from traditional usage for making chapattis to producing bread, noodles, biscuits and canned foods.

In addition, approximately 10 lakh hectares of the most fertile land have been diverted to cultivation of flowers and fruits for juice extraction, pleasure drinks and liquor production.

In Madhya Pradesh, three companies have unobtrusively entered into contract farming agreements for potato cultivation to manufacture chips and tomato and green chilli cultivation for sauce and chutney production. This has led to a sharp decline in diversity of farming. In Jhabua, a tribal district in MP, farmers have been enticed into such cultivation to the extent where they are using 600 to 800kg of chemical nutrients for every acre of tomato cultivated, completely destroying the fertility of their fields.

Under the policy of whittling down subsidies, the subsidies given for urea and DAP have been discontinued. Diesel prices are also escalating while electricity tariffs have risen 190% over the past five years. As a result, production costs of wheat have risen to Rs 1,650 per quintal while the minimum support price remains pegged at Rs 1,120 per quintal by the Indian government in 2011. For pulses, the support price is Rs 32 per kg when the cost of pulses in the market has risen to Rs 60 to Rs 90 per kg.

Which makes one wonder whether the government isn't the prime cause of farmer suicides?

In the decade of the 1990s when the policies of economic liberalization were initiated, the farm sector availed of government subsidies to the tune of Rs 220,000 Crores. Over the past 20 years subsidies have been progressively scaled down, totalling less than Rs 100,000 Crores in 2011, even as the government made provisions for giving loans totalling Rs 375,000 Crores during the year.

Leave alone its reluctance to subsidies the farm sector, the government in its wisdom isn't prepared to accept that it is equally important to give subsidies to consumers. This would encourage farmers to intensify farming, reduce their production costs and make agricultural produce available to consumers at reasonable prices to fulfil their basic needs. We can see the consequences of not doing so – increasing production costs, increase in farmer indebtedness and uncontrolled price increases. Farmers are committing suicide and consumers are victims of starvation.

The government's approach is reflected in the statements put out by its ministers. Former Minister for Commerce Kamal Nath had said the shortage of foodgrains was the result of Indian people eating more, the Minister for Agriculture Sharad Pawar (who is more interested in cricket) said it was not his responsibility to bring down food inflation, Former Minister for Finance Pranab Mukherji said it is not in our hands to bring down prices and Prime Minister Manmohan Singh said the Supreme Court should refrain from telling the government to distribute million of tonnes of foodgrains rotting in government godowns among the poor because this is a policy issue (in other words this would cause a loss to companies trading in foodgrains and the government does not want this to happen).

Were they all trying to collectively deny the direct link between government policy, farmer suicides and 76% of the people living in starvation conditions?

The Corporate in Retails

Small retailers are also affected, their livelihoods jeopardized in these markets where almost everything is now being made available in canned form of so-called high quality.This system ensures that a powerful group now decides what consumers should eat and drink. Both farmers and consumers are helpless in the face of this planned trade conspiracy. Its impact on farmers is becoming all too evident, which is why 48% of farmers say they will leave farming if an alternative presents itself because not only are they not earning a decent living now but the possibility of doing so in future also seems remote. And the government is beginning to look like their enemy in this entire process.

The Politics of GDP

These days our government is totally caught up in singing just one tune -of 8%, 9% and10% growth in gross domestic product (GDP). It finds pleasure in singing this tune because achieving this growth rate is not a difficult task. But the problem is that the process

is proving dangerous as well.

The easy part of the equation is that whatever is bought or sold involves an exchange of value, which puts money into the government treasury and benefits the people, leading to their progress, or so the government says. What doesn't bring in money is useless for GDP.

Let's examine the proposition, as seen from the government perspective, a little more explicitly. Forest, land, water, mineral products, mountains are all our resources. As long as forests are left untouched GDP does not grow. When the government or a company fells the forests, wealth accumulates. When water bubbles in brooks it has no value for the government. But when a law limiting its use by people is passed and when control is given to a company in exchange for a hefty price then GDP grows, even if the woes of people increase in the exchange. When people are healthy, the development visualized by Montek and Manmohan Singh doesn't take place, but when people fall ill, GDP grows.

If this is the kind of development they desire and work towards achieving, it means the forests cannot be saved, nor the rivers or mountains, nor the mineral resources and land, nor the health of the people.

Over the past 10 years (upto 2011) the government has sold 10 lakh hectares of land. It has also sold a big chunk of its ownership in the companies it owns – meaning the public sector. The railways have sold their lands, trees and minerals, which were the traditional wealth of forest communities. They have given permission to mine coal, bauxite, iron, stone and marble, leading to lakhs of acres of land being rendered useless for years to come. In the process, diseases like tuberculosis and silicosis flourish, claiming thousands of lives.

It's on the back of such exchanges that we have been able to achieve 9% growth in our GDP.

The obvious downside of this growth rate is its negative impact on farmers and farming, although the government refuses to acknowledge the existence of any problem in the sector. Instead, it says we can target 6% growth in agriculture by displacing people from their villages and land and opening the doors to large corporations who can contribute better to achieving this growth rate. The irony is that the government in its wisdom believes this move will improve the condition of farmers.

Agriculture will continue to experience the damaging impact of policy formulations and planning for a long time to come. And so will the people.

In closing, pause awhile to cast a glance at the following information:

- ☞ Chennai-based Cavin Care is investing US$109.50 million for cold drinks and salted snacks production.
- ☞ Nestle is investing US$50.49 million for a food products R&D facility in Manesar.
- ☞ Glaxo SmithKline is investing US$64.87 million on a milk products unit. This is the company that produces Horlicks.
- ☞ Yum! Restaurants India (which runs the Pizza Hut, KFC and Taco Bell restaurant chain franchises) is investing US$100 million to open 1,000 restaurants by 2015.
- ☞ Del Monte and Bharti Enterprises are collaborating with Field Fresh Foods to invest US$25.93 million for an R&D facility in Hosur, Tamil Nadu.
- ☞ Farm implements company Buhler India is setting up a production unit at a cost of US$22.55 million with an expected turnover of US$225.49 million in 2014. Where and from whom does the company hope to achieve such huge profits?
- ☞ PepsiCo will be investing US$500 million over the next two years for its F&B trade.
- ☞ Coca Cola will set up a bottling plant in Karnataka with a total capital outlay ofUS$120.75 million.

These are just eight examples which will see a total investment of US$971.54 million (Rs 45720 Crores). This investment will cause even further distress and damage to farmers, small retailers and the village economy.

And What Does the Government Plan to Do?

It will provide an impetus to contract farming to help these companies, having already announced that food processing is a tax-free sector. It also plans to set up 30 large food processing parks -which are basically special food zones like the special economic zones (SEZs). Companies investing in the food processing sector will enjoy 100% tax exemption for the first five years and 25% exemption for the next five years. The excise duty on canned goods has been lowered from 16% to 8%.

Ernst & Young says in its report 'Flavours of Incredible India' that the food market in India will be worth an estimated US$181 billion by 2015, growing to US$318 billion by2020.

It should also be noted that over the past 15 years, 13,000 small units manufacturing salted snacks and ready-to-eat foods in cities and villages have downed their shutters.

(Courtesy: mediaforrights.org)

Pitfalls of Contract Farming

By: Manidipa Baul

The agriculture policy now being pursued by the Indian government is increasingly making the path of Indian and foreign corporate easier to put their hold over Indian farming. It has led to complete corporate takeover of Indian farming. In the last ten years, there has been a substantial issue in contract farming in many Indian states.

The government makes contract farming sound like a fairy tale where it is a win-win situation for both farmers and the agro-business companies. The government thinks that this will help the farmers in two ways. Firstly, it would help the farmers break away from the monoculture crop rotation that was to be economically and environmentally taxing. Secondly, it would form a direct linkages between the farmers and the market through agribusiness corporate houses, thereby eliminating middlemen and guaranteering the farmers an assured income.

But in reality the result is just opposite. The focus of this reform is not the farmer and his field but multinational corporations to whom the government is progressively handing over control of natural resources and production systems for their benefit, relegating Indian farmers to a state of misery

Take the example of Punjab state. Kulwant Singh Sandhu, a farmer of Rurka Kalan village near Phillaur town, says that around five years back, Pepsi came looking for farmers who would sow basmati rice instead of the paddy-wheat they grow. They offered Rs. 950 a quintal. The company official said they would support them in time of recession too. Many farmers from the village went ahead with the contract. He also said that the seeds they offered were priced higher than their seeds. They charged them Rs. 200 an acre for the inspection they would do in the beginning. There was hardly any inspection. Their input cost almost doubled. At the end of the cropping season, they did not buy most of the yield as the demand for basmati had gone down. He further said that many farmers were told that the benchmarks had not been met. They eventually earned less profit. Some of them made losses too. One company got them into contract farming saying it would give them Rs. 1000 a quintal, but it gave them only Rs. 800 citing low quality of the crop. They could do nothing as there was no minimum support price (MSP) for basmati rice. They had to sell it to them.

Similarly, Harjinder Singh, a farmer from Jalandhar, and others in his village grew tomatoes for a company. He said that they earned a lot in the first two years. But, after two years, the company left their village, because they started demanding better prices as the market price of tomatoes had increased.

Another area where corporate farming had a bitter experience for the farmers was adoption of foreign technology. For example in the famous Kuppam project of Andhra Pradesh, the Israeli technology of micro-irrigation in the cultivation of vegetables was launched 1997 and was showcased as a wonder scheme that could change the lives of 85% of the farmers who were below poverty line. But the experience of farmers gives a different story line. Though the project was implemented through a mutually aided cooperative joint farming society, it had all trappings of a corporate body. Farmers were members, but none of them had any inkling of the functioning of the society, nor did they know that the society had entered into a contract with a corporate body. The corporate body managed the land and farming at all stages, including marketing. The farmers were reduced to daily wage earners on their own land.

However, instead of dumping the exploitative model, the corporate farming continues to be patronized, though in a deceptive manner. The best example is that of Mansanto-Mahyco's Bt-cotton where corporatization may not be seen on the farm or in a company taking over land or farmers becoming shareholders. But its presence dominates all activities of cotton growing. When Bt. Cotton was introduced in 2002, public-spirited farm scientists and group opposed to genetically modified (GM) seeds expressing concern over monopolistic tendency of Mansanto, the control it would have over the cotton seed and its pricing, and the high cost of raising the commercial crop.

Ten years later, these concerns have been proved right. The native and hybrid seeds have disappeared and Mahyco virtually have captured 90% of the cotton seed market, deciding the price of seeds on their own terms. Farmers have no option but to return to Bt. Cotton seed every year. Though the cotton growers in the State agree that the battle against ball-worm was successfully fought with Bt. Cotton and the production had gone up phenomenally. But the seed sovereignty that they enjoyed was gone forever and overproduction of cotton often brought them misery.

In Andhra Pradesh, contract farming for gherkin (pickled cucumber), at present, is most popular one for the export marker. The Indian Gherkin Exporter's Association asserts that contract farming for gherkin has been a successful model, but farmers' rights activists say that contract farming can be useful only if there is increased bargaining power for farmers or

when the government acts as a mediator. But none of the agreements are registered, nor is there any monitoring by the government, leading the farmers to great risk. The activists fear that in this way the firms involved in contract farming could gain greater control over land, manpower and local resources, beside shifting farmers away from producing food crops.

Similarly same crop i.e. gherkin, also has been grown in Karnataka only for export market, as this crop is not consumed by local people. According to the Indian Gherkin Exporters' Association (IGEA), between 50,000 and 60,000 acres and approximately 100,000 farmers are involved in gherkin cultivation across 15 districts of Karnataka.

In this context, Dr. Chandramouli M.R., Vice-president of Global Green and President of IGEA, says that a pre-sowing price is fixed and a written contract is drawn up with the farmer. He also says that all input costs such as seeds, fertilizers, pesticides, farm accessories, technical supervision and transport are taken care of by the company, and the farmer has to provide land, labour and water. He further says that that it is a win-win situation for both the company and the farmer.

But, Dr. B. Srinivas, who was a field agent for 15 years in Bangalore-based Sterling Horticulture and research Limited which processed gherkins, gives a different picture. According to him, there are two gherkin growing seasons of three months each in a year, and the farmers can start harvesting it within a month of sowing. He says that companies are very particular about the size and grade of the gherkin, so if there is adequate water through season, the crop is disease-free (on the basis which payments are made), and the farmer works diligently to get the best grade of the crop, he will be able to pay off the input costs, which works out to around Rs. 20,000 to Rs. 25,000 an acre, and makes a substantial profit. But almost 20% of the farmers fail to pay even input costs when the crop fails or if the quality is not maintained. The agent's job then is to recover money from them.

Srinivas also pointed out how a few companies had gone bankrupt in the past and abandoned farmers mid-way.

While talking about contract farming, Madhya Pradesh and Gujarat give a mixed picture as the large and medium farmers are benefited and small and marginalized farmers are not in winning position. In Gujarat, the potato crop holds a favoured position, though Gujrat is a relatively new entrant into contract farming.

But, it has been observed that in most of the cases of contract farming in Gujrat,, small farmers do not benefit as well as they should. In Deesa, for example, it was found that it was good for most farmers, big and small, when the yield of the Lady Rosetta (LR) variety of potato - required for chips and frozen food products - was good. If the yield was poor and the companies rejected the crop, it hit the small farmers badly.

Says Kalpesh Mali, a farmer, that the advantage of contract farming is that inputs, such as seeds and fertilizers are given to him. Additionally, farmers benefit from the fixed price of the wafer variety of potato, which is higher than that of the domestic consumption variety.

But he further points out that unfortunately, the risks are also high. He says that sometimes they bring the entire crop to the cold storage, paying huge transportation costs, and they are told to take the crop back because it does not meet their requirements. This can affect small farmers very badly.

Similar is the case in Madhya Pradesh. Three companies have entered into contract farming agreements for potato cultivation to manufacture chips and tomato and green chilly cultivation for sauce and chutney production In Madhya Pradesh. This has led to sharp decline in diversity in farming.

Contract farming is also affecting the small retailers, their livelihoods jeopardized in these markets where almost everything is now being made available in canned form of so-called high quality. This system ensures that a powerful group now decides what consumers should eat and drink. Both farmers and consumers are helpless in the face of this planned trade. Its impact on farmers is becoming too evident, which is why 48% of farmers say that they will leave farming and go to some other alternative to sustain because not only are they not earning a decent living now but the possibility of doing so in future also seems remote.

The alarm-bell should start ringing now as it has been found that over the last 15 years, 13,000 small units manufacturing salted snacks and ready-to-eat foods in cities and villages have downed their shutters.

(Based on the article "Growing Concern" published in Frontline)

The Rupee's Decline

By: C. P. Chandrasekhar

When the rupee crossed the 60-to-a-dollar barrier on June 26, official and corporate concern was palpable. This was not because everybody was a loser in this game. Exporters, especially those locked into longer-term deals struck in dollars and those looking to expand sales by holding rupee prices (and therefore reducing dollar prices) would benefit. If yet, the mood of concern was more generalised, the reason was that after slow growth, persisting consumer price inflation and a difficult balance of payments situation, this was one more indicator that the post-2003 boom was a short-term blip rather than a sustainable new trajectory of high growth.

The government on its part should have expected the rupees decline. Though fluctuating, the ratio of the current account deficit to India's GDP has, since the beginning of financial year 2009-10, been unusually high in most quarters well above the levels that ratio touched at the time of the 1991 balance of payments crisis. India has been over the medium term spending far more foreign exchange every quarter than it was earning through exports and obtains through other routes such as remittances. This was true from years well before the 2008 crisis, though the deficit has tended to widen sharply in more recent times as a result of large payments for imports of oil and gold.

Persistent current account deficits are conventionally the basis for the wea kening of a country's currency. In the past, expectations were that the resulting currency depreciation, by raising the rupee value of imports and dampening demand for them, would help correct the imbalance. But in India's case more recently, structural factors, embedded in the kinds of demands that inequality generates, have meant that currency depreciation has not reduced demand for and foreign exchange outflows on account of imports of petroleum products and gold, despite increases in prices and/or duties, besides the cost increases resulting from currency depreciation.

One reason why the government could afford to ignore this adverse trend on the external payments front was that India, like many other emerging markets, was favoured by large capital in flows. An easy money policy and low interest rates in many developed country markets, ensured by active central banks, fed a carry trade in which funds were borrowed at low interest rates in hard currency markets to be invested in asset markets in these emerging economies. The net was an asset market boom and an appreciation of the target country's currency, the feedback effects of which only increased the volume of inflows, leading to a capital inflow surge. On more than one occasion emerging market countries stretching from Thailand to Brazil have complained about the adverse effect that loose monetary policy in the US is having on their currencies and their export competitiveness. Inasmuch as the surge in capital inflows results in the accumulation of legacy portfolio capital in these countries, creating the possibility of a sudden and destabilising exodus of capital, that adverse effect is long term in nature.

In India too, over much of the last decade capital inflows have been well in excess of the current account deficit. Like many other developing countries, India became a victim of the dollar carry trade, in which international players borrowed in dollar markets, where liquidity was ample and interest rates low, and invested in equity, debt and real estate in developing country markets, where returns were high, in order to make huge profits from the differential between the cost of debt and the return on investment. In fact, even when the crisis hit the developed countries, after a short period in which India experienced a net outflow of capital, the infusion of liquidity by developed country central banks restored flows to India. As a result in every quarter starting with the second quarter (July-September) of 2009-10, and till the second half of 201-12, inflows exceeded the deficit on the current account of India's balance of payments (Chart 1). As a result, during the second half of 2009 and throughout 2010 the rupee appreciated vis-à-vis the dollar, even if by a small proportion.

However, since July-September 2011, while the current account deficit has been high and rising, touching 6.7 per cent of GDP during the last quarter of 2012, capital inflows have either fallen short of or just about matched current account financing requirements. This had put downward pressure on the rupee, even earlier. In fact during the second half of 2011 the rupee depreciated by as much as 19.5 per cent vis-à-vis the dollar and 14.4 per cent vis-à-vis the pound (Chart 2). Even then, fears that capital inflows may dry up and force a reduction in reserves seems to have played a role in the rupee's depreciation.

Thus, if we went back to April-June 2011, the rupee was in fact at a local high vis-à-vis the dollar, setting off concerns about the currency's overvaluation. The rupee had weakened during the financial crisis, when foreign portfolio investors chose to book profits and take money out of the country to cover losses they had suffered or commitments they needed to finance at home. From less than Rs. 40 to the dollar in April

2008 the rupee fell to Rs. 52 to the dollar at the beginning of March 2009. But, thereafter, once central banks in the US and elsewhere in the developed world chose to infuse cheap liquidity into the system as a response to the crisis, capital once again started flowing into emerging markets.

The resulting appreciation of the rupee, many argued at that time, was adversely affecting the competitiveness of India's exports. There was much pressure on the central bank to intervene to prevent appreciation by buying dollars and augmenting its foreign exchange reserves, and criticism that it was not doing enough on this front. The appreciating trend continued for sometime. But from around August 2011, the rupee has once again been depreciating on average, despite brief periods of appreciation in January and September 2012.

This medium-term decline was disconcerting because this was a period when the United States, and some other central banks, continued with a policy of quantitative easing, or the infusion of cheap liquidity in the system. In fact, countries such as Brazil complained during those months that the US was indulging in a currency war by engineering capital flows to emerging markets that were driving up their currencies and adversely affecting their trade balance. This has forced the government to resort to a host of measures to attract capital, even in the form of debt into the domestic market. The result is that India's external debt has risen by more than 13 per cent over the last financial year, with short term debt accounting for a rising share. Yet as noted above aggregate net capital inflows have been either short of or just matched the volumes needed to finance the current account deficit, resulting in downward pressure on the rupee. The Reserve Bank of India too appears reluctant to retrench a part of its foreign exchange reserves to stall the rupee's depreciation. It possibly wants to avoid sending out the signal that reserves are depleting and is permitting the depreciation with only marginal intervention through sale of reserve foreign exchange. Left to itself the economic situation seemed to warrant depreciation of the rupee, and even moderately good capital inflows did not help to stall that decline. This points to a high degree of vulne rability.

In the event, any trigger is enough to set off a downward spiral that also renders the currency vulnerable to a speculative attack. The rupee's recent decline has been attributed to US Federal Chairman Ben Bernanke's suggestion that the era of quantitative easing is nearing its end, and its effect of triggering a return flow of investments into the US and dollar denominated assets. The fact of the matter is, the 4

rupee's depreciation has been visible with respect to other currencies as well. Over the first half of 2013, while the rupee has depreciated by 10.5 per cent against the dollar, it has fallen by 4.1 per cent vis-à-vis the pound and 8.9 per cent vis-à-vis the weak euro as well.

In sum, the weakness of the rupee is a result of a deterioration of India's economic performance, especially the deterioration of its balance of payments. Such weakening in an economy that through liberalisation has made itself dependent on foreign financial only leads to heightened instability. When the rupee hit 58 to the dollar, Finance Ministry mandarins chose to appear in public to declare there is no need to panic. That may be something to tell the public, even if ineffective. But it is perhaps time they themselves panicked and did something in the short run to correct the deterioration of India's balance of payments and in the medium term to reduce the country's dependence on foreign finance.

(Courtesy: Macro Scan)

Top Five Factors Why Rupee Will Appreciate Vs USD in 2H2013: Deutsche Bank

Deutsche Bank in its latest report said that the Indian currency will recover in the second half of 2013 supported by the government of India's divestment programme as well as monetary easing by the Reserve Bank of India (RBI).

Deutsche Bank highlights five factors why the rupee should appreciate against dollar in 2H2013:

Falling Inflation: Inflation has been declining rapidly, pushing up real interest rates and increasing the attractiveness of investing in rupee assets.

Current Account Deficit (CAD): Current account is likely to correct substantially as the cost of importing gold and oil is declining, weak growth and policy measures are lowering import demand, and rising real interest rate is reducing the need to hedge against inflation through capital flight.

Divestment Program: Inflows outlook is broadly positive with a number of disinvestment programs in the pipeline, and a rate cut cycle, the only one in a major EM economy is likely to keep fixed income investors interested.

Risk Aversion: Global risk aversion and associated sell-off are likely to abate as Deutsche Bank believes the ongoing concern about the end of QE has already caused the markets to overshoot.

Fundamental View: From a medium-term fundamentals point of view, the rupee is appropriately valued, with both the real and nominal effective exchange rates having corrected considerably in recent years.

Private Banks Don't Help Financial Inclusion

By: C. P. Chandrashekhar & Jayanti Ghose

(The view that issuing new banking licences to corporate houses will further financial inclusion is based neither on historical evidence nor on market logic.)

In the context of the decision to permit entry of corporate houses into private banking, a view has been expressed that the move would favour financial inclusion. A respected former deputy governor of the Reserve Bank of India, the Chairman and Managing Director of a leading public sector bank and a host of analysts and media commentators have espoused that view.

The need to push for financial inclusion is obvious. While India has close to 6,50,000 villages, only around 36,000 have a commercial bank branch. Only two-fifths of the population has a bank account, even though the government has decided to shift to a bank-based direct benefit transfer scheme for any of its welfare programmes. The situation with regard to insurance and other financial services is only worse.

Argument vs Evidence

The claim that private banks could contribute to quickly resolving this problem is based on a number of arguments. The first is that inclusion is promoted by augmenting the number of banks, since competition would drive players to under-banked and unbanked areas. The second is that since large corporate houses have rural reach and deep pockets, they would stretch themselves to tap this large market where per capita income has crossed some critical threshold.

The third is that the guidelines for those seeking licences to establish private banks have made clear that they have to meet financial inclusion requirements. Assuming there is much profit to be made from banking in areas conventionally targeted by private banks, the latter are expected to meet the inclusion requirement to get a hand in the till.

The problem is that past experience provides conclusive evidence that private, especially corporate players, do not behave the way these arguments expect them to.

Financial inclusion involves ensuring that (i) the reach of banking is geographically widespread; (ii) the banking sector is successful in mobilising an adequate and rising volume of deposits and use it as the base for expanding credit availability; and (iii) the allocation of credit is not sectorally skewed, with adequate flow to agriculture and the small-scale sector.

Corporate Control

The heyday of corporate presence in banking was the period spanning from 1947 to bank nationalisation in 1969, when the skew in India's banking development under the British in favour of the colonial government and British business at the expense of Indian capital was corrected and the banking sector came under the control of Indian business, excepting for the State Bank of India and its subsidiaries.

Immediately after India won Independence, the Imperial Bank of India that was subsequently nationalised to create the SBI accounted for close to a quarter of the deposits of the formal banking system. The cooperative banks accounted for another 6.5 per cent, leaving the rest with the private banks, domestic and foreign. This was followed by a period when a number of unviable banks that had come up in the inter-War period and during the Second World War failed or were amalgamated with others, resulting in a substantial reduction in the number of banks from 566 in 1951 to 210 in 1961 and 85 in 1969.

Among the banks that remained were those controlled by one or other business group. Examples are, Punjab National Bank, Universal Bank of India and Bank of Lahore by the Sahu Jain group; United Commercial Bank by Birla, Oriental Bank of Commerce by Thapar, Hindustan Commercial Bank by Juggilal Kamlapat and Indian Overseas Bank by Muthia. Many of these banks featured among the top 20 of that time.

Credit Distribution

The impact that this corporate control over banking had on the business of banking is well known. One was, of course, the skewed distribution of credit across sectors, with industry capturing an overwhelming share of incremental credit.

The Dutt Committee found that in 1960, the top 20 private sector banks accounted for 61.7 per cent of all scheduled bank deposits and 73.2 per cent of scheduled bank advances. Around 10 per cent of the aggregate advances made by these banks went to companies in which their directors had an interest. In nominal terms, bank credit rose from Rs 547 crore in 1950-51 to Rs 3,396 crore in 1968-69.

During this period, the share of scheduled bank advances going to industry rose from 33.6 per cent at the end of 1950-51 to 52-7 per cent at the end of 1961 and as much as 61.5 per cent in March 1965.

On the other hand, the share of agriculture fell from 2.1 per cent, to 0.4 per cent and a negligible 0.2 per cent in those three years, when the share of agriculture and allied sectors in GDP stood at 52, 48 and 44 per cent, respectively. There could not be more stark evidence of exclusion.

Further, most Indians did not have access to banking

facilities at all. The population per branch in the country was at a high of 87,000 in 1951 and rose to as much as 98,000 in 1958 (because of closures of banks), before coming down to 88,000 in 1964 and 64,000 in 1969. Even this was huge when compared with the figure of around 6,500 for the US in the late 1960s.

Nationalisation Impact

A corollary of this was the lack of any correspondence between the geographical distribution of bank branches and the population. At the end of the 1960s, when around 80 per cent of India's population was located in rural areas, only 22 per cent of bank branches were in rural areas.

Further, the distribution of branches in semi-urban and urban areas was also skewed. There were as many as 617 towns without any commercial bank, of which 444 had no bank branch at all. This is not surprising. Out of 1,772 new branches established between 1959 and 1964, as many as 1,208 were in centres that were already banked. At the other pole, the five metropolitan centres (Ahmedabad, Bombay, Calcutta, Delhi and Madras) accounted for 18 per cent of bank branches, 46 per cent of total deposits and 65 per cent of bank credit.

After the nationalisation of 14 large commercial banks in 1969, things changed dramatically. There was a huge expansion in banking, with the population per branch falling from 37,000 at the end of 1972 to 18,000 at the end of 1981 and 14,000 by March 1991. Partly as a result of the creation of the category and the establishment of regional rural banks, the number of scheduled commercial banks rose from 74 in 1972 to 270 in 1990. As Chart 1 shows, the share of rural branches in total scheduled commercial bank branches rose in tandem, from 22 per cent in 1969 to 58 per cent in 1990.

The share of agricultural credit in total non-food credit also rose sharply from 2 per cent before nationalisation to 8.5 per cent in 1970-71 and close to 21 per cent in the mid 1980s, before falling to 17 per cent by the end of the 1980s.

Small scale and other priority sector advances also rose, resulting in the increase in the share of priority sector advances in total credit from 22 per cent in 1972 to as much as 45 per cent at the end of 1980s (Chart 3). In sum, public ownership, the end of corporate control over banks and the turn to social control over banking resulted in dramatic progress in the direction of social inclusion.

Liberalisation

The importance of the end of corporate control and turn to social banking comes through when we examine developments in the period after 1991, when financial liberalisation was begun, social control diluted and foreign and domestic private banks (though not corporate entities) were permitted to enter. The number of scheduled commercial banks that rose from 270 in 1990 to 302 in 1999 has since declined to 165 in 2011 as banks were closed on grounds of non-viability.

The axe fell more heavily on branches in rural areas, resulting in a decline in the share of rural branches in the total from 58 per cent in 1990 to 37 per cent in 2011. The population per bank branch rose from 13,700 in 1991 to 15,200 in 2001 and close to 16,000 by the end of the first decade of this century.

The impact of the turn to private initiative and away form social banking principles was visible also in a decline in the share of priority sector advances in total non-food credit, from 40 per cent in 1990 to 33 per cent in 2012.

The figures for the shares of agriculture and the small-scale industrial sector were 16.4 and 15.4 in 1990 and 12.2 and 6 per cent in 2012, respectively.

Thus the changes prior to and after 1969 and prior to and after 1990 establish quite clearly that corporate exclusion, public ownership and social control are crucial for financial exclusion, and the dilution of public control aggravates exclusion.

These trends question the arguments advanced by the advocates of corporate entry into banking. This is to be expected. Financial inclusion requires providing access to services and credit to a large number of highly dispersed and often remotely located individuals and agents. This raises transaction costs considerably, which if passed on to clients in the form of higher interest rates would price them out of the market.

So the returns from inclusive banking tend to be much lower and occasionally negative. This is also true of inclusive sectoral lending since the interest charged to borrowers for productive purposes in the agricultural and small industrial sector must be "reasonable" when compared with the returns that can be earned in those sectors.

Public sector banks often meet these requirements, even when provided some interest cost subvention by the government, by resorting to cross-subsidisation — using high returns in some areas to balance for low returns or even small losses in others.

That, of course, means that even if profits are positive, they are much lower than what would be earned if financial inclusion was not an objective. To expect private banks to settle for this lower profit margin and rate is to forget the nature of private incentive. It is only by presuming that private operators will not behave like private operators and have changed character since the 1950s and 1960s that the entry of the corporate sector into banking be seen as an instrument to advance financial inclusion.

Evidence from elsewhere in the economy shows there are no grounds for that presumption.

By: Bill Van Auken

The deployment of Blackhawk helicopters in Chicago is only the latest in a series of "urban warfare training" exercises that have become a familiar feature of American life.

As elsewhere, this exercise was sprung unannounced on a startled civilian population. Conducted in secrecy, apparently with the collusion of local police agencies and elected officials, Democrats and Republicans alike, the ostensible purpose of these exercises is to give US troops experience in what Pentagon doctrine refers to as "Military Operations on Urban Terrain."

Such operations are unquestionably of central importance to the US military. Over the past decade, its primary mission, as evidenced in Afghanistan and Iraq, has been the invasion and occupation of relatively powerless countries and the subjugation of their resisting populations, often in house-to-house fighting in urban centers.

The Army operates a 1,000 acre Urban Training Center in south-central Indiana that boasts over 1,500 "training structures" designed to simulate houses, schools, hospitals and factories. The center's web site states that it "can be tailored to replicate both foreign and domestic scenarios."

What does flying Blackhawks low over Chicago apartment buildings or rolling armored military convoys through the streets of St. Louis accomplish that cannot be achieved through the sprawling training center's simulations? Last year alone, there were at least seven such exercises, including in Los Angeles, Chicago, Miami, Tampa, St. Louis, Minneapolis and Creeds, Virginia.

The most obvious answer is that these exercises accustom troops to operating in US cities, while desensitizing the American people to the domestic deployment of US military might.

Preparations for such deployments are already far advanced. Over the past decade, under the pretext of prosecuting a "global war on terror," Washington has enacted a raft of repressive legislation and created a vast new bureaucracy of state control under the Department of Homeland Security. Under the Obama administration, the White House has claimed the power to throw enemies of the state into indefinite military detention or even assassinate them on US soil by means of drone strikes, while radically expanding electronic spying on the American population.

Part of this process has been the ceaseless growth of the power of the US military and its increasing intervention into domestic affairs. In 2002, the creation of the US Northern Command for the first time dedicated a military command to operations within the US itself.

Just last May, the Pentagon announced the implementation of new rules of engagement for US military forces operating on American soil to provide "support" to "civilian law enforcement authorities, including responses to civil disturbances."

The document declares sweeping and unprecedented military powers under a section entitled "Emergency Authority." It asserts the authority of a "federal military commander" in "extraordinary emergency circumstances where prior authorization by the president is impossible and duly constituted local authorities are unable to control the situation, to engage temporarily in activities that are necessary to quell large-scale, unexpected civil disturbances." In other words, the Pentagon brass claims the unilateral authority to impose martial law.

These powers are not being asserted for the purpose of defending the US population against terrorism or to counter some hypothetical emergency. The US military command is quite conscious of where the danger lies.

In a recent article, a senior instructor at the Fort Leavenworth Command and General Staff College and former director of the Army's School of Advanced Military Studies laid out a telling scenario for a situation in which the military could intervene.

"The Great Recession of the early twenty-first century lasts far longer than anyone anticipated. After a change in control of the White House and Congress in 2012, the governing party cuts off all funding that had been dedicated to boosting the economy or toward relief. The United States economy has flatlined, much like Japan's in the 1990s, for the better part of a decade. By 2016, the economy shows signs of reawakening, but the middle and lower-middle classes have yet to experience much in the way of job growth or pay raises. Unemployment continues to hover perilously close to double digits …"

In other words, the Pentagon sees these conditions—which differ little from what exists in the US today—producing social upheavals that can be quelled only by means of military force.

What is being upended, behind the scenes and with virtually no media coverage, much less public debate, are constitutional principles dating back centuries that bar the use of the military in civilian law enforcement. In the Declaration of Independence itself, the indictment justifying revolution against King George

included the charge that he had "affected to render the Military independent of and superior to the Civil power."

Side by side with the rising domestic power of the military, the supposedly civilian police have been militarized. An article published by the Wall Street Journal entitled "The Rise of the Warrior Cop" graphically described this process:

"Driven by martial rhetoric and the availability of military-style equipment—from bayonets and M-16 rifles to armored personnel carriers—American police forces have often adopted a mind-set previously reserved for the battlefield. The war on drugs and, more recently, post-9/11 antiterrorism efforts have created a new figure on the US scene: the warrior cop—armed to the teeth, ready to deal harshly with targeted wrongdoers, and a growing threat to familiar American liberties."

The article describes the vast proliferation of SWAT (Special Weapons and Tactics) units to virtually every town in America, fueled by some $35 billion in grants from the Department of Homeland Security, "with much of the money going to purchase military gear such as armored personnel carriers."

This armed force was on full display in April when what amounted to a state of siege was imposed on the city of Boston, ostensibly to capture one teenage suspect. The entire population of a major American city was locked in their homes as combat-equipped police, virtually indistinguishable from troops, occupied the streets and conducted warrantless house-to-house searches.

Underlying this unprecedented militarization of US society are two parallel processes. The immense widening of the social chasm separating the billionaires and multi-millionaires who control economic and political life from American working people, the great majority of the population, is fundamentally incompatible with democracy and requires other forms of rule. At the same time, the turn to militarism as the principal instrument of US foreign policy has vastly increased the power of the military within the US state apparatus.

Both America's ruling oligarchy and the Pentagon command recognize that profound social polarization and deepening economic crisis must give rise to social upheavals. They are preparing accordingly.

The working class must draw the appropriate conclusions and make its own political preparations for the inevitable confrontations to come.

(Courtesy: WSWS.org)

• •

Wall Street Profits and the Widening Social Divide in America

By: Andre Damon

The profits of the biggest US banks continued to swell in the second quarter of this year, even as the impact of five years of mass unemployment, stagnant economic growth and brutal cuts in social spending produced a further rise in poverty, homelessness and hunger.

On Tuesday, Goldman Sachs, the fifth-largest US bank by assets, said its second-quarter profits doubled from a year ago, to $1.93 billion, significantly higher than analysts were expecting. This followed the announcement of record profits by JPMorgan Chase and Wells Fargo, the largest and fourth largest US banks, respectively.

JPMorgan made $6.1 billion in the second quarter, up 32 percent from a year ago, while Wells Fargo took in $5.27 billion, up 20 percent. JPMorgan Chase is expected to make $25 billion in profits this year, equivalent to the gross domestic product of Afghanistan, a country with a population of 30 million.

Citigroup and Bank of America, which together were bailed out by the US government to the tune of $90 billion, likewise posted huge profit increases, with Citigroup posting profits of $4.18 billion, up 42 percent from a year earlier.

Pay for bank CEOs has likewise soared, according to data reported by the Financial Times. John Stumpf of Wells Fargo received $19.3 million in 2012, up 7.8 percent from the year before. He was followed by Jamie Dimon of JPMorgan Chase, who took in $18.7 million, and Lloyd Blankfein of Goldman Sachs, who received $13.3 million.

The vast enrichment of financial executives is by no means confined to the US. The European Banking Authority said that over 3,000 employees in the European financial sector earned more than $1.3 million in 2011.

Nor are the vast executive payouts confined to financial firms. According to an analysis conducted by Equilar Inc. for the Wall Street Journal, the CEOs of 200 US companies with revenues over $1 billion saw their pay swell by 16 percent in 2012, with the average hitting $15.1 million.

The announcement of bumper profits on Wall Street came only days after Federal Reserve Chairman Ben Bernanke delivered a speech in which he reassured the financial elite that the near-zero interest rates that have fueled record stock prices and the banks' profit bonanza would continue indefinitely.

This vast subsidy for the big banks goes hand in hand with sweeping attacks on working class wages and living standards. The imposition of $85 billion in federal spending cuts this fiscal year, as part of the ten-year "sequester" cut of $1.2 trillion, has resulted in unpaid furloughs for hundreds of thousands of government employees, amounting to pay reductions of up to 20 percent. The sequester cuts also include sweeping reductions in housing assistance and education, as well as cuts of 15-20 percent in extended unemployment benefits for 2 million people.

The sequester cuts are only the beginning. On July 1, the interest rate on government subsidized college loans, which are given out selectively to low- and medium-income students, doubled, rising from 3.4 percent to 6.8 percent. The rate increase affects nearly 7.5 million students.

The House of Representatives has passed a farm bill that excludes $743 billion in food stamps—a political maneuver that anticipates a bipartisan deal with the Obama White House and congressional Democrats to impose sharp cuts in the nutrition program upon which 48 million people—one in six Americans—depend.

Earlier, the Obama administration said it was delaying by one year the implementation of a legal requirement as part of its health care overhaul for businesses with 50 or more full-time employees to provide health insurance. At the same time, the administration and Congress are working to slash hundreds of billions of dollars from Social Security, Medicare and Medicaid in the next round of budget discussions.

In Detroit, Emergency Manager Kevyn Orr announced a plan in June to wipe out the pensions and health benefits of all current and retired city workers, calling for the elimination of $9 billion in benefits at one stroke.

The juxtaposition of draconian austerity for working people and unlimited cash for the financial elite makes clear that the growth of social inequality, poverty and social deprivation is not simply the result of impartial economic forces. It is the result of a conscious class policy being carried out by the Obama administration with the support of both parties.

Ever higher profits for Wall Street and ever more colossal pay packages for the bankers give the lie to the claim that "there is no money" for basic social needs.

The obscene enrichment of the financial elite amid mass poverty is treated as a non-issue by the media and the politicians, Democratic as well as Republican. The entire political establishment is on the payroll and under the control of the Wall Street bankers.

Only the working class itself, on its own initiative and on the basis of a socialist program, can break the stranglehold of the financial oligarchy and end the poverty, unemployment and social misery that plague American society.

(Courtesy: WSWS.org)

10 Reasons to Worry About the Rupee Depreciation

1. Current account deficit will widen
   Trade deficit will widen because of costlier imports, worsening the CAD.
2. Capital flows may slow or reverse
   Those invested may exit; other will wait.
3. Cos with $ debt to come under stress
   Rolling over debt will be costlier
4. Costly imports will accelerate inflaction
   Costlier inputs, consumer goods and fuel to raise wholesale and retail inflation
5. Forex reserves could fail, putting pressure on Rs.
   Lower capital flows would mean India will have to dip into its reserves
6. Corporate profit margins may fall further
   In case of weak demand, cos may not be able to pass on higher input costs
7. Higher subsidies to make deficit target difficult
   Fuel price increase will keep petroleum subsidy in check but fertiliser subsidy will rise
8. Foreign studies and holidays will pinch more
   Rs. spending on any kind of foreign exchange-denominated spending will increase
9. Demand will fall furtehr due to higher prices
   Spending on discretionary goods will be hit
10. Rate cut to stimulate economy will be difficult Possibly higher inflation and falling Rs. will not allow monetary easing

(Courtesy: The Economic Times)

More FDI in Insurance Will Undermine Economic Security

By: Amanulla Khan

The most substantive arguments against the liberalisation of the insurance sector have come from its workforce. For nearly two decades, the biggest union in the Indian insurance industry, the All India Insurance Employees' Association (AIIEA), has opposed the entry of foreign capital in the insurance industry. Amanulla Khan, president, AIIEA, spoke to **V. Sridhar** about the issues raised by the decision to increase the cap on Foreign Direct Investment (FDI) in Indian insurance companies from 26 to 49 per cent. Excerpts:

What are the main reasons for your opposition to FDI in insurance?

Insurance is a long-term contract. An insurance company deploys funds in long-term investments in order to be able to pay claims that may arise in the future. Insurance funds are thus suitable for developing national infrastructure and capital formation. In a developing country like India, the government needs to retain some control over domestic savings instead of allowing foreign investors to enjoy control over Indian savings. The Parliamentary Standing Committee came to the same conclusion. It recommended that the cap on foreign direct investment (FDI) be retained at 26 per cent.

But there is the claim that insurance penetration has improved in the last decade because of competition. More will be better, they say…

It takes only common sense to understand that insurance depends on economic growth and the level of disposable income in the hands of the people. It is purely coincidental that when the insurance industry was opened up in 2001, the economy was growing at about eight to nine per cent. But there has been stagnation in the last two years and private companies have closed down 34 per cent of their branches and cut their workforce by 30 per cent.

Why then are private insurers gleeful about the impending increase in foreign stake in their ventures?

The Insurance Regulatory and Development Authority (IRDA) had said that companies that have been in business for 10 years can raise fresh capital. If they really do need capital, why not go to the market to raise resources? Why do they have to look to foreign capital? The simple reason is that India is still an attractive market for foreign capital in the medium to long term. The insurance markets in advanced capitalist economies are in serious stagnation. They find the demographic composition of the Indian population very attractive — 65 per cent of Indians are under 35.

How has the pre-eminent Indian insurance company, the Life Insurance Corporation, coped with competition?

The LIC adapted to the competitive environment very well. It offered better products and improved its servicing standards. The AIIEA also helped create a better work culture and a sense of belonging to the institution. The LIC dominates the life insurance market today with 76 per cent share in premium income and 81 per cent in the number of policies.

Private companies have focused on unit linked insurance policies (ULIP) where returns are dependent on the stock markets, which implies that the risk is borne by the person seeking insurance. But that is not what insurance is all about. Premium from ULIPs constitute over 85 per cent of premium collections in the private sector, compared to less than one-third in the case of the LIC.

The private insurers focused on ULIPs because they had to make much smaller capital provisioning (solvency margins in insurance industry parlance) for such policies.

Also recall that the Indian stock market was booming when these companies came in. The private companies could initially gather a market share of more than one-third. But when the slowdown — in the stock markets and the wider economy — started in 2008-09, people started moving back towards the comfort of the LIC.

Selling an insurance policy is like issuing a promissory note. Credibility is critical in this business. The customer wonders whether the insurer will be around if and when a claim is made…

The ultimate yardstick to judge the performance of an insurance company is to see how quickly it settles claims. The LIC is perhaps the best in the world in this regard. It settles 99.86 per cent of the claims. In contrast, IRDA data reveals that in the last financial year, the private sector repudiated nearly 11 per cent of the claims. The regulator must address this issue immediately.

The average annual premium for a policy issued by the private insurers is about Rs.60,000, compared to Rs.9,000 for a policy issued by the LIC. This gives you an idea about the diversity in the LIC's customer base. If the LIC is weakened, it may be forced to behave like a clone of the private insurers.

There are also complaints about mis-selling of life insurance. How has LIC fared?

The lapsation ratio (defined as the proportion of policies that lapse after the first year) of LIC in 2010-11 was five per cent, compared to 42 per cent in the case of an insurance company promoted by a large private bank. Another foreign insurer had a lapsation ratio of 72 per cent! On average, one-fifth of the policies issued by private insurers lapse after the first year. Policies lapse because the buyers, after paying the first premium, find that it does not suit their requirements. And, to make matters worse, the company can keep the money after misleading the consumer!

What will be the immediate consequences of increasing FDI to 49 per cent?

The Indian partners will have to divest a portion of what they now hold in favour of foreign entities. The IRDA's rules stipulate that a company that has been in business for 10 years can go to the stock market to raise resources through an initial public offer. But the catch is that these companies are not earning profits yet.

My understanding is that the IRDA is pushing the industry towards consolidation. It is likely that the wider space given to foreign capital will hasten the process. That will mean less competition, not more.

The government has decided recently to allow the LIC to invest up to 30 per cent of the shares of listed corporate entities, which was earlier set at 10 per cent. How will affect the interest of policyholders?

The basic objective behind any investment is to secure a decent return to policyholders while ensuring the security of the policy monies.

LIC generates large investable funds every year and is a long-term investor. However, not many good scrips are available for investment. The 10 per cent ceiling was preventing the LIC from enhancing value for policyholders. We feel there should be some flexibility on this score. Of course, we are aware that the enhanced ceiling may pose risks because of the greater concentration of funds in a few companies. We feel the LIC should strengthen its internal mechanism on investment decisions.

The LIC should also not invest more than 10 per cent of its investable funds in equities. We are also opposed to the investment of policyholders' funds in derivatives, which the IRDA is considering.

Is the AIIEA opposed to these measures because of the fear of job losses in the public sector?

For 10 years and more we have proved that we can compete effectively against these private companies. We lost market share initially, but we also regained it. This struggle is not about wages, jobs or about the narrow interests of the insurance workers. Our union believes that the unbridled entry of foreign capital into the insurance industry is harmful to the economic and social development of the country.

How effective has the AIIEA been in rolling back the reform process in the financial sector?

We understand that a trade union has its limitations. We know that the government is too powerful for us. Without public support we cannot push back these policies. That is why we collected more than 1.5 crore signatures from across the country when the insurance sector was opened up to private players. There is no other case of a union successfully pushing back the government's reform agenda for almost 20 years, since the Malhotra Committee (1994) called for the privatisation of public sector insurance companies. We have appealed to all political parties to oppose the government's move.

(Courtesy: The Hindu)

Government Gives Nod to Hike FDI Caps in 13 Sectors

A beleaguered government on late evening of 16th July announced a raft of investor friendly measures to woo overseas funds by easing foreign direct investment (FDI) caps in 13 sectors like insurance, commodities as well as stock exchanges, tea, telecom and others.

The Congress-led government, which is often blamed for not pulling up their socks to revive the flagging economy will face the general election in less than a year. The set of reform measures may have come on this context.

The Cabinet Committee of Economic Affairs with representation of 11 ministers under the stewardship of the Prime Minister Manmohan Singh took the consensus decision to open up the FDI door in those sectors.

The second largest market after bank fixed deposits - the insurance sector is now likely to get a flow of foreign capital. Indian insurance sector offers huge potential wherein there is a lot of untapped opportunities. The government hiked the FDI cap in the sector to 49 percent from 26 percent earlier. The enhanced cap will be through automatic route unlike FIPB route earlier.

Life insurance penetration in India is about 4.4 percent of the country's gross domestic product (GDP) in terms of total premiums underwritten annually, according to the Insurance Regulatory and Development Authority (IRDA).

(Courtesy: moneycontrol.com)

Take immediate steps to protect your wealth... **NOW!**

That's exactly what many well-respected economists, billionaires, and noted authors are telling you to do — experts such as Marc Faber, Peter Schiff, Donald Trump, and Robert Wiedemer. According to them, we are on the verge of another recession, and this one will be far worse than what we experienced during the last financial crisis.

Marc Faber, the noted Swiss economist and investor, has voiced his concerns for the U.S. economy numerous times during recent media appearances, stating, "I think somewhere down the line we will have a massive wealth destruction. I would say that well-to-do people may lose up to 50 percent of their total wealth."

When he was asked what sort of odds he put on a global recession happening, the economist famous for his ominous predictions quickly answered . . . "100 percent."

Faber points out that this bleak outlook stems directly from Federal Reserve Chairman Ben Bernanke's policy decisions, and the continuous printing of new money, referred to as "quantitative easing" in the media.

Faber's pessimism is matched by well-respected economist and investor Peter Schiff, the CEO of Euro Pacific Capital. Schiff remarks that the stock market collapse we experienced in 2008 "wasn't the real crash. The real crash is coming."

Schiff didn't stop there. Most alarming is his belief that daily life will get dramatically worse for U.S. citizens.

"If we keep doing this policy of stimulus and growing government, it's just going to get worse for the average American. Our standard of living is going to fall . . . People who are expecting Social Security can't get all that money. People expecting government pensions can't get all their money . . . We simply can't afford to pay them."

Equally critical of the current government and our nation's economy is real estate mogul and entrepreneur Donald Trump, who is warning that the United States could soon become a large-scale Spain or Greece, teetering on the edge of financial ruin.

Trump doesn't hesitate to point out America's unhealthy dependence on China. "When you're not rich, you have to go out and borrow money. We're borrowing from the Chinese and others."

It is this massive debt that worries Trump the most.

"We are going up to $16 trillion [in debt] very soon, and it's going to be a lot higher than that before he gets finished," Trump says, referring to President Barack Obama. "When you have [debt] in the $21-$22 trillion [range], you are talking about a [credit] downgrade no matter how you cut it."

In a recent appearance, Trump went to so far as to say the dollar is "going to hell."

Where Trump, Faber, and Schiff see rising debt, a falling dollar, and a plunging stock market, investment adviser and author Robert Wiedemer sees much more widespread economic destruction.

In a recent interview to talk about his New York Times best-seller Aftershock, Wiedemer says, "The data is clear, 50 percent unemployment, a 90 percent stock market drop, and 100 percent annual inflation… starting in 2013."

Before you dismiss Wiedemer's claims as impossible or unrealistic, consider this: In 2006, Wiedemer and a team of economists accurately predicted the collapse of the U.S. housing market, equity markets, and consumer spending that almost sank the United States. They published their research in the book America's Bubble Economy.

When the interview host questioned Wiedemer's latest data, the author unapologetically displayed shocking charts backing up his allegations, and then ended his argument with, "You see, the medicine will become the poison."

The interview has become a wake-up call for those unprepared (or unwilling) to acknowledge an ugly truth: The country's financial "rescue" devised in Washington has failed miserably.

The blame lies squarely on those whose job it was to avoid the exact situation we find ourselves in, including Bernanke and former Fed Chairman Alan Greenspan, tasked with preventing financial meltdowns and keeping the nation's economy strong through monetary and credit policies.

At one point, Wiedemer even calls out Bernanke, saying that his "money from heaven will be the path to hell."

But it's not just the grim predictions that are causing the sensation in Wiedemer's video interview. Rather, it's his comprehensive blueprint for economic survival that's really commanding global attention.

The interview offers realistic, step-by-step solutions that the average hard-working American can easily follow.

The video was initially screened for a relatively small, private audience. But the overwhelming amount of

feedback from viewers who felt the interview should be widely publicized came with consequences, as various online networks repeatedly shut it down and affiliates refused to house the content.

Bernanke and Greenspan certainly would not support Wiedemer publicly, and it soon became apparent mainstream media would not either.

"People were sitting up and taking notice, and they begged us to make the interview public so they could easily share it," said Newsmax Financial Publisher Aaron DeHoog. "But unfortunately, it kept getting pulled."

"Our real concern," DeHoog added, "is the effect even if only half of Wiedemer's predictions come true.

"That's a scary thought for sure. But we want the average American to be prepared, and that is why we will continue to push this video to as many outlets as we can. We want the word to spread."

(Courtesy: Moneynews.com)

• •

IMF Update Highlights Global Economic Slide

By: Nick Beams

As the fifth anniversary of the eruption of the global financial crisis approaches, the world economy is moving still further away from what were once considered "normal" conditions.

This week, the International Monetary Fund (IMF) again downgraded its forecast for world economic growth—the fifth such downward revision since the beginning of last year. Significantly, the statement accompanying the update pointed to processes that indicate the overestimation of growth prospects in the past two years has been the result of a failure to take into account structural changes in the world economy.

The IMF cut its forecast for global growth to 3.1 percent for 2013, after projecting a 3.3 percent expansion in April, and lowered its forecast for 2014 to 3.8 percent, after previously predicting a 4 percent expansion.

It pointed to three major factors as being responsible for the slowdown: disappointing growth in emerging market economies, a deeper than expected recession in the euro area as a result of low demand and depressed confidence, and slower than expected growth in the US economy, due to cuts in government spending.

The update noted that while "old risks" to global growth remain "new risks have emerged, including the possibility of a longer growth slowdown in emerging market economies." In other words, there is no prospect of growth in these economies compensating for the low growth in the United States and the continued recession in Europe. The euro area is expected to contract by 0.6 percent in 2013 and grow by just 1 percent in 2014.

The contraction in Europe is not only the product of the slump in the so-called periphery countries. IMF chief economist Olivier Blanchard said that even in the core economies of France and Germany "there seems to be a general lack of confidence in the future"—a remark that was borne out the next day when German industrial output fell by 1 percent in May, twice the expected drop.

Blanchard noted that while there were specific reasons for lower growth in China, Brazil and India, there was an underlying slowdown in the overall trend, not just in the cyclical component. "It is clear that these countries are not going to grow as fast as they did before the crisis," he said.

Immediately following the update, data on China's trade showed that exports in June fell 3.1 percent compared with a year earlier, after increasing by 10.4 percent on average for the first part of 2013.

The notion that somehow China and other so-called "emerging markets" were going to provide a new foundation for the expansion of the world economy was always a fiction, given their dependence on the US and Europe as their major export markets. But it was able to be maintained for a period due to extraordinary financial and fiscal measures undertaken in the aftermath of the financial crisis, especially by the Chinese government.

Authorities launched a stimulus package of some $500 billion and unleashed an expansion of credit in order to fuel the financing of investment projects, especially by local government authorities. As a result, the ratio of total credit to gross domestic product in the Chinese economy rose from around 115 percent in 2008 to an estimated 173 percent. At the same time, the share of investment rose from 42 percent of GDP in 2007 to 47 percent in 2013.

The stimulus measures were predicated on the assumption that eventually Europe and the US would recover, bringing a renewed expansion of exports. But the stagnation in the US economy and the contraction in Europe have meant that the expansionary credit policies in China can no longer be sustained. They have now been replaced by the imposition of a clampdown.

The overall significance of the IMF update is that it makes clear there is no area of the world economy that can provide the basis for a general expansion and no prospect of such a development in the future.

Moreover, there are clear and growing risks of the onset of a new financial crisis as the US Federal Reserve Board moves to cut back on its program of quantitative easing, through which it has been pumping $85 billion per month into financial markets.

The provision of this ultra-cheap cash has played a central role in lifting the US stock market to new highs in the face of stagnation or very low growth rates in the underlying economy. Insofar as higher share prices have been sustained by higher profits, these have resulted from savage cost-cutting rather than the growth of revenue as a consequence of expanding markets.

But according to a recent report in the Wall Street Journal, this process may be coming to an end, with companies needing a boost in revenue in order to sustain profits. However, the revenue of companies in the S&P 500 index is expected to rise by just 1 percent in the second quarter compared with a year earlier.

While markets have continued to rise, following a plunge last month when Fed Chairman Ben Bernanke indicated the Fed was looking to cut back on quantitative easing, the actual implementation of the policy could set off renewed turbulence.

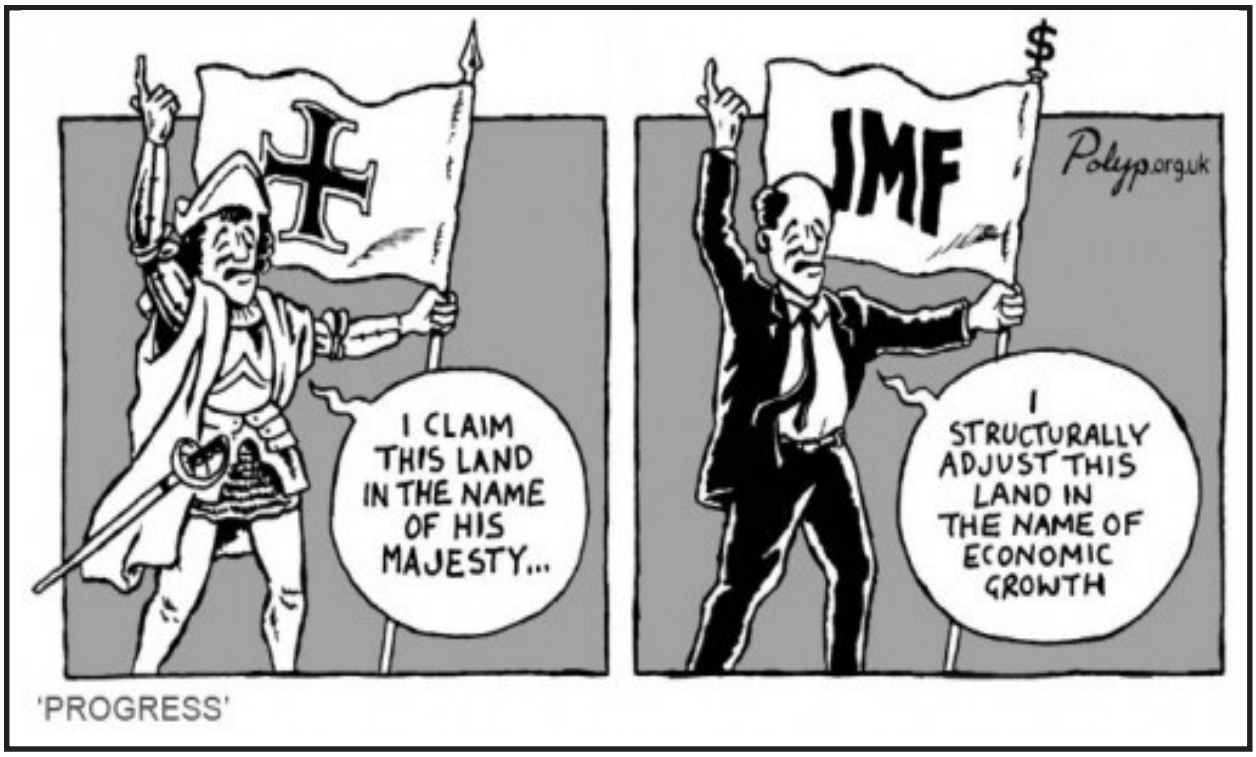
Even a limited winding back of the monetary stimulus could have a major impact on the so-called emerging market and developing economies, as cash is withdrawn and returned to the US. Using somewhat guarded language, the IMF warned that "weaker growth prospects" and "potential legacy problems" arising from a "prolonged period of rapid credit growth" could lead to increased "financial stability risks."

If the Fed's tapering down of quantitative easing triggers currency depreciations and rapid capital outflows from emerging markets, this could well blow back into US markets and spark a financial crisis.

Whatever the immediate turns in the economic conjuncture, the IMF's latest report has a far-reaching political significance. It underscores the fact that, under conditions where there is no prospect of economic recovery in any meaningful sense, rising unemployment, wage cuts and cuts in social services have become permanent.

Against this program of social counter-revolution being implemented by the ruling elites, the working class must fight for its own independent interests and a political program aimed at the establishment of a workers' government and the implementation of a socialist program, starting with the establishment of public ownership and democratic control of the banks and major corporations.

(Courtesy: WSWS.org)



The Infrastructure of a Police State Emerges in Europe

By: Peter Schwarz

Former NSA employee Edward Snowden has exposed the infrastructure of a police state whose surveillance powers far exceed those of totalitarian dictatorships such as the German Nazi regime.

American and European intelligence agencies monitor and store the communications data of hundreds of millions of citizens. Based on the metadata of tapped connections, they can draw up a seamless profile of an individual's movements and contacts. This in turn enables them to selectively filter out the content of conversations and emails.

The right to privacy—a basic human right enshrined in the American and every European Constitution—and the associated guarantee of the confidentiality of the post and telecommunications are being ripped to shreds. The wiretaps are so obviously illegal that intelligence agencies in one country often delegate their activities to foreign partners in order to avoid overly blatant violation of their own national laws.

Snowden's revelations represent the tip of the iceberg. They concentrate on his former employer, the National Security Agency (NSA) and its partner organizations—such as the British Government Communications Headquarters (GCHQ), the German Federal Intelligence Service (BND), the French Direction générale de la sécurité extérieure (DGSE)—which officially conduct foreign espionage. The activities of military and domestic intelligence agencies, which have access to collected data together with affiliated police departments, have not yet been revealed.

The extent of the monitoring apparatus is gigantic. The US intelligence services alone employ hundreds of thousands of employees. Exact figures are difficult to obtain because they remain secret, but an investigation by the Washington Post concluded that in 2010 approximately 854,000 Americans possessed top-secret security clearance. This means that the number of intelligence officials is approximately half the number of the 1.8 million teachers in American primary schools.

In Europe, the numbers of intelligence agency employees is likely to be just as high. Accurate estimates are hard to come by, given the large number of countries and intelligence agencies. In Germany alone, in addition to the BND, other agencies include the Military Counterintelligence Service, the Federal Office for the Protection of the Constitution (BfV) and its 16 separate state offices.

The claim that this Orwellian surveillance apparatus is devoted to the struggle against terrorism is absurd. There is no need to monitor hundreds of millions of citizens in order to track down a handful of terrorists, who in many cases have their own links to the intelligence services.

The real target of the intelligence surveillance is the vast majority of the people. This is the real enemy identified by the ruling class. This is confirmed by any brief look at social statistics and the social counterrevolution currently taking place.

In the US, the richest ten percent of the population control more than half of all income and about three quarters of all private assets. At the bottom, the poorest 15 percent of the population live below the official poverty line of $22,300 annually for a family of four.

In Europe, austerity measures dictated by the EU have resulted in mass unemployment and social decline on an unprecedented scale. After five austerity budgets in Greece, 40 percent of the population are no longer covered by health insurance and therefore not entitled to health care.

The ruling class senses that popular opposition is growing and is responding by placing the entire population under surveillance. Such surveillance is not limited to passive observation. In the event of an escalation of the class struggle, as is currently occurring in Egypt, the profiles and addresses stored in the vast databases of the intelligence agencies would be mined to draw up lists of dissidents and political leaders for arrest and prosecution.

The ruthlessness of the ruling class is most clearly shown in the case of Edward Snowden. The 30-year-old must fear for his life and is being hunted across the planet because he had the courage to expose the criminal activities of the NSA. The forced landing of Bolivian President Evo Morales in Vienna made clear that even the elected leader of a sovereign state is not safe from the machinations of the US Secret Service and their European accomplices.

The intelligence agencies are also quite prepared to use provocations and acts of terror to further their ends. The secret NATO Gladio organization in Italy was infamous for carrying out such acts of provocation in Italy in the 1970s and 1980s.

The Prime Minister of Luxembourg, Jean-Claude Juncker, is expected to resign today due to a similar case, the so-called "bomb-planting affair". In Germany, meanwhile, new evidence is continually emerging on the involvement of the Office for the Protection of the Constitution in the racist murders conducted by the National Socialist Underground (NSU).

The case of Edward Snowden contains vital lessons. No confidence can be placed in any of the institutions of the capitalist state—the courts, the political parties, the legislatures, or the capitalist media—to defend basic democratic rights. The ruling elites disregard the most basic rights and are developing police-state methods to defend their wealth and privileges. The defense of democratic rights, along with the struggle against social cuts, can only be carried out on the basis of a mass movement of the working class aimed at overturning the capitalist system.

IMF Warns of Growing Risks to China's Financial System

By: John Chan

The International Monetary Fund's (IMF) annual report on China warns that the world's second largest economy faces serious financial risks.

The IMF pointed to the widely-cited fears over China's total loan issuance, which has jumped from 129 percent of its gross domestic product (GDP) to 195 percent since 2008. This was a result of Beijing's desperate response to the initial shock from the Wall Street crash that year. After 23 million Chinese workers lost their jobs, threatening an explosion of social protests, Beijing passed a massive stimulus package of 4 trillion yuan ($US650 billion today).

The stimulus package soon turned into rampant lending from the state-owned banking system. However, the majority of credit was not channelled into production, because China's major export markets in the US and Europe were mired in slump; instead, it went into speculative real estate development. In 2010, the estimated total real estate values of Beijing surpassed the GDP of America—reminiscent of the kind of property bubbles leading to Japan's crash in early 1990s, which was followed by two decades of stagnation.

In that context, the IMF warned, "As of now, the authorities still have sufficient tools and fiscal space to address potential shocks. However, failure to change course and accelerate reform would increase the risk of an accident or shock that could trigger an adverse feedback loop."

The "adverse feedback loop" refers to a prospect in which the financial system and the productive economy take each other down in a mutually reinforcing spiral.

The IMF pointed particularly to the dubious $2 trillion "wealth products" that have mushroomed in recent years, which offer high returns but do not disclose their income sources. In fact, most of these products are speculative schemes in the property markets. They are now effectively a disguised second balance sheet of the banks, which "could over time evolve into a systemic threat to financial stability". The IMF warns that a sudden loss of confidence could "trigger a run" and lead to "severe credit crunch".

Taking into account the liabilities of local government financing vehicles and other debts, actual government debt reached 45 percent of the GDP last year. Although the levels are still relatively low compared to various debt-stricken European countries, slowing economic growth in China means less tax revenues for the government than a few years ago. The IMF predicts the Chinese economy to grow just 7.75 percent this year, to be followed by 7.7 percent in 2014— well below the traditional benchmark of 8 percent that has been regarded by the Chinese regime as necessary to keep unemployment under control.

The real danger, the IMF writes, is a major crisis due to China's structural dependency on exports and investment: "Progress with rebalancing has been limited and is becoming increasingly urgent. A decisive shift toward a more consumer-based economy has yet to occur."

With investment still accounting for 48 percent of GDP (the highest in the world) and consumption only 35 percent (among the lowest), China remains a giant cheap labour platform dependent on exporting to Western markets via transnational corporations' supply chains. On the other hand, the previous driving force of expansion—the relocation of rural labourers into urban areas—is coming to end. The current "reserve army of labour" of 160 million will cease to exist by the end of this decade.

IMF and Chinese officials often talk about the need to "rebalance" China's economy toward a "consumption-based" profile. The Chinese Communist Party (CCP) bureaucracy promised at its latest national congress last November that a new round of pro-market reform will result in doubling the per capita income in 2020 from 2010.

The idea of creating a flourishing consumption-based economy in China under capitalism is a pipe dream. Chinese workers receive poverty wages, which are themselves under pressure from competition from other cheap-labour platforms, such as Vietnam and India.

To the extent that consumption in China has grown, it was only in a small layer of the upper middle classes, corrupt officials and business people, propelling the country to become one of the largest luxury goods markets in recent years. Their growing wealth, derived while the vast majority of urban workers and rural poor remain mired in poverty, has not sufficed to create a domestic consumer market to absorb China's industrial output.

The real agenda of the IMF and the CCP is not to lift the Chinese masses' living standards, but to boost productivity and open up the rest of the state-dominated sectors to private capital. This can only cause massive job cuts, speedups, and cutting of already rock-bottom wages.

Since coming to power last November, the CCP leadership under President Xi Jinping and Premier Li

Keqiang has moved steadily to carry out this agenda, initially outlined in a joint report with the World Bank, "China 2030" last year. However, moves to fully integrate China's financial system to the global financial centres, take place in a highly risky international environment, which could rapidly produce unpredictable shocks.

In June, amid capital outflow from Asia following the comments by the US Federal Reserve Board that it is ending the policy of "quantitative easing", the news triggered a credit crunch in China, sending inter-bank lending rates up to a record high. The Chinese central bank, which initially sought to scale back its intervention to reduce the lending frenzy, had to inject billions of dollars again to ease the crisis.

According to IMF calculations reported on Monday, rapid lifting of capital controls could produce net capital outflows from China on the order of $1.35 trillion, or 15 percent of GDP. This could amount to a major meltdown similar to the Asian financial crisis in 1997-98. The outflow of capital could occur very rapidly either as a panicking response to unrest of Chinese workers or a military confrontation between China and the US or its allies.

In another move towards financial reforms, the People's Bank of China declared it would scrap a floor on Chinese commercial interest rates. The move was supposedly designed to enhance market competition, making cheap loans more accessible to small and medium-sized private enterprises. However, the central bank did not remove a widely expected cap on interest rates on deposits, due to fears of causing financial instability. Interest rates liberalisation has long been regarded as essential to make Chinese yuan internationally convertible.

A study released by Shanghai-based research firm ChinaScope Financial, which is partly owned by international credit rating agency, Moody's Corp, warned that the end of lending rate floor could lead to decline in net interest rate income, forcing Chinese banks to raise up to $100 billion in the next two years to maintain their current capital base. However, according to the Wall Street Journal, "in a sign of investors' belief that more stress is ahead for Chinese banks, many hedge funds and other alternative funds are sticking to heavy bets against Chinese banks listed in Hong Kong."

Investors are reportedly concerned over China's weakening economic growth, huge industrial overcapacity and the banks' general exposures to risky borrowers like real estate developers.

(Courtesy: WSWS.org)

China Faces Its Worst Economic Crisis: Water

China has a serious problem, bigger than the slowdown in manufacturing growth or the housing-price bubble. It's water, and it's a catastrophe that could affect the rest of Asia and the larger world.

In testimony to the U.S. Senate last week, the Council on Foreign Relations' Asia director Elizabeth Economy said China is facing a water crisis with "profound implications" if the government doesn't get a grip on it over the next few years.

According to China's own water-resources officials, more than 400 Chinese cities lacked enough water last year, with 110 of those facing "serious scarcity."

The key culprit is industry, which Economy said uses 4 to 10 times more water per unit of GDP than similar economies and is polluting the nation's existing water resources at an alarming rate. She cited a February 2013 report by the Geological Survey of China saying a full 90% of the country's groundwater was polluted, while the Ministry of Environmental Protection said the water from about 25% of China's major river systems was so filthy that it couldn't be even used for industry or agriculture.

Tap water is mostly undrinkable, and those who do drink it run major health risks. And the contamination is making it into the food system, resulting in cadmium-tainted rice among other threats, she said.

It's not like the government isn't aware of the problem, but solutions such as raising the price of water have moved ahead at a snail's pace. And "of the 1.3% of GDP that Beijing currently spends on environmental protection … half finds its way into other local priorities such as infrastructure development," Economy told U.S. lawmakers.

The result of all this may be a health crisis in China, and outright conflict with its neighbors. China controls the headwaters of many of Asia's most important rivers, such as the Irtyush, Mekong, and Brahmaputra, and these "are raising regional tensions as China develops plans upstream that may have dramatic impacts on the lower reaches," she said.

(Courtesy: marketwatch.com)

From Jaitapur to Koodankulam: Resistance to Nuclear Hegemony in India

Nuclear power proponents in India have repeatedly articulated a vision of massive expansion, making projections of an additional 20,000 MW of nuclear energy capacity by the year 2020 and 63,000 MW capacity by 2032. Indian business elites expect hundreds of domestic companies to be major beneficiaries of the nuclear expansion, which could create as much as $100 billion in business deals. As it stands, 21 operating nuclear reactors produce around 5000 MW, which is about 3 per cent of India's total energy production. While cheerleaders of nuclear energy in India have big dreams, the prospect of a 'nuclear renaissance' has produced nightmares for many others. Safety of nuclear power plants, radiation exposure, and storing nuclear waste are among the major concerns that continue to persist. Regarding waste, some nuclear proponents have promoted the idea of establishing a repository in a mountainous area akin to Yucca Mountain in the US.

Another critical issue is nuclear liability law in India and the corporate pressure exerted to weaken it. The law does not allow for a victim to sue the supplier even after an accident related to design defect. The Nuclear Power Corporation of India Limited can sue under particular circumstances, but the cap on liability is lower than international norms. Liability mainly rests with taxpayers following an all-too-familiar model of socializing risks while privatizing profit. US Secretary of State John Kerry's agenda for his visit to India includes discussions about the Indo-US nuclear deal and making the liability law even more amenable to US corporate interests.

Additionally, the social and environmental costs associated with thorium and uranium mining are totally neglected by nuclear power proponents who insist on describing nuclear as 'clean'. A particularly egregious example is the mining operation in Jaduguda, Jharkhand state where waste has been dumped in open fields. Toxicity related to the mine has caused birth defects, deformities, higher cancer rates, diseases among animals. A proposed uranium mine in the West Khasi Hills of Meghalaya has faced significant opposition due to concerns about safety, health, environment, and displacement. In both places, the resources identified for extraction are in predominately Adivasi communities. Domestic uranium mining is an important aspect of the planned nuclear expansion because of shortages in global supply and the need for domestic uranium in nuclear weapons production.

Not surprisingly, people in different parts of the country have responded to nuclear nightmares with movements in resistance. Local residents in Jaitapur, Maharashtra have strongly opposed the nuclear project involving French company Areva, voicing concerns about seismic activity in the area and waste storage. Farmers have refused to accept compensation for land acquisition and over 1,000 people were arrested during a protest in 2010. If the plant is built, it would be the largest in the world with production capacity of 9900 MW, and Areva has designs on more nuclear projects in India, especially with Germany reducing and decommissioning power plants.

In Kovvada, Andhra Pradesh, villagers rejected compensation and went on hunger strike against a proposed nuclear project, and the High Court put the required land acquisition on hold. Similarly, the Mithi Virdi project in Gujarat, a massive 6900 MW plant that involves Westinghouse and General Electric-Hitachi, has been challenged by local residents and farmers. The project would require 777 hectares of land in an area that is important for agricultural activities, specifically fruit and vegetable production.

Finally, another major site of resistance is the Koodankulam Nuclear Power Plant on the southern coast of Tamil Nadu. The project dates back to 1988 (just two years after the Chernobyl disaster) in a deal between the Soviet Union under Mikhail Gorbachev and Indian Prime Minister Rajiv Gandhi. After a period of dormancy following the dissolution of the Soviet Union, talks on Koodankulam picked up again in the 1990s. In the initial deal reached in 1998, Russia agreed to supply equipment and enriched fuel, and construction officially began in 2001.

However the project experienced delays along the way, which pushed back the potential commissioning of the plant. At the same time, resistance was building as people had serious safety and livelihood concerns related to the effects on fish of hot water discharge into the sea. The People's Movement Against Nuclear Energy (PMANE) kept attention on developments at the power plant and maintained mobilization of local residents. The Fukushima disaster in Japan justifiably heightened fears among people about nuclear safety and environmental issues (especially regarding seismic activity and the potential tsunami threat), but proponents continued to moving toward commissioning Koodankulam.

As resistance to the project entered a new phase, the state and mainstream media responded in a typical manner. The dominant narrative promoted in some major media outlets described the villagers as unable to understand the operation of a nuclear plant and

manipulated by interest groups. Opposition could be dealt with simply by having the 'experts' come in to tell local residents about the plant's impeccable safety. The state went further and sought to delegitimize the movement by pointing to the role of the 'foreign hand', specifically foreign non-governmental organizations. Prime Minister Manmohan Singh who made this claim, did not see irony in calling out opponents for supposed foreign support while actively advancing foreign corporate interests through India's nuclear energy sector.

Police forces have dealt with dissent harshly, maintaining a huge presence, arresting protestors on multiple occasions, and even cutting off access to basic amenities. Over 8,000 people have sedition charges against them. Also, a Fukushima survivor was denied a visa to enter India, and a German national with anti-nuclear connections was detained and deported. Throughout all of this, local residents continued to apply pressure and did not shy away from the daunting challenge posed by the state, and PMANE activists repeatedly went on hunger strike to express their opposition to the plant. In 2012, supporters from other parts of the country converged on the site to show solidarity as part of the 'Koodankulam Chalo' action.

Unfortunately, the Supreme Court recently approved the plant's operations despite objections, allowing it to be commissioned. However, people continue to stand up against nuclear hegemony in Koodankulam and elsewhere, and this vibrant opposition could leave the dreams of the nuclear elite unfulfilled. I'll end with a quote from S.P. Udayakumar, a leading activist for PMANE and someone who I used to work with and consider a friend. Dr. Udayakumar is a thoughtful and committed activist who has followed this issue for so many years. This is how he sums up the struggle: "To put it all in a nutshell, this is a classic David-Goliath fight between the citizens of India and the powerful government supported by the rich capitalists, MNCs, imperial powers and the global mafia. They promise FDI, nuclear power, development, atom bombs, security and superpower status…But we fight for our children and grandchildren, our animals and birds, our land, water, sea, air and the skies."

India: Victimised Maruti Suzuki Workers Demonstrate

Victimised workers at the Manesar plant of auto maker Maruti Suzuki India (MSI) defied a police ban and held a protest this week in Gurgaon to mark the anniversary of the jailing of 147 colleagues in July last year.

The jailed workers, including the entire leadership of the Maruti Suzuki Workers Union (MSWU), were detained by police after a management-provoked altercation at the plant. Police are still hunting 67 workers from a list supplied by MSI. The company also carried out a mass purge of its workforce, firing 546 permanent employees and nearly 2,000 contract workers.

Under the surveillance of a large number of riot police, around 500 people joined the Maruti workers' protest to demand the release of all arrested workers and reinstatement of all sacked workers. Police stopped protesters marching towards Manesar where they planned to begin an indefinite sit down protest.

Strikes Continue in Bangladeshi Garment Factories

Workers at RB Style and Fashion, Anmoy Garments and NV Knit Composite—three garment factories in the Ashulia industrial belt outside Dhaka—stopped work on July 22 to demand due for June. It is common practice for factory owners to default paying wages in time for the three-day Eid-ul-Fitr public holiday to ensure employees return to work on time. The police were deployed to the industrial area fearful that other workers would join the strike.

On July 13, 50 people were injured when police used batons, teargas and rubber bullets against striking garment workers in three locations in Gazipur district. At least 15 factories closed when 4,000 locked out employees of the Machhihata Sweater factory blocked the Kaliakoir-Nabinagar highway to demand a wage rise and reopening of the factory. Locked out workers from nearby factories joined the demonstration.

In another incident, some 400 workers from the Blue Seal Textile Mill in the Sreepur district blocked the Dhaka-Mymensingh highway for nearly two hours in protest over the closure of their mil

(Courtesy: Sanhati.com)

If Undelivered, please return to:

APPEAL

A-124/6 (2nd Floor), Katwaria Sarai, New Delhi 110 016

Telefax : 26968121 & 26858940 # E-mail : peaceact@vsnl.com

PRIVATE CIRCULATION ONLY