LOK SAMVAD

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EDITORIAL

Union Budget: Serving the Corporates

- Piyush Pant

Union Budget 2011-12 presented by Finance Minister Pranab Mukherjee is devoid of any direction, either for the economy or for the masses. In fact, the finance minister appeared utterly confused as to which section of the society should be pampered and which should be left behind in the lurch. The dilemma of the finance minister was further accentuated given the double mask donned by the congress party and the UPA government, one for accelerating the economic reforms and the other for paying lip service to the pro-people policies. That's why, as far as giving relief to the common man is concerned, the budget plays the trick of providing marginal relief in direct taxes while neutralizing it by widening the ambit of indirect taxes. The direct tax relief cost the government Rs.11,500 crore but extending service tax to new areas and withdrawing excise exemption to over 130 items will fetch government rupees 11,300 crore. The tax payers were given the illusion of higher tax-free incomes whereas all that was done was adjusting the brackets for inflation. Similarly the so called increase in budget allocation for certain segments in social and agriculture sectors is marginal while major relief and concessions in the form of tax cuts and exemptions has been given to the corporate sector. For instance, the current surcharge of 7.5 per cent on domestic companies is to be reduced to 5 per cent thus resulting in substantial loss to the exchequer. Earlier, through direct and indirect tax-exemptions, the total revenue loss was Rs.4.82 lakh crore in 2009-10. This got escalated to 5.11 lakh crore in the year 2010-11, of which Rs.88,263 crore was for the corporate sector. In the year 2010-11, Rs. 11,501 crore worth of revenue was lost on account of deduction of export profits to software technology parks. Similarly Rs.5,555 crore was lost on Special Economic Zones. It is due to such benevolence bestowed upon the corporate world that we find Indian billionaires' total wealth growing from 106 billion dollars to 170 billion dollars in 2006-07 alone.

In the Union budget 2011-12 the emphasis has been laid on developing the infrastructure sector thereby facilitating the corporate sector engaged in various infrastructure-related activities like development of highways, housing, ports and railways to earn profit at the cost of public exchequer. In the budget, the allocation for infrastructure stands at 48.5 per cent of Gross Budgetary Support to plan expenditure. In order to enhance the flow of funds to the infrastructure sector, the FII limit for investment in corporate bonds, with residual maturity of over five years issued by companies in infrastructure sector, is being raised by an additional limit of USD 20 billion taking the limit to USD 25 billion, raising the total limit available to FIIs for investment in corporate bonds to USD 40 billion. Since most companies in the sector are organised in the form of SPVs, FIIs would now be permitted to invest in unlisted bonds with a minimum lock-in period of three years.

To attract foreign funds for infrastructure financing, the FM has proposed to create special vehicles in the form of notified infrastructure debt funds. Interest payments on the borrowings of these funds will have a reduced withholding tax rate of 5% instead of the current rate of 20%, while full exemption of income of the fund from tax has been proposed. In addition, Mukherjee also proposed tax free bonds of Rs 30,000 crore for the enhancement of infrastructure in railways, ports, housing, and highways.

Thus Mr. Minister has succeeded in befooling the Indian masses.

In This Issue

appeal Action Programme for People's Economics and Allied Literacy

Key Features of Budget 2011-2012

Opportunities

- Swift and broad based growth in 2010-11 has put the economy back to its pre-crisis growth trajectory. Fiscal consolidation has been impressive.
- Significant progress in critical institutional reforms that would set the pace for double-digit growth in the near future.
- Dynamism in the rural economy due to scaled up flow of resources to the rural areas.CHALLENGES
- Structural concerns on inflation management to be addressed by improving supply response of agriculture to the expanding domestic demand and through stronger fiscal consolidation.
- Implementation gaps, leakages from public programmes and the quality of outcomes pose a serious challenge.
- Impression of drift in governance and gap in public accountability is misplaced. Corruption as a problem to be fought collectively. Government to improve the regulatory standards and administrative practices.
- Inputs from colleagues on both sides of House are important in the wider national interest.
- Budget 2011-12 to serve as a transition towards a more transparent and result oriented economic management system in India.

Overview of the Economy

- Gross Domestic Product (GDP) estimated to have grown at 8.6 per cent in 2010-11 in real terms. Economy has shown remarkable resilience.
- Continued high food prices have been principal concern this year.
- Consumers denied the benefit of seasonal fall in prices despite improved availability of food items, revealing shortcomings in distribution and marketing systems.
- Monetary policy measures taken expected to further moderate inflation in coming months.
- Exports have grown by 29.4 per cent, while imports have recorded a growth of 17.6 per cent during April to January 2010-11 over the corresponding period last year.
- Indian economy expected to grow at 9 per cent with an outside band of +/- 0.25 per cent in 2011-12.
- Average inflation expected lower next year and current account deficit smaller.

Sustaining Growth

Fiscal consolidation

- Fiscal consolidation targets at Centre and States have shown positive effect on macro economic management of the economy.
- Amendment to Centre's FRBM Act, 2003 laying down the fiscal road map for the next five years to be introduced in the course of the year.
- Proposal to introduce the Public Debt Management Agency of India Bill in the next financial year.

Tax Reforms

- Direct Taxes Code (DTC) to be finalised for enactment during 2011-12. DTC proposed to be effective from April 1, 2012.
- Areas of divergence with States on proposed Goods and Services Tax (GST) have been narrowed. As a step towards roll out of GST, Constitution Amendment Bill proposed to be introduced in this session of Parliament.
- Significant progress in establishing GST Network (GSTN), which will serve as IT infrastructure for introduction of GST.

Expenditure Reforms

- A Committee already set up by Planning Commission to look into the extant classification of public expenditure between plan, non-plan, revenue and capital.

Subsidies

- Nutrient Based Subsidy (NB S) has improved the availability of fertiliser; Government actively considering extension of the NBS regime to cover urea.

- Government to move towards direct transfer of cash subsidy to people living below poverty line in a phased manner for better delivery of kerosene, LPG and fertilisers. Task force set up to work out the modalities for the proposed system.

People's ownership of PSUs

- Overwhelming response to public issues of Central Public Sector Undertakings during current year.
- Higher than anticipated non-tax revenue has led to reschedulement of some disinvestment issues planned for current year.
- Rs. 40,000 crore to be raised through disinvestment in 2011-12.
- Government committed to retain at least 51 per cent ownership and management control of the Central Public Sector Undertakings.

Investment Environment

Foreign Direct Investment

- Discussions underway to further liberalise the FDI policy.
- Foreign Institutional Investors
- SEBI registered mutual funds permitted to accept subscription from foreign investors who meet KYC requirements for equity schemes.
- To enhance flow of funds to infrastructure sector, the FII limit for investment in corporate bonds issued in infrastructure sector being raised.

Financial Sector Legislative Initiatives

- To take the process of financial sector reforms further, various legislations proposed in 2011-12.
- Amendments proposed to the Banking Regulation Act in the context of additional banking licences to private sector players.

Public Sector Bank Capitalisation

- Rs. 6,000 crore to be provided during 2011-12 to enable public sector banks to maintain a minimum of Tier I CRAR of 8 per cent.

Recapitalisation of Regional Rural Banks

- Rs. 500 crore to be provided to enable Regional Rural Banks to maintain a CRAR of at least 9 per cent as on March 31, 2012.

Micro Finance Institutions

- "India Microfinance Equity Fund" of ` 100 crore to be created with SIDBI. Government considering putting in place appropriate regulatory framework to protect the interest of small borrowers.
- "Women's SHG's Development Fund" to be created with a corpus of ` 500 crore. Rural Infrastructure Development Fund
- Corpus of RIDF XVII to be raised from ` 16,000 crore to ` 18,000 crore.

Micro Small and Medium Enterprises

- Rs. 5,000 crore to be provided to SIDBI for refinancing incremental lending by banks to these enterprises.
- Rs. 3,000 crore to be provided to NABARD to provide support to handloom weaver co-operative societies which have become financially unviable due to non-repayment of debt by handloom weavers facing economic stress.
- Public sector banks to achieve a target of 15 per cent as outstanding loans to minority communities under priority sector lending at the earliest.

Housing Sector Finance

- Existing scheme of interest subvention of 1 per cent on housing loan further liberalised.
- Existing housing loan limit enhanced to ` 25 lakh for dwelling units under priority sector lending.
- Provision under Rural Housing Fund enhanced to ` 3,000 crore.
- To enhance credit worthiness of economically weaker sections and LIG households, a Mortgage Risk Guarantee Fund to be created under Rajiv Awas Yojana.
- Central Electronic Registry to prevent frauds involving multiple lending on the same immovable property to become operational by March 31, 2011.

Financial Sector Legislative Reforms Commission

- Financial Sector Legislative Reforms Commission set up to rewrite and streamline the financial sector laws, rules and regulations.
- Companies Bill to be introduced in the Lok Sabha during current session.

Agriculture

- Removal of production and distribution bottlenecks for items like fruits and vegetables, milk, meat, poultry and fish to be the focus of attention this year.
- Allocation under Rashtriya Krishi Vikas Yojana (RKVY) increased from ` 6,755 crore to ` 7,860 crore.

Bringing Green Revolution to Eastern Region

- To improve rice based cropping system in this region, allocation of ` 400 crore has been made.

Integrated Development of 60, 000 pulses villages in rainfed areas

- Allocation of ` 300 crore to promote 60,000 pulses villages in rainfed areas.

Promotion of Oil Palm

- Allocation of ` 300 crore to bring 60,000 hectares under oil palm plantations. Initiative to yield about 3 lakh Metric tonnes of palm oil annually in five years.

Initiative on Vegetable Clusters

- Allocation of ` 300 crore for implementation of vegetable initiative to provide quality vegetable at competitive prices.

Nutri-cereals

- Allocation of ` 300 crore to promote higher production of Bajra, Jowar, Ragi and other millets, which are highly nutritious and have several medicinal properties.

National Mission for Protein Supplement

- Allocation of ` 300 crore to promote animal based protein production through livestock development, dairy farming, piggery, goat rearing and fisheries.

Accelerated Fodder Development Programme

- Allocation of ` 300 crore for Accelerated Fodder Development Programme to benefit farmers in 25,000 villages.

National Mission for Sustainable Agriculture

- Government to promote organic farming methods, combining modern technology with traditional farming practices.

Agriculture Credit

- Credit flow for farmers raised from ` 3,75,000 crore to ` 4,75,000 crore in 2011-12.
- Interest subvention proposed to be enhanced from 2 per cent to 3 per cent for providing short-term crop loans to farmers who repay their crop loan on time.
- In view of enhanced target for flow of agriculture credit, capital base of NABARD to be strengthened by ` 3,000 crore in phased manner.
- Rs. 10,000 crore to be contributed to NABARD's Short-term Rural Credit fund for 2011-12.

Mega Food Parks

- Approval being given to set up 15 more Mega Food Parks during 2011-12.

Storage Capacity and Cold Chains

- Augmentation of storage capacity through private entrepreneurs and warehousing corporations has been fast tracked.
- Capital investment in creation of modern storage capacity will be eligible for viability gap funding of the Finance Ministry.

Agriculture Produce Marketing Act

- In view of recent episode of inflation, need for State Governments to review and enforce a reformed Agriculture Produce Marketing Act.

Infrastructure and Industry

- Allocation of Rs. 2,14,000 crore for infrastructure in 2011-12. This is an increase of 23.3 per cent over

2010-11. This also amounts to 48.5 per cent of total plan allocation.

- Government to come up with a comprehensive policy for further developing PPP projects.
- IIFCL to achieve cummulative disbursement target of Rs. 20,000 crore by March 31, 2011 and ` 25,000 crore by March 31, 2012.
- Under take out financing scheme, seven projects sanctioned with debt of Rs. 1,500 crore. Another Rs. 5,000 crore will be sanctioned during 2011-12.
- To boost infrastructure development, tax free bonds of Rs. 30,000 crore proposed to be issued by Government undertakings during 2011-12.

National Manufacturing Policy

- Share of manufacturing in GDP expected to grow from about 16 per cent to 25 per cent over a period of 10 years. Government will come out with a manufacturing policy.
- Two Committees set up for greater transparency and accountability in procurement policy; and for allocation, pricing and utilisation of natural resources.
- Issues relating to reconciliation of environmental concern from various departmental activities including those related to infrastructure and mining to be considered by a Group of Ministers.
- National Mission for hybrid and electric vehicle to be launched.
- Financial Assistance to be made available for metro projects in Delhi, Mumbai, Bengaluru, Kolkata and Chennai.
- Capital investment in fertiliser production proposed to be included as an infrastructure sub-sector.

Exports

- Of 23 suggestions made by Task Force on Transaction Cost, constituted by the Department of Commerce, 21 suggestions already implemented. Action to be taken on the remaining two suggestions. Transaction Cost of ` 2,100 crore will thus be mitigated.
- Self assessment to be introduced in Customs to modernize the Customs administration.
- Proposal to introduce scheme for refund of taxes paid on services used for export of goods.
- Mega Cluster Scheme to be extended for leather products. Seven mega leather clusters to be set up during 2011-12.
- Jodhpur to be included for the development of a handicraft mega cluster.

Black Money

- Five fold strategy to be put into operation to deal with the problem of generation and circulation of black money.
- Membership of various international fora engaged in anti money laundering, Financial integrity and Economic development, Exchange of information for tax purposes and transparency, secured.
- Various Tax Information Exchange Agreements (TIEA) and Double Taxation Avoidance Agreements (DTAA) concluded. Foreign Tax Division of CBDT has been strengthened to effectively handle increase in tax information exchange and transfer pricing issues.
- Enforcement Directorate strengthened three fold to handle increased number of cases registered under amended Money Laundering Legislation.
- Finance Ministry has commissioned study on unaccounted income and wealth held within and outside the country.
- Comprehensive national policy to be announced in near future to strengthen controls over prevention of trafficking on narcotic drugs.

Strengthening Inclusion

- National Food Security Bill (NFSB) to be introduced in the Parliament during the course of this year.
- Allocation for social sector in 2011-12 (` 1,60,887 crore) increased by 17 per cent over current year. It amounts to 36.4 per cent of total plan allocation.

Bharat Nirman

- Allocation for Bharat Nirman programme proposed to be increased by ` 10,000 crore from the current year to ` 58,000 crore in 2011-12.

- ☞ Plan to provide Rural Broadband Connectivity to all 2,50,000 Panchayats in the country in three years.

MGNREGA

- ☞ In pursuance of last years budget announcement to provide a real wage of ` 100 per day, the Government has decided to index the wage rates notified under the MGNREGA to the Consumer Price Index for Agricultural Labour. The enhanced wage rates have been notified by the Ministry of Rural Development on January 14, 2011.
- ☞ From 1st April, 2011, remuneration of Anganwadi workers increased from ` 1,500 per month to ` 3,000 per month and for Anganwadi helpers from ` 750 per month to ` 1,500 per month.

Scheduled Castes and Tribal Sub-plan

- ☞ Specific allocation earmarked towards Schedule Castes Sub-plan and Tribal Sub-plan in the Budget.
- ☞ Allocation for primitive Tribal groups increased from ` 185 crore in 2010-11 to ` 244 crore in 2011-12.

Education

- ☞ Allocation for education increased by 24 per cent over current year. Sarva Shiksha Abhiyan
- ☞ Rs. 21,000 crore allocated, which is 40 per cent higher than Budget for 2010-11.
- ☞ Pre-matric scholarship scheme to be introduced for needy SC/ST students studying in classes IX and X.

National Knowledge Network

- ☞ Connectivity to all 1,500 institutions of Higher Learning and Research through optical fiber backbone to be provided by March, 2012.

Innovations

- ☞ National Innovation Council set up to prepare road map for innovations in India.
- ☞ Special grant provided to various universities and academic institutions to recognise excellence.

Skill Development

- ☞ Additional ` 500 crore proposed to be provided for National Skill Development Fund during the next year.
- ☞ An international award with prize money of ` 1 crore being instituted for promoting values of universal brotherhood as part of National celebrations of 1 50th Birth Anniversary of Gurudev Rabindranath Tagore.

Health

- ☞ Plan allocations for health stepped-up by 20 per cent.
- ☞ Scope of Rashtriya Swasthya Bima Yojana to be expanded to widen the coverage.

Financial Inclusion

- ☞ Target of providing banking facilities to all 73,000 habitations having a population of over 2,000 to be completed during 2011-2012.

Unorganised sector

- ☞ Exit norms under co-contributory pension scheme "Swavalamban" to be relaxed. Benefit of Government contribution to be extended from three to five years for all subscribers who enroll during 2010-11 and 2011-12.
- ☞ Eligibility for pension under Indira Gandhi National Old Age Pension Scheme for BPL beneficiaries reduced from 65 years of age to 60 years. Those above 80 years of age will get pension of ` 500 per month instead of ` 200 at present.

Environment and Climate Change Forests

- ☞ Rs. 200 crore proposed to be allocated for Green India Mission from National Clean Energy Fund.

Environmental Management

- ☞ Rs. 200 crore proposed to be allocated for launching Environmental Remediation Programmes from National Clean Energy Fund.

Cleaning of Rivers and Lakes

- ☞ Special allocation of ` 200 crore proposed to be provided for clean-up of some more important lakes and rivers other than Ganga.

Some Other Initiatives

- ☞ To boost development in North Eastern Region and Special Category States, allocation for Special Assistance

doubled.

- ` 8,000 crore provided in current year for development needs of Jammu and Kashmir.
- Allocation made in 2011-12 to meet the infrastructure needs for Ladakh (` 100 crore) and Jammu region (` 150 crore).
- Allocation under Backward Regions Grant Fund increased by over 35 per cent.
- Funds allocated under Integrated Action Plan (IAP) for addressing problems related to Left Wing extremism affected districts. 60 selected Tribal and backward districts provided with 100 per cent block grant of ` 25 crore and ` 30 crore per district during 2010-11 and 2011-12 respectively.
- A lump-sum ex-gratia compensation of ` 9 lakh for 100 per cent disability to be granted for personnel of Defence and Para Military forces discharged from service on medical ground on account of disability attributable to government service.
- Provision of ` 1,64,415 crore, including ` 69,199 crore for capital expenditure to be made for Defence Services in 2011-12.
- To build judicial infrastructure, plan provision for Department of Justice increased by three fold to ` 1,000 crore.

Census 2011

- To enumerate castes other than Schedule Castes and Schedule Tribes in Census 2011, 'caste' to be canvassed as a separate time bound exercise.

Improving Governance

UID Mission

- From 1st October, 2011 ten lakh Aadhaar numbers will be generated per day.

IT Initiatives

- Various IT initiatives taken for efficient tax administration. These include e-filing and e-payment of taxes, adoption of 'Sevottam' concept by CBEC and CBDT, web based facility for tax payers to track the resolution of refunds and credit for pre-paid taxes and augmentation of processing capacity.
- Under Mission mode projects, funds released to 31 projects received from States/ UTs for computerisation of Commercial taxes. This will allow States to align with roll out of GST.
- Bill to amend the Indian Stamp Act proposed to be introduced shortly.
- A new scheme with an outlay of ` 300 crore to be launched to provide assistance to States to modernise their stamp and registration administration and roll out e-stamping in all the districts in the next three years.
- A new simplified form 'Sugam' to be introduced to reduce the compliance burden of small tax payers falling within presumptive taxation.
- Three more benches of Settlement Commission to be set up to fast track the disposal of cases.
- Steps initiated to reduce litigation and focus attention on high revenue cases.

Corruption

- Group of Ministers constituted to consider measures for tackling corruption. Recommendations to be made in a time bound manner.

Performance Monitoring and Evaluation System

- In pursuance of recommendations of Second Administrative Reforms Commission, 62 departments covered under Performance Monitoring and Evaluation System (PMES) to assess their effectiveness.

TAGUP

- Recommendations of Technology Advisory Group for Unique Projects (TAGUP) submitted and accepted in principle.

Budget Estimates: 2011-12

- Gross Tax receipts are estimated at ` 9,32,440 crore.
- Non-tax revenue receipts estimated at ` 1,25,435 crore.
- Total expenditure proposed at ` 12,57,729 crore.
- Increase of 18.3 per cent in total Plan allocation.

- Increase of 10.9 per cent in the Non-plan expenditure.
- XI Plan expenditure more than 100 per cent in nominal terms than envisaged for the Plan period.
- Increase of 23 per cent in Plan and Non-plan transfer to States and UTs.
- Fiscal Deficit brought down from 5.5 per cent in BE 2010-11 to 5.1 per cent of GDP in RE 2010-11.
- Fiscal Deficit kept at 4.6 per cent of GDP for 2011-12.
- Fiscal Deficit to be progressively reduced to 3.5 per cent by 2013-14.
- "Effective Revenue Deficit" estimated at 2.3 per cent of GDP in the Revised Estimates for 2010-11 and 1.8 per cent for 2011-12.
- All subsidy related liabilities brought into fiscal accounting.
- Net market borrowing of the Government through dated securities in 2011-12 would be ` 3.43 lakh crore.
- Central Government debt estimated at 44.2 per cent of GDP for 2011-12 as against 52.5 per cent recommened by the 13th Finance Commission.

Part B: Tax Proposals

Direct Taxes

- Exemption limit for the general category of individual taxpayers enhanced from ` 1,60,000 to ` 1,80,000 giving uniform tax relief of ` 2,000.
- Exemption limit enhanced and qualifying age reduced for senior citizens.
- Higher exemption limit for Very Senior Citizens, who are 80 years or above.
- Current surcharge of 7.5 per cent on domestic companies proposed to be reduced to 5 per cent.
- Rate of Minimum Alternative Tax proposed to be increased from 18 per cent to 18.5 per cent of book profits.
- Tax incentives extended to attract foreign funds for financing of infrastructure.
- Additional deduction of ` 20,000 for investment in long-term infrastructure bonds proposed to be extended for one more year.
- Lower rate of 15 per cent tax on dividends received by an Indian company from its foreign subsidiary.
- Benefit of investment linked deduction extended to businesses engaged in the production of fertilisers.
- Investment linked deduction to businesses developing affordable housing.
- Weighted deduction on payments made to National Laboratories, Universities and Institutes of Technology to be enhanced to 200 per cent.
- System of collection of information from foreign tax jurisdictions to be strengthened.
- A net revenue loss of ` 11,500 crore estimated as a result of proposals. Indirect Taxes
- To stay on course for transition to GST.
- Central Excise Duty to be maintained at standard rate of 10 per cent.
- Reduction in number of exemptions in Central Excise rate structure.
- Nominal Central Excise Duty of 1 per cent imposed on 130 items entering in the tax net.
- Lower rate of Central Excise Duty enhanced from 4 per cent to 5 per cent.
- Optional levy on branded garments or made up proposed to be converted into a mandatory levy at unified rate of 10 per cent.
- Peak rate of Custom Duty held at its current level.

Agriculture and Related Sectors

- Scope of exemptions from Excise Duty enlarged to include equipments needed for storage and warehouse facilities on agricultural produce.
- Basic Custom Duty reduced for specified agricultural machinery from 5 per cent to 2.5 per cent.
- Basic Custom Duty reduced on micro-irrigation equipment from 7.5 per cent to 5 per cent.
- De-oiled rice bran cake to be fully exempted from basic Custom Duty. Export Duty of 10 per cent to be levied on its export.

Manufacturing Sector

- Basic Custom Duty reduced for various items to encourage domestic value addition vis-à-vis imports, to remove duty inversion and anomalies and to provide a level playing field to the domestic industry.

- Rate of Export Duty for all types of iron ore enhanced and unified at 20 per cent ad valorem. Full exemption from Export Duty to iron ore pellets.
- Basic Custom Duty on two critical raw materials of cement industry viz. petcoke and gypsum is proposed to be reduced to 2.5 per cent.
- Cash dispensers fully exempt from basic Customs Duty. Environment
- Full exemption from basic Customs Duty and a concessional rate of Central Excise Duty extended to batteries imported by manufacturers of electrical vehicles.
- Concessional Excise Duty of 10 per cent to vehicles based on Fuel cell technology.
- Exemption granted from basic custom duty and special CVD to critical parts/assemblies needed for Hybrid vehicles.
- Reduction in Excise Duty on kits used for conversion of fossil fuel vehicles into Hybrid vehicles.
- Excise Duty on LEDs reduced to 5 per cent and special CVD being fully exempted.
- Basic Customs Duty on solar lantern reduced from 10 to 5 per cent.
- Full exemption from basic Customs Duty to Crude Palm Stearin used in manufacture of laundry soap.
- Full exemption from basic Excise Duty granted to enzyme based preparation for pre-tanning.

Infrastructure

- Parallel Excise Duty exemption for domestic suppliers producing capital goods needed for expansion of existing mega or ultra mega power projects.
- Full exemption from basic Customs Duty to bio-asphalt and specified machinery for application in the construction of national highways.

Other Proposals

- Scope of exemptions from basic Customs Duty for work of art and antiquities extended to apply for exhibition or display in private art galleries open to the general public.
- Exemption from Import Duty for spares and capital goods required for ship repair units extended to import by ship owners.
- Concessional basic Custom Duty of 5 per cent and CVD of 5 per cent available to newspaper establishments for high speed printing presses extended to mailroom equipment.
- Jumbo rolls of cinematographic film fully exempted from CVD by providing full exemption from Excise Duty.
- Out right concession to factory-built ambulances from Excise Duty.
- Relief measures proposed for raw pistachio, bamboo for agarbatti, lactose for the manufacture of homoeopathic medicines, sanitary napkins, baby and adult diapers.
- Proposals relating to Customs and Central Excise estimated to result in a net revenue gain of ` 7,300 crore.

Service Tax

- Standard rate of Service Tax retained at 10 per cent, while seeking a closer fit between present regime and its GST successor.
- Hotel accommodation in excess of ` 1,000 per day and service provided by air conditioned restaurants that have license to serve liquor added as new services for levying Service Tax.
- Tax on all services provided by hospitals with 25 or more beds with facility of central air conditioning.
- Service Tax on air travel both domestic and international raised.
- Services provided by life insurance companies in the area of investment and some more legal services proposed to be brought into tax net.
- All individual and sole proprietor tax payers with a turn over upto ` 60 lakh freed from the formalities of audit.
- To encourage voluntary compliance the penal provision for Service Tax are being rationalised. Similar changes being carried out in Central Excise and Custom laws.
- Proposals relating to Service Tax estimated to result in net revenue gain of ` 4,000 crore.
- Proposals relating to Direct Taxes estimated to result in a revenue loss of ` 11,500 crore and those related to Indirect Taxes estimated to result in net revenue gain of ` 11,300 crore.

(Courtesy: Indiabudget.nic.in)

A Budget for the Rich

By: R. Ramakumar

Budget 2011-12 marks a sharp retreat of the government from the social and economic sectors. It has cut back expenditures in sectors that matter to common people, especially the poor. On the other hand, it has given huge concessions to the corporate sector in the form of tax cuts and exemptions.

Let us take the overall fiscal stance of the budget. The underlying strategy is to reduce its fiscal deficit to 3.5 per cent and revenue deficit to 2.1 per cent by 2013-14. For this purpose, it has rolling targets for every intervening year. In 2010-11, the fiscal deficit was 5.1 per cent. Thus, fiscal deficit would fall by 1.6 per cent between 2010-11 and 2013-14. During the same period, the Gross Tax Revenue is projected to rise from 10 per cent to 11.3 per cent of the GDP, a rise by just 1.3 per cent. In other words, there has to be a continuous cutback in expenditures between 2010-11 & 2013-14.

Budget 2011-12 begins this process in earnest. It has sharply cut total expenditure, as a share of the GDP, from 15.4 per cent in 2010-11 to 13.7 per cent in 2011-12 (assuming that nominal GDP grows at 17 per cent in 2011-12). Within total expenditure, revenue expenditure would fall from 13.4 per cent to 11.9 per cent of the GDP and capital expenditure would fall from 1.7 per cent to 1.6 per cent of the GDP.

The cut in expenditures as a share of GDP is set to apply across a large number of sectors. The largest cut has been on subsidies. If we take "major subsidies", the expenditure is set to fall from Rs 154,212 crore in 2010-11 to Rs 134,411 crore in 2011-12. In relative terms, this would mean a fall from 2 per cent to 1.5 per cent of the GDP. Within major subsidies, the sharpest cut has been in petroleum subsidy, by Rs 14,746 crore. Fertiliser subsidy has been cut by Rs 4,978 crore. Without doubt, a major rise in fertilizer prices can be expected in 2011-12, as the government would move into a nutrient-based subsidy (NBS) regime for urea too. Costs of cultivation are set to rise, when millions of farmers face distress.

Food subsidy has been cut by Rs 27 crore. At a time when food inflation continues to be high, the government has refused to use the public distribution system (PDS) to provide food to the poor at affordable prices. In the light of the absolute cut in spending, the sincerity of UPA-2 in bringing in a meaningful food security bill stands in serious doubt. Clearly, the effort of the government is to dismantle the PDS in a phased manner and introduce food coupons or direct cash transfers (as Economic Survey 2010-11 demands). This marks a clear retreat of the state from its vital social welfare functions, and its transformation from a direct provider to an indirect provider. The budget has announced similar intent in the case of subsidies in kerosene and fertilizers also.

There are major problems associated with moving into a direct cash transfer scheme while distributing subsidies. Leaving them apart, how will the government provide direct cash assistance? On this, the budget harps all hopes on an extraordinarily ambitious and faultily designed Aadhaar project. The Aadhaar project still does not have a feasibility report in place. Privacy concerns apart, it remains unclear whether biometric technology is capable of the gigantic task of de-duplication among a population of over one billion. The Unique Identification Authority of India's (UIDAI) "Biometrics Standards Committee" itself has noted that over 15 per cent of the Indian population (or over 150 million persons) may not be able to enroll for a UID number due to poor quality fingerprints. In other words, the scheme to directly provide subsidies to people is based on a project with an unproven technology and unknown cost.

The withdrawal of the government is visible in several other sectors too. Let us take revenue expenditures under "social services". The fall in expenditure on social services is by 4.8 per cent between 2010-11 and 2011-12; there was an absolute fall of Rs 5,295 crore. In almost every sub-sector within social services, the growth rate of expenditure between 2010-11 and 2011-12 is lower than between 2009-10 and 2010-11. In "social security and welfare", expenditure is set to fall by a whopping Rs 15,184 crore.

There are absolute falls in revenue expenditures in "economic services" also. Between 2010-11 and 2011-12, the revenue expenditure on all economic services is set to fall by Rs 17,731 crore. Within economic services, the largest cuts are to be in "agriculture and allied services"; the revenue expenditure on agriculture is to fall in absolute terms by Rs 5,568 crore. Within agriculture, the largest fall is to be in crop husbandry, with an absolute cut of Rs 4,477 crore. "Rural employment" is a category within economic services, which includes MGNREGS. Here, the revenue expenditure is to fall by Rs 100 crore. Given the grandiose announcement regarding linkage of MGNREGS wages to the price index, this cutback leaves one in deep doubt about the seriousness with which UPA-2 views the scheme.

While "subsidies" for the poor are cut, there has been a shower of "incentives" on the corporate sector. The total revenue foregone, by way of direct and indirect tax exemptions, was Rs 4.82 lakh crore in 2009-10; this rose to 5.11 lakh crore in 2010-11, of which Rs 88,263 crore was for the corporate sector. In 2010-11, revenue worth Rs 11,501 crore was lost on account of deduction of export profits to software technology parks; another Rs 5,555 crore was lost on SEZs. When we compare this with the cut in expenditures in crucial social and economic sectors, the class bias of the government is fully revealed.

Budget 2011-12 is not for the aam aadmi, leave alone the poor. The chant of the mantra of inclusiveness is just rhetoric.

(R. Ramakumar is Associate Professor at the Tata Institute of Social Sciences, Mumbai)

(Courtesy: The Asian Age)

Dieting Before The Binge

By: R. Jagannathan

Suddenly, it all makes sense. Political sense, that is. Pranab Mukherjee's 2011 budget, his third for UPA-II, is a work of genius precisely because it contains an ambivalent message. It is neither reformist nor anti-reform. It's neither overtly political nor brutally economic in vision. It's neither profligate nor tight-fisted.

One could say it's neither here nor there, but it is probably the right script for the Sonia-Manmohan-Rahul troika in 2011-12, which marks the mid-point in the UPA's second term. The political backdrop to the budget explains why Pranab did what he did on February 28. The last 12 months have seen the government's credibility in tatters, with the PM taking much of the flak for sleeping on his watch when the Kalmadis and Rajas were eyeing the household silver. It wasn't Manmohan's failure alone, but also Sonia's. Under the tacit understanding struck in 2004, she was to run the coalition and he the government. The problem is, neither managed either. Hence the political free fall in UPA-II.

The 10-Janpath-Race-Course-Road brief for Pranab emerged from the realisation that the duo had screwed up and needed to prop up each other. Manmohan had to re-establish his governance authority and Sonia her political priorities. The consensus: don't do anything to upset any major interest, make sure the budget passes without a hitch, spruce up the finances and hoard budgetary resources for the populist push in 2012 and 2013, which will see the last two full budgets of UPA-II before, presumably, making way for Rahul baba & co.

The budget's finely crafted proposals must be seen from this vantage point. The first task was to throw tit-bits in all directions. The corporate sector was kept quiet by a reduction in surcharge. Ordinary taxpayers were given the optical illusion of higher tax-free incomes when all Pranab did was adjust brackets for inflation. To extend the illusion, he opened the taps for senior citizens by reducing the age of eligibility to 60 and by showering benefits on the over-80s. The method in this madness? Giving the old benefits is politically correct, and doesn't cost the exchequer much.

But here's the masterstroke: the budget shifts taxation from the visible to the invisible. The direct tax reliefs cost Pranab Rs 11,500 crore, but he has clawed it all back (Rs 11,300 crore) by mugging the unwary. He has spread service tax to new areas and withdrawn excise exemptions to over 130 (unnamed) items. Those guys will sure scream in private, but at 1 per cent excise, it's a mere pinprick. The screaming will fall on deaf public ears.

Equally interesting is the way Pranab handled (or, rather, evaded) the real challenges facing the nation: inflation, fiscal deficit, subsidies, governance reforms et al. Inflation gets barely a mention for that's something he cannot ultimately control; the excise and service tax extensions will anyway be inflationary. His hope is that agriculture will continue to be bountiful. This is why he has scattered his largesse to sectors that store and move food, with special prayers to Lord Indra to run a benevolent eye on this part of the world. Subsidies are supposed to be contained by targeting them better and raising fuel prices—but he didn't quite say that. We can only figure this out from the fact that he's lowered the money earmarked for petro-fuel subsidies.

The big idea of Budget 2011 is the proposed shift in subsidies to cash for kerosene, cooking gas and fertiliser. But Pranab has been reticent on this count. Giving cash means targeting deserving beneficiaries and eliminating the rest. But will UPA-II bell the cat? Nandan Nilekani can tell Pranab if cash payments are feasible, but he cannot help him identify who gets the money and who doesn't. That's the politician's job—and they are not queuing up to get it done. Pranab himself has left that for March 2012. It probably won't happen.

The fact that the Food Security Act will not be implemented till 2012-13 means Budget 2011 is the missing link between prudence and pork-barrel politics. Pranab's job is to consolidate the fisc and allow Sonia-Rahul to cut loose on subsidies in 2012 and '13—in time for the elections. What this implies is that fiscal rectitude may end after this year. The bottomline: Budget 2011 is the dieting that happens before a binge.

(Courtesy: Outlookindia.com)

By: Jayati Ghosh

If anyone asked an average citizen of India today what her (or his) most significant economic problem is today, my guess is that the answer would be: rising food prices. The second issue that would probably be highlighted is employment, most of all the difficulty of finding decent paid employment or remunerative livelihood in self-employed form, whether in agriculture or industry or services. The third might be the problems of ensuring minimal health security for the household, as well as of providing adequate education for the children.

So, how far has the Finance Minister, who claimed in his Budget Speech that he was concerned with improving the conditions of the people, actually delivered on any of these issues? This is in fact a Budget that is remarkable for its effective rejection of the material concerns of most of the population. On the question of food security and food prices, the FM did make some sympathetic noises and talk about measures to improve agricultural productivity. But on the more pressing question of ensuring adequate distribution of food to prevent local speculation and rising prices, and to make sure that the poor are able to access food at reasonable prices, he was silent. To add injury to insult, he has actually reduced the allocation for the food subsidy by Rs 424 crores! This suggests that the Government does not see public food distribution as an important means of curtailing food inflation, and moreover is not really serious about the Food Security legislation that it intends to enact.

On employment, the presumption once again seems to be that economic growth on its own will deliver more jobs, even though all the recent evidence suggests that without active labour market policies, this is not likely. Some concessions are to be granted to small and medium enterprises, especially in the export sector, but these may be more than counterbalanced by the rise in excise duties and indirect inflationary effects of the rise in petrol prices. Meanwhile, there is hardly any increase in the allocation to the National Rural Employment Guarantee Scheme (though it will be argued that since this is demand-led, the amount may still increase) and laughable amounts have been provided for various urban livelihood schemes.

The regressive nature of the tax measures in the Budget provides the strongest indication of the FM's apparent lack of concern for the bottom three quarters of the population. Direct tax payers – the corporations and the less than 5 per cent of the population who even file income tax returns, let alone pay such taxes – have been given a bonanza of tax reductions, which will cost the exchequer an estimated Rs 26,000 crore (on top of benefits in the current year that are projected to have cost about Rs 80,000 crore). But indirect taxes have been raised across the board, including for items of mass consumption, so that the common people will now contribute disproportionately to the additional Rs 60,000 crore that is being raised.

This rise is bound to generate further inflationary pressures, especially given the increase in petrol and diesel prices that will cause direct and indirect increases in many other prices. In a context in which concerns about inflation are already becoming marked, this is a strange move to make, and certainly one that will negatively impact the ordinary citizen.

So what about social sector spending? The Finance Minister made much of the substantial increase in plan allocation for social services, and indeed, at Rs 26,000 crore it does seem significant given the paltry nature of increases in this area in the past. But non-plan revenue expenditure on social sectors is actually slated to be cut by nearly Rs 6,000 crore, so the increase is not as much has been trumpeted. Since the central government has allocated only Rs 8000 crore more for school education, it seems that the financial burden of ensuring the right to education is to be thrust on the state governments. But many of them are already facing fiscal crises and will find it difficult to raise the required resources.

In fact, since the state governments are largely responsible for social sector spending and still account for around 80 per cent of total social sector spending in the country, it matters critically what resources are made available to the states. Here, it turns out that total support from the Centre to state and UT plans is less than Rs 6500 crore, which is completely inadequate for the most obvious needs of health, education, housing and other infrastructure. In fact, this increase of around 7.5 per cent over the previous year's spending will barely keep pace with inflation and is well below the projected increase in GDP.

So the FM seems to have forgotten about most common people of the country, barring the voters of his own constituency who will benefit from some special schemes.

(Courtesy: MacroScan)

The Wages of Cynicism

By: C. P. Chandrasekhar

It has not taken long for many to realise that a fundamental feature of Budget 2011-12 is that it does not have any focus or strategy whatsoever. As a fiscal package it is an almost random set of expenditure increases, very few of which are significant when measured as a ratio to gross domestic product (GDP). Above all, while paying lip service to "inclusion", it is seen as delivering little of it.

Fiscal conservatism

The crux of this Budget is that the Finance Minister has chosen to stick to fiscal conservatism and keep aggregate expenditures in control. Plan expenditures as a ratio of GDP, which rose from 4.6 per cent in 2009-10 to 5 per cent in 2010-11, are budgeted to fall to 4.9 per cent of GDP. And non-Plan expenditures, which fell from 11 to 10.4 per cent of GDP in the course of the first two years, are budgeted to fall further to 9.1 per cent of GDP. There is likely to be a contraction, if anything, in expenditures.

In fact, the contraction is likely to be even more, since the Finance Minister will not have the benefit of the additional Rs.72,000 crore in non-tax revenues relative to the Budget that he obtained this year from the sale of 3G and wireless broadband spectrum. Thus, non-tax revenue receipts are estimated to fall from Rs.2,20,148 crore in 2010-11 to Rs.1,25,435 crore in 2011-12.

But what is surprising is that despite that fall, aggregate revenues are expected to rise marginally from Rs.7,83,833 crore in 2010-11 to Rs.7,89,892 crore in 2011-2012. This is to be ensured by projecting an increase in tax revenues of more than Rs.1,00,000 crore, from Rs.5,63,685 crore to Rs.6,64,457 crore. This increase is not to come from additional resource mobilisation. As the Budget speech makes clear, while the Finance Minister expects to garner additional revenues of Rs.11,300 crore from indirect taxes, he expects to lose Rs.11,500 crore from the concessions he has given on the direct tax front. So, revenues are optimistically expected to increase because of buoyancy and better compliance.

Overstated revenues

There is reason, therefore, to suspect that the revenue estimates for next year are exaggerated. In all probability, the increase will not be realised and expenditures will have to be cut further. This kind of enforced austerity, which affects expenditures directed at the poor, is expected in a year when the Finance Minister expects to obtain Rs.40,000 crore by selling public assets under the garb of ensuring people's ownership of the public sector. Much of that money is to be directed at realising fiscal deficit reduction targets.

In fact, if the position taken in the Budget on subsidies is an indication, policy is geared to further excluding rather than including the poor. On subsidies, the Finance Minister declared in his speech: "To ensure greater efficiency, cost-effectiveness and better delivery for both kerosene and fertilizers, the government will move towards direct transfer of cash subsidy to people living below poverty line in a phased manner."

While cash transfers are poor substitutes for subsidies and are therefore controversial, the statement does not make clear what this "targeted transfer" will do to the volume of subsidies. An examination of the figures, however, makes that clear. It shows that aggregate subsidies, which rose from Rs.1,41,351 crore in 2009-10 to an estimated Rs.1,64,153 crore in 2010-11, are expected to decline to Rs.1,43,570 crore in 2011-12. This decline is before taking into account the erosion of the "real" value of these subsidies on account of inflation.

Slashing subsidies

There are two ways in which Pranab Mukherjee expects to ensure the slash in subsidies. The first is by reducing fertilizer subsidies by around Rs.5,000 crore and petroleum subsidies by a huge amount of nearly Rs.15,000 crore. Both these are possibly going to be realised through a shift to a cash transfer system.

That will happen in a year when oil prices are expected to rule extremely high and when the government has signalled that it is not willing to reduce duties on petroleum products to neutralise even a part of the price increase. Even if domestic prices are adjusted to take into account increases in international prices, the government could have reduced the proportional or ad valorem duties it levies on these products to reduce the burden imposed on consumers. Thus, for much of the population the higher prices of fertilizers and petroleum products and their knock-on effects on inflation seem inevitable.

The second way in which subsidies are to be reduced is by capping the food subsidy in nominal, money terms in a year when the Food Security Act is supposed to be enacted and implemented. The total subsidy on food in 2011-12 is budgeted to remain at the previous year's level of around Rs.60,500. This is despite the high food price inflation and the promise of the United Progressive Alliance (UPA) to extend and expand access to the public distribution system (PDS).

This cut in subsidies is likely to aggravate ongoing inflationary trends. Besides, the Finance Minister's decision to make up for the revenue loss owing to his direct tax concessions with increases in indirect taxes would in a number of cases contribute further to inflation. The Budget appears to be contributing to, rather than combating, inflation.

Inflation

The Finance Minister claims that he is addressing the inflation problem through supply-side adjustments aimed at increasing the production of food articles and streamlining the supply chain with a set of small expenditures and some gratuitous advice to the States. While this claim is made, allocations show no effort whatsoever to step up Plan spending in the agricultural sector and reverse the long-term decline in public capital formation in agriculture-related areas.

Central Plan outlays on agriculture and allied activities, which increased from Rs.11,014.14 crore in 2009-10 to Rs.14,361.55 crore in 2010-11, are budgeted to rise only marginally in nominal terms to Rs.14,744.15 crore in 2011-12, which amounts to a significant decline in real, inflation-adjusted terms. The corresponding figures for rural development are Rs.38,569.04 crore, Rs.46,104.1 crore and Rs.46,292.08 crore respectively, which too point in the same direction.

Increased credit flow

Unwilling to spend money on building rural infrastructure and enhancing productivity to restore the viability of crop production, the Finance Minister seems to be hoping that the rural population will be able to borrow its way out of an agrarian crisis. Towards that end he has called for an increase in credit flow to the rural areas from Rs.3,75,000 crore to Rs.4,75,000 crore.

Credit is indeed important, but private debt is no substitute for public investment. In fact, there is much evidence to show that public investment is needed to stimulate private productive investment in agriculture. Thus, the Budget does little to address the long-term supply constraints that underlie the inflationary surge.

Pranab Mukherjee, of course, claims that he is adopting more immediate measures to protect the really poor from the worst effects of inflation. An example he gives is the decision to link wages paid under the National Rural Employment Guarantee Programme (NREGP) to inflation. But those wages have been fixed in nominal terms at Rs.100 a day, which is less than the legal minimum wage and can hardly be considered adequate protection against hunger and malnutrition.

Pretence of "inclusion"

The refusal to consider the legally declared minimum wage an inviolable benchmark is visible elsewhere as well. When the Minister declared that he was doubling the wages paid to anganwadi workers to Rs.3,000 a month, all he was doing was bringing that wage in line with what is paid under the NREGA, which, as noted, is short of the minimum wage. But even faulty and inadequate measures of this kind are presented as major advances towards "inclusion" of the poor. The mismatch between claims and policies in this area is reflected in the allocations to the social sectors. Though the Central Plan outlay on social services such as education and health are budgeted to rise from Rs.1,36,941 crore in 2010-11 to Rs.1,53,182 crore in 2011-12, that increase is almost matched by a budgeted decline in non-Plan expenditures in this sector from Rs.35,085 crore to Rs.20,862 crore.

In sum, Budget 2011-12 is afflicted to a far greater degree than before by a kind of cynicism that leads to policy paralysis. No more is the Budget seen as an instrument through which resources are mobilised not just to keep growth going but to distribute its benefits to those left behind or marginalised by the growth process. The cynicism runs so deep that those responsible for policy are not willing to heed calls even from within their own party to garner resources for enhanced social expenditures and social protection. The treatment being afforded to the Sonia Gandhi headed National Advisory Council is evidence enough of this.

This kind of cynicism and brazenness is disconcerting because among the economic benefits expected from functioning within the framework of parliamentary democracy is a check on the executive arm of government in the form of a "fear" of inflation, a distaste for excessive inequality and a sensitivity to deprivation. This seems to be lacking today.

"State capture"

There are two factors that could account for this. One is the possibility that what we are witnessing is a form of "state capture", in which those holding the policy reins do not believe they need to do things that give them legitimacy and help them win voter support. That is seen as the task of those managing parties and not governments.

The other is that the powerful within the executive arm believe that fiscal policy is no more an important instrument of development policy. This seems to be part of the belief that private initiative and markets, facilitated by government largesse of course, will deliver "growth", the benefits of which will "in time" reach the people.

There is evidence of such belief in this Budget too, which has much on offer for private capital, both domestic and foreign. For example, bond and mutual fund markets have been opened up further to foreign investors, who have been provided a substantial concession in the form of a reduced withholding tax.

Privatisation of the public sector is to be accelerated. Entry for corporates into banking is to be permitted. And, the revenue forgone on account of exemptions and tax concessions for corporate taxpayers alone is not just high, but is projected to increase from Rs.72,881 crore in 2010-11 to Rs.88,263 crore in 2011-12. That sum far exceeds the subsidy on food, for example, that is to be curtailed.

This kind of exclusionary policy is sought to be justified by focussing on the growth achievements of the country, led by the private sector. The obsession with

growth does have some fallout for capital spending in certain areas.

Central Plan outlay for the energy sector, which rose only from Rs.1,14,307.9 crore in 2009-10 to Rs.1,26,225.24 crore in 2010-11, is projected to rise to Rs.1,55,495.16 crore in 2011-12. The corresponding figures for industry and minerals are Rs.30,690.33 crore, Rs.38,851.66 crore and Rs. 45,213.76 crore respectively, and for transport Rs.86,453.03 crore, Rs.98,726.87 crore and Rs.1,16,860.91 crore respectively.

The UPA-II government is conscious that its growth obsession requires that the infrastructure needed for the private sector to flourish has to be invested in. But given the absence of even a semblance of economic governance and the evidence of fiscal conservatism associated with neoliberal ideology, even these objectives may not be realised.

(Courtesy: The Hindu)

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Welfare Must Walk the Talk

By: A. K. Shiva Kumar

There is good reason to feel let down by this year's budget for the advancement of social sectors. The disappointment is more given that the Union finance minister opened his speech by stating that "we are reaching the end of a remarkable fiscal year" and followed it up by immediate assertions that "growth in 2010-11 has been swift and broad-based", that "the economy is back to its pre-crisis growth trajectory". After acknowledging that "there is much that still needs to be done, especially in rural India" and that "the implementation gaps, leakages from public programmes and the quality of our outcomes are a serious challenge", he assured us that he does "not foresee resources being a major constraint, at least not in the medium term". From here on, the mystery deepens. What are the social priorities? What is the fiscal strategy? Where are we headed? This year's budget fails to provide answers to these vital questions.

The fiscal intent of this year's budget does not match many national, or even governmental, social priorities. Take child under-nutrition, the levels of which continue to be unacceptably high. At the first meeting of the prime minister's national council on India's nutrition challenges in November 2010, all agreed that the Integrated Child Development Services require strengthening and restructuring. A decision was taken to prepare a multi-sectoral programme to address maternal and child malnutrition in 200 selected high-burden districts. The budget is silent on how this new pledge will be fulfilled. The increased allocations by a paltry Rs 615 crore, much of which will be absorbed by the well-justified and much-needed doubling in the remuneration of women anganwadi workers and their helpers, is vastly insufficient to fund the ambitious blueprint for strengthening and restructuring ICDs.

Take food security, another national priority. The FM assures us that "we are close to the finalisation of the National Food Security Bill which will be introduced in Parliament" this year. The budget provision for food subsidy for 2011-12—around Rs 60,573 crore—exceeds the revised estimates for last year by just Rs 13 crore. Where will the additional subsidies the new food entitlements may require come from? Related discussions have underscored the importance of improving food storage, plugging leakages, strengthening PDS, and improving monitoring and evaluation. The budget provides only Rs 5.10 crore for "evaluation, monitoring and research in foodgrains management and strengthening of public distribution system".

Take health. It is well known that low public spending on health leads to impoverishment, inadequate public provision, poor reach, unequal access, poor quality and costly healthcare services. With private out-of-pocket spending on health accounting for 78 per cent of total health expenditure (incidentally, it is 61 per cent in China, 54 per cent in Sri Lanka and 36 per cent in Thailand), close to 90 per cent of Indians—not just the poor—have very little financial protection. The additional allocation to health reveals no intent or strategy of providing comprehensive quality primary healthcare and financial protection for all.

Again, take sanitation. Despite the fact that over 50 per cent of Indians defecate in the open, the Total Sanitation Campaign gets an additional allocation, over and above the revised estimate for 2010-11, of only Rs 70 crore. Similarly, the reduced allocations for NREGA by Rs 100 crore—down from the revised estimate of Rs 40,100 crore for 2010-11 to Rs 40,000 crore for 2011-12—despite the indexation of wages to inflation is not consistent with the government's priority to provide employment guarantee for the poor.

The disappointment over the budget proposals this year is particularly high because India can so easily use the acceleration in growth rates to rapidly expand social opportunities for all. A budget should honestly respond to the concerns of the voiceless, not just lobbyists. This one doesn't. A budget should be visionary and inspirational; this one plainly isn't.

(The writer is member of NAC and visiting professor, ISB, Hyderbad)

(Courtesy: Outlookindia.com)

The Direct Taxes Code (DTC), which is now before Parliament, is said to replace the existing Income Tax Act of 1961 in India.It is expected to bring about many salutary changes in direct taxes. For instance, it will consolidate and integrate all direct tax laws and simplify the tax provisions by using simple language.

Most important for income taxpayers, the DTC will seek to moderate taxes further and simultaneously reduce exemptions and deductions to the barest minimum and introduce stability in the direct tax rates by proposing the rates of taxes in a separate schedule.

The DTC will widen the tax base and replace profit-linked deductions with investment-linked deductions for priority areas.

The legislation is proposed to be effective from April 1, 2012, to help taxpayers, tax practitioners and tax administrators to adjust to the new provisions and procedures.

The DTC bill was tabled in Parliament on 30th August, 2010.

The original draft had promised a whole new paradigm in direct taxation, drastically lowering the tax burden while also doing away with most exemptions. A revised draft released in June this year brought back some of the exemptions like the one available for interest on housing loans that the first draft had proposed to get rid of.

The speculation that this might force the finance ministry to make the revision of tax slabs also less ambitious to avoid giving away too much revenue has now proved well-founded. Under the original proposal, the 10% slab would have extended up to Rs 10 lakh and the 20% slab up to Rs 25 lakh, meaning that the 30% rate would have applied only to incomes of over Rs 25 lakh per annum.

On the plus side for individual taxpayers, withdrawal from provident funds will not be taxed as the original DTC had proposed to do. Also deductions from taxable income will be available for interest on housing loans up to Rs 1.5 lakh per annum and on payments into PF and similar superannuation schemes up to Rs 1 lakh. Also available will be a deduction of up to Rs 50,000 for life insurance and health insurance premiums or tuition fees.

Here are some of the salient features and highlights of the DTC:

1. DTC removes most of the categories of exempted income. Unit Linked Insurance Plans (ULIPs), Equity Mutual Funds (ELSS), Term deposits, NSC (National Savings certificates), Long term infrastructures bonds, house loan principal repayment, stamp duty and registration fees on purchase of house property will loose tax benefits.
2. Tax saving based investment limit remains 100,000 but another 50,000 has been added just for pure life insurance (Sum insured is atleast 20 times the premium paid) , health insurance, mediclaims policies and tuition fees of children. But the one lakh investment can now only be done in provident fund, superannuation fund, gratuity fund and new pension fund.
3. The tax rates and slabs have been modified. The proposed rates and slabs are as follows:

Annual Income Tax Slab

Up-to INR 200,000 (for senior citizens 250,000)	Nil
Between INR 200,000 to 500,000	10%
Between INR 500,000 to 1,000,000	20%
Above INR 1,000,000	30%

Men and women are treated same now

4. Exemption will remain same as 1.5 lakhs per year for interest on housing loan for self-occupied property.
5. Only half of Short-term capital gains will be taxed. e.g. if you gains 50,000, add 25,000 to your taxable income.

   Long term capital gains (From equities and equity mutual funds, on which STT has been paid) are still exempted from income tax.
6. As per changes on 15th June, 2010, Tax exemption at all three stages (EEE) —savings, accretions and withdrawals—to be allowed for provident funds (GPF, EPF and PPF), NPS (new pension scheme administered by PFRDA), Retirement benefits (gratuity, leave encashment, etc), pure life insurance products & annuity schemes. Earlier DTC wanted to tax withdrawals.
7. Surcharge and education cess are abolished.
8. For incomes arising of House Property: Deductions for Rent and Maintenance would be reduced from 30% to 20% of the Gross Rent. Also all interest paid on house loan for a rented house is deductible from rent.

   Before DTC, if you own more than one property, there was provision for taxing notional rent even if the second house was not put to rent. But, under the Direct Tax Code 2010 , such a concept has been abolished.
9. Tax exemption on LTA (leave travel allowance) is abolished.
10. Tax exemption on Education loan to continue.
11. Corporate tax reduced from 34% to 30% including

education cess and surcharge.

12. Taxation of Capital gains from property sale : For sale within one year, gain is to be added to taxable salary.

    For long term gain (after one year of purchase), instead of flat rate of 20% of gain after indexation benefit, new concept has been introduced. Now gain after indexation will be added to taxable income and taxed at per the tax slab.

    Base date for cost of acquisition has been changed to 1st April, 2000 instead of earlier 1st April, 1981.

14. Medical reimbursement : Max limit for medical reimbursements has been increased to 50,000 per year from current 15,000 limit.

15. Tax on dividends: Dividends will attract 5% tax.

16. Bad news for NRIs : As per the current laws, a NRI is liable to pay tax on global income if he is in India for a period more than 182 days in a financial year. But in new bill, this duration has been changed to just 60 days.

    This is very unfair to Seafarers. To avoid any income tax, an Indian sailor employed with a foreign ship will have to stay maximum for 60 days in India.

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Tax Payers: Nothing to Write Home About

By: C.R.L. Narasimhan

The latest budget has proposed very few new measures for income tax payers. As stated by Finance Minister Pranab Mukherjee, the imminent adoption of the Direct Taxes Code (DTC) at the start of the next financial year (April, 2012) has weighed with the government.

Aligning the budget proposals with the DTC has been one of the key tasks. Towards that end, the budget seeks to increase the exemption limit for the general category of taxpayers from Rs.1.60 lakh to Rs.1.80 lakh. This measure will provide a uniform tax relief of Rs.2,000 to every taxpayer of this category.

All other proposals are targeted at senior citizens. The most significant of the proposals has nothing to do with the tax rates or slabs. It is an administrative decision to lower the qualifying age of a senior citizen from 65 to 60. Simultaneously, the exemption limit for senior citizens is increased from Rs.2.40 lakh to Rs.2.50 lakh. A new category of very senior citizens (80 and above) has been announced. They will be eligible for a higher tax exemption of Rs.5 lakh.

On the face of it, these measures promise much but in practice they will deliver little. The intention to expand the number in the senior citizens category (anyone above 60) is laudable. It is also true that they do get concessions in the form of higher tax exemptions. But are these sufficient to ameliorate the lot of senior citizens, who as the Finance Minister rightly says, deserve our special attention?

Consider the following: Tax concessions based on higher exemptions are fine but quite obviously they are relevant only to those having a matching income. It would be wonderful if a vast majority of senior citizens has taxable incomes beyond the exempted limit of Rs.2.50 lakh (Rs.5 lakh for those above 80). But the truth is only a minority of senior citizens will have that kind of incomes and hence benefit from the budget proposals. Again, it is highly unlikely that there would be many 80 year olds filing tax returns. Knowing the number of taxpayers in each of these categories will give a better perspective on the tax proposals.

So while not grudging the concessions given to a few, it must be pointed out that for a majority of senior citizens the higher exemption limits ought to be of academic interest only. For the record, the lowering of the qualifying age to 60 and the enhanced exemption limit will give a tax relief of around Rs.9,200 to senior citizens. The very senior citizens can save on taxes up to Rs.26,780 with their exemption limit enhanced to Rs.5 lakh.

Plight of salaried class

The salaried class is unlikely to benefit from the Finance Minister's munificence. The retirement age in India varies from 58 to 60 in government and private sector services. Unless someone has a job post-retirement, the tax exemptions will not be relevant. The plight of the salaried class ought to be addressed in its totality. Pension benefits wherever available will not offset the steep fall in incomes post-retirement. Many benefits that went with their jobs, notably medical benefits, are automatically scaled down or withdrawn. (There are some enlightened employers who do provide health care benefits even after retirement).

But it is precisely in the advancing years that health

care costs will go up. The chance of a major illness impoverishing even a reasonably well off pensioner is real. Unlike many developed countries, health insurance is still in its infancy. Besides, health cover to those above 60, where available, comes with many restrictions and conditionalities.

The sad fact is that many of today's senior citizens did not have means and the wherewithal to plan for their retirement during their working years. For instance, there were few opportunities to insure oneself or take a home loan to buy a residential property. All those have made them extremely vulnerable at a time living expenses have soared.

Much more needs to be said about the pensioners' plight. One area not highlighted is what should be called the alienation of the senior citizen in the face of large scale technology adaptation by banks and the financial sector. This is an every-day experience and something which affects many besides senior citizens. Technology has made financial services impersonal. Online banking and indeed any activity through the net requires a fair mastery of computer applications.

Starting with a need to remember a 14 or 15-digit bank account number to getting a grasp on demat procedures, the average citizen's interface with his bank has become more complex.

None of these may be in the realm of the budget. Nobody has transformed banking in a positive way. But while focussing on tax exemptions for some senior citizens, it is appropriate to focus on the plight of the majority.

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DTC Bill: A Critique

By: T.C.A. Ramanujam

The Government has now come up with the DTC Bill, introduced in the Parliament on August 30, 2010 and referred to the Select Committee for vetting, after taking the advice of several committees and experts. This article presents a critical analysis of the proposals made in the DTC Bill, 2010.

Introduction

1. For more than 10 years, the Government has been seriously on the job of revamping the tax law. The Income-tax Act, 1961 had stood the test of time. It was considered archaic and too complicated to understand. The idea of simplifying the tax law has been engaging the attention of successive tax reformers. After taking the advice of several committees and experts, the Government has now come up with the DTC Bill, introduced in the Parliament on August 30, 2010 and referred to the Select Committee for vetting. All precautions were taken like opening up the debate on a draft DTC, a revised discussion paper and now the final DTC Bill.

Line and length

2. As it turns out, the revised DTC Bill is bulkier than the Act of 1961. The Act of 1961 had 23 Chapters, 298 sections and 14 Schedules. The DTC Bill has 319 sections and 22 Schedules. It includes the Wealth-tax Act, 1957. Even the Act of 1961 was a Code in itself. The addition in the DTC Bill is the incorporation of the provisions for the levy of wealth-tax. STT, dividend distribution tax, etc., are already part of the tax Code.

Rates and slabs

3. The incorporation of slabs and tax rates in the original draft had an electric effect because the slabs were broad enough to give large scale relief to middle income taxpayers. Up to ` 25 lakhs, it was promised, tax rates will be 20 per cent. Alas! The charm has vanished into thin air. The incorporation of tax rates in the DTC Bill leaves one stale and unaffected. No generosity is shown by the Government. Incomes up to ` 2 lakhs will be exempt. Up to ` 5 lakhs, the rate is 10 per cent and it is 20 per cent up to ` 10 lakhs. The maximum marginal rate is 30 per cent for incomes over ` 10 lakhs. Companies will be taxed at a flat rate of 30 per cent. The removal of surcharge and cess should normally mean a relief of 3 per cent. Again, the raising of the MAT rate at 20 per cent proved a dampener. Personal income-tax rates in India compare very well with those in countries like USA 35 per cent, UK 40 per cent, South Africa 40 per cent, China 45 per cent, Australia 45 per cent and Japan 50 per cent. In respect of corporate tax rates, India's 30 per cent rate is on par with Australia 30 per cent, but higher than the Chinese rate of 25 per cent, the rate of 25 per cent in Malaysia, 18 per cent in Singapore, 20 per cent in Russia and 28 per cent in the UK. (Refer KPMG's annual tax survey). The DTC Bill incorporates these slabs and rates in the body of the Bill instead of the usual practice of prescribing the rates in the annual Finance Bill. Will this make a difference and produce a stable fiscal regime for the next 5 years? The DTC is to come into effect from

April 1, 2012. There will be a budget in February 2011. Can there be a guarantee that the DTC rates will be adopted in the Finance Bill, 2011? There is no such guarantee.

No indexation for inflation

4. A golden opportunity presented itself before the Government to align the slabs and rates to inflation. We already have the cost inflation index for computing capital gains. The same index could have been taken for fixing the slabs. The present system leaves the slabs and rates to the momentary whims and fancies of the Government of the day. Incorporation of the same in the body of the Bill may not mean much.

The Bill continues with the dividend distribution tax of 15 per cent. A novelty is the levy of 5 per cent tax on incomes earned by mutual funds. Long-term capital gains are exempt. Mutual funds have become popular in the last decade. The new levy will certainly hit them. Mutual funds are not comparable with corporate houses which will suffer zero tax on long-term capital gains. The wealth- tax on properties worth ` 10 lakhs will be 1 per cent. Short-term capital gains will be varying at half the rate applicable to the individual taxpayer which means the levy will be at 5 per cent, 10 per cent and 15 per cent. This of course will boost stock market activity and should be considered liberal.

Hitherto, women taxpayers were getting special treatment by way of higher exemption limit. In the name of gender equality, the DTC Bill withdraws this special treatment for women. There is no explanation forthcoming as to the reasons that prompted the grant of a higher exemption limit some years back and the reasons for the withdrawal of the same today.

There were over 3 crore individual taxpayers on the file of the income-tax department in 2008-09. About 90 per cent of these taxpayers will fall in the lowest tax bracket. They deserved much more relief than what the Government has considered fit to bestow. The exemption limit should have been raised much higher to help small taxpayers fight inflation.

Will revenue gain or lose?

5. Immediately after the Direct Taxes Code Bill was introduced in the Parliament, our revenue secretary told the press that the moderation of taxes along with concessions would result in a revenue loss of ` 53,172 crores in 2012-13 if the present rates were to be applied. Gross tax revenue from direct taxes would come down from about ` 5.80 lakh crores to ` 5.27 lakh crores under the proposed Code. Because of the provisions of rates of taxes proposed in the DTC Bill, said the revenue secretary, we would lose around ` 53,172 crores. These estimates should come as a surprise. Both Mr. Pranab Mukherjee and his predecessor had sworn by the theory that reduced tax rates will produce better compliance. The present Finance Minister had pointed to the way the high tax regime of the 1970s gave way to lower taxes producing a better yield of tax revenues. He also believes that loss on account of concessions through lower taxation would be made up through better compliance.

Laffer curve debate

6. The idea that lowering the tax rates will lead to better revenue mobilization was first popularized by the American economist Arthr Laffer and writer Jude Wanninski in the 1970s and 80s. Tax rate of 0 per cent produces no revenue. Rate of 100 per cent should also produce no revenue; no one would bother making the money that falls into the Government coffers. Thus, there is some rate in between the two that maximizes the revenue. This is represented by the Laffer curve. In graph 1, at point A in the curve where taxes are not quite 100 per cent, people will find it to their benefit to take some of their incomes in taxable wages. At point B, the economy hums along with unfettered high production but because tax rates are low, the Government gets the same small amount it would get if taxes were at A. It is at point E that the tax rate maximizes Government revenue. If taxes fall below E, it may stimulate production but it obviously diminishes Government revenue. E is by definition the point of maximum revenue. The revenue will fall if the rates rise above E. This is quintessential supply side economics. The theory will make sense if lower tax rates help people to make more investments. Firms may have incentives to invest and cast the supply curve to shift outward to the right.

The American Government under Reagan experimented with the Laffer theory. Research by British fiscal pundits appeared to indicate that the latest 50 per cent rate for non-domiciles may not be all that welcome. Using figures from the 1970s when the top tax rate was 83 per cent and contrasting the same with the current figures with top rate of 40 per cent, supply side economists have shown that the top earners now pay a far higher percentage of all income tax revenue than was the case in 1978-79. As against 5 per cent of earners paying 24 per cent of income-tax, they now pay 43 per cent thereby proving that higher tax rate will generate a lower tax revenue for the Government.

The Laffer theory has been disputed since its very inception. Writing in a scientific journal, that ace mathematician, the Late Prof. Martin Gardener considered the Laffer curve too simple to be of any service except as a symbol of the concept. Modern

economies are dominated by the complexities of what Prof. Galbraith designated as the 'Techno-Structure'. Professor. Gardener devised the new Laffer Curve. See Graph 2:

As the curve moves into the complexities of the real world, it enters into what Prof. Gardener calls the 'Techno Snarl'. There may be several values for the tax rates, thus, producing multiple points 'E' on the 'Techno Snarl'. More than one tax rate can maximize Government revenue. At some intersection point, lowering tax from a given tax rate will lower revenues. At other points for the same tax rates, it will raise revenues. It is not possible to lay down any hard and fast rule on the sort of fiscal and monetary policy that would move the economy fastest along the curve to the nearest point E.

No wonder, Prof. Galbraith called the Laffer theory, 'A relatively sophisticated form of fraud' and George Bush called it voodo economics.

DTC, Tax Rates and GDP

7. For the past ten years, individual tax rates in India have remained at 10 per cent, 20 per cent and 30 per cent with marginal adjustments of the lowest slab for inflation. DTC maintains these rates. Corporate tax is set to be lowered to 30 per cent from 33.3 per cent. If the Laffer effect is true, tax revenues should go up with projections of GDP growth at 8.6 per cent. Tax collection has always been showing an upward trend from 9.4 per cent of GDP in 2004-05 to 12 per cent in 2007-08. Global recession affected the revenue growth subsequently. The decline was perceptible being 10.9 per cent in 2008-09 and 10.3 per cent in 2009-10. These figures do not bear out the correctness of the Laffer theory. Nor is the projected estimate of a fall in tax revenues in 2012-13 justifiable. If the Laffer theory is right, countries like USA, UK and Australia will not have such high rates of tax like 35 per cent, 40 per cent and 45 per cent, respectively. Japan has the highest personal income-tax rate of 50 per cent.

Laffer or no Laffer, we need to reduce our tax rate so as to increase our international tax competitiveness. A tax rate cut will boost our attractiveness as a location for international investment. Secondly, it is no longer true that the burden of direct taxes cannot be shifted. The cost of these taxes can be passed on by way of lower returns for shareholders; for example, the unit- holders of mutual funds will have to bear a tax of 5 per cent from 2012-13 onwards.

Thirdly, higher taxes can also mean higher prices for customers and lower compensation for employees.

Spiralling inflation will certainly boost revenue collections but the middle class taxpayers do need relief by way of permanent adjustment of slabs.

Socio Economic Philosophy behind the DTC

8. The DTC has been brought in so as to establish an economically efficient, effective and equitable direct tax system which will facilitate voluntary compliance and help increase the tax GDP ratio. Another objective is to reduce the scope for disputes and minimize litigation. How far these objectives are satisfied in the Bill now before Parliament?

Increase in the tax GDP ratio requires widening of the tax base. The original Bill did attempt broadening the tax base with such proposals like bringing all types of capital gains to tax, subjecting saving schemes to the system of Exempt-Exempt Tax (EET), revamping the taxation of perquisites and income from house property. These measures would no doubt have added to coffers of the Government and brought in higher revenues. Facing stringent criticism, the Government gave in and modified all the proposals. In the bargain, considerations of equity have been sacrificed.

Scheduler system

9. The DTC sticks to the Scheduler system of taxation. Section 14 brings to tax income from employment, house property, business, capital gains and residuary sources with separate provision for computation of income for these heads. It is well - recognized that income-tax is a single tax and global income is brought to tax in the computation with suitable exemptions. The scheduler system offends the principle of horizontal and vertical equity. Each head of income is allowed stipulated and specified deductions. No allowance is made in the case of salary or house property income for expenses beyond the amount specified in the Act. In the case of computation of business income, all expenses incurred wholly and necessarily for the earning of the income will be allowed as a deduction. Even in respect of salary, there is discrimination between the Government and non-Government employees. In respect of property income, as against the original proposal to tax presumptive rent calculated for 6 per cent per annum of the ratable value fixed by the local authority, the final Bill before the Parliament brings to tax only the amount of rent received or receivable. The Bill allows deduction of 20 per cent towards repairs and maintenance. Interest on loan taken is deductible upto the specified amount but not any part of the loan taken for acquisition. The declared aim of reducing exemptions in the computation of business income is not fully achieved.

Agriculture is let off

10. One fourth of India's GDP is from agriculture. Agricultural income is completely out of the net. Reasons given are that the Constitution forbids the

Centre from taxing agricultural income. But then, constitutional amendments have been promised to push through the Goods and Services Tax (GST) next year. Obviously, what is sauce for the goose is not sauce for the gander. All this will go against the raising of the tax GDP ratio.

Incentives under the DTC

11. We should remember that the DTC Bill seeks to dilute the incentive package offered in the Special Economic Zones Act, 2005 by imposing MAT and DDT on the profits from SEZ. Section 51 of the SEZ Act lays down that it will have overriding effect on the provisions contained in any other Act. Can the DTC Bill supersede the SEZ Act without a suitable Parliamentary amendment? The DTC Bill seeks to replace profit- based incentives by investment-linked incentives. The SEZ Act had the objective of generating employment. The conflict between the DTC and SEZs Act indicates lack of clarity on the strategic SEZ policy. We may have much to learn from China in this regard.

FII Policy

12. The original DTC Bill threatened to bring in the concept of 'treaty override' in the Indian Act. There were also proposals for changing the norms for taxing Foreign Institutional Investors in India. Significant changes have been made in the Bill now before Parliament. While the pure residence based tax system is rejected on the ground that it will lead to tax evasion, the giving up of the concept of 'treaty override' will continue to favour investments into Indian stock markets through countries like Mauritius. The Bill describes profits made by FIIs from sale of Indian shares as capital gains, avoiding all references to possible interpretation as business profits. This will definitely encourage FIIs to make investments in India on a big scale. The revenue considerations have been given the go-by.

Tax Evasion

13. One heartening feature of the DTC is the provision made for fighting the menace of tax evasion. A general anti-avoidance Rule has been promulgated in section 123. Elaborate machinery is laid down for this purpose. In the past 150 years of its history, income-tax law in India has never known such wide ranging provisions for fighting tax evasion. The best practices from countries like Singapore and Australia have been incorporated. When Rules are framed by the Board, we will know-how deterrent these provisions can be in actual working. The Government has shown for the first time its determination to fight tax evasion.

(The writer is retired Chief Commissioner of Income Tax & Member, ITAT)

RIL to get tax leeway on BP deal

Gireesh Chandra Prasad

March 14: Reliance Industries Limited (RIL) will pay nil or negligible tax on the $7.2 billion it would receive as business income next fiscal from the proposed sale of its 30% interest in 23 oil and gas blocks to global energy giant British Petroleum (BP). This is because the sale proceeds would be treated as cost of hydrocarbon exploration already incurred, which is eligible for full deduction under the Income Tax Act, a government source privy to the matter told Financial Express. The benign tax treatment of RIL-BP deal is in sharp contrast with the 2007 Vodafone-Hutch cross-border deal that created Vodafone-Essar, on which the British telecom major is fighting a legal battle over a $2.6-billion capital gains tax bill slapped by the Indian tax authorities.

The RIL-BP deal would be consummated in financial year 2011-12 itself before the direct taxes code (DTC), which proposes a different regime for exploration companies, kicks in. The DTC is slated to take effect from the 2012-13 financial year.

Oil exploration costs are huge and this investment is risky due to the prospect of non-discovery of oil. Section 42 of the Act allows deduction of exploration costs from the sale or transfer proceeds of an oil asset in part or full, treating it as business income.

Under the I-T Act, there is a separate provision for tax treatment for transfer of participating interest in oil blocks. This works as follows. "For instance, if the exploration cost incurred is $100 and $60 has already been claimed as expenditure for tax purposes, then balance $40 can be adjusted against the overall sale proceeds," explained a tax expert, who asked not to be named. This is a special regime for firms in oil exploration.

Sources said the benefit of Section 42 will help RIL boost its liquidity, which could be used to acquire other assets. The RIL spokesperson said the company would continue to seek opportunities for investment and create value for all stakeholders. The cash in hand at the end of December 31, 2010 was $7.1 billion or Rs 31,829 crore, the spokesperson said.

(Courtesy: Indianexpress.com)

Conditional cash transfer (CCT) programs aim to reduce poverty by making welfare programs conditional upon the receivers' actions. The government only transfers the money to persons who meet certain criteria. These criteria may include enrolling children into public schools, getting regular check-ups at the doctor's office, receiving vaccinations, or the like.

According to the World Bank, "Conditional cash transfers provide money directly to poor familieoundation]], the Open Society Institute, Starr Foundation, AIG, and Mayor Bloomberg's personal foundation. The program ended on August 30, 2010 and does not continue to receive funding. [1]

Conditional cash transfers also exist in the following countries, among many others:

- Brazil: Bolsa Familia
- Chile: Chile Solidario, established in 2002 [1]
- Colombia: Familias en Acción [1]
- Honduras: The Family Allowance Program (PRAF II) created in 1998, based on the earlier PRAF I program created in 1990 [2]
- Jamaica: Programme of Advancement Through Health and Education (PATH), administered by the Ministry of Labour and Social Security [1]
- Indonesia: Program Keluarga Harapan
- Malawi [1]
- Mexico: Oportunidades, established in 2002 based on the program Progresa created in 1997
- Guatemala: Mi Familia Progresa
- Nicaragua: Social Protection Network, established in 2000 and implemented by the Social Emergency Fund (FISE) [1]
- Panama: Red de Oportunidades
- Zambia [1]
- Turkey: Sartli Nakit Transferi, established in 2003 and implemented by the Social Assistance and Solidarity General Directorate (Sosyal Yardimlasma ve Dayanisma Genel Müdürlügü)
- Egypt: Program Minhet El-Osra, began in 2009, currently being piloted in an urban slum in Cairo, Ain Es-Sira, and 65 villages in rural Upper Egypt by the Egyptian Ministry of Social Solidarity

Condtional Cash Transfers in Latin America

Many countries in Latin America are now using CCT Programs as a major tool of their social policy since they have been proved to be very effective in helping poor families. Although the conditions and amounts of money may vary from country to country, ranging from $5 to $33 per child,[3]in general these programs provide money to poor families under the condition that those transfers are used as an investment on their children's human capital, such as regular school attendance and basic preventive health care. The purpose of these programs is to address the inter-generational transmission of poverty and to foster social inclusion by explicitly targeting the poor, focusing on children, delivering transfers to women, and changing social accountability relationships between beneficiaries, service providers and governments.[4] Most of these transfer schemes are now benefiting around 110 million people in the region, and are considered relatively cheap, costing around 0.5% of their GDP. [5]

Conditional cash transfer programs have been proven to be very effective in reducing poverty in the short term since they have helped to increase household income and consumption in poor families.They have also worked effectively in increasing school enrollment and attendance, especially in middle school. A substantial improvement in health and nutrition of the children that benefit from these programs has been acknowledged. [6] However, studies by the UNDP have shown that conditional cash transfers did not represent a significant increase in the quality of education and in learning, nor in significant increases in salaries, once the recipients entered the labor force.

CCT Programs have been proved to be very well-targeted and effective in reaching the poor and the excluded groups, notably the extreme poor living outside the reach of social protection programs tied with formal sector employment. On average, 80% of the benefits go to the 40% poorest families.[7] The programs have also promoted equality of gender since they provide larger funds to girls given that it is common that drop out earlier from school, so this has increased their enrollment and attendance to secondary levels of education. In the long run, these investments may also yield to significant changes in women's empowerment and insertion in economic networks.[8] However, it has been critiqued that these programs do not serve the needs of other marginalized groups, such as some indigenous groups and poor families living in certain rural areas, since they live too far away from schools and health centers to effectively comply with the program conditions.[9]

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(Courtesy: Wikipedia)

Direct Cash Transfer No Panacea by Itself

By: Mihir Shah

Anti-poverty programmes will work only if they lead to sustainable livelihoods and end dependence on doles. This requires stronger people's institutions, appropriate technology, skill development, leveraging markets and adequate public investment.

Direct Cash Transfer (DCT) is the current buzzword on the development circuit. No wonder, there is an almost irresistible seductiveness in the idea of DCT. But it is also a reflection of great intellectual, policy and political ennui. The protagonists of the idea suggest a two-fold path for redirecting central expenditures — outright transfers to individuals and transfers to local government. The expenditures they wish to cover this way include the Public Distribution System (PDS) for food and fuel, fertilizer subsidies, rural housing (Indira Awas Yojana) and the Swarnajayanti Gram Swarojgar Yojana (SGSY).

But the Indira Awas Yojana (IAY) is already based on DCT. Obviously, houses are not being transferred to the rural poor. The problem is translation of cash into houses. Thoughtless policy-making has meant that the IAY transfers crores of rupees to gram panchayats and "poor" families each year but these families routinely do not undertake quality housing with that money. One, because that money is just not sufficient to build houses. Two, because at times families have other needs that gain priority over housing. Three, because families do not have other inputs required (skilled masons, materials, etc).

A reckless exercise

Even more serious is the case of the SGSY, under which loans are provided for income-generating activities. In a typical bureaucratic drive to meet targets, little attention is paid to assessing whether families have access to technologies and markets, which would ensure that the loans work. The major consequence of such reckless direct cash transfers under the SGSY has been the conversion of many of India's poor into bank loan defaulters, no longer able to access formal sector credit.

No magic bullet

The SGSY is a classic case study of mistaking microfinance for a magic bullet. As innumerable studies have shown, microfinance works only under very specific circumstances. The transfer of cash is hardly the constraint. There are so many concomitant conditions of success that need to be present for credit to engender sustainable livelihoods. Any anti-poverty programme will work only if it leads to an end to dependence on doles (what in a more glorified term is called direct cash transfer). To end this dependence, sustainable livelihoods must be created for the poor. And this demands skills, markets, technology, material inputs, infrastructure and institutions.

The protagonists believe we should learn to trust the poor to use these resources better than the state. But it is not really a question of trust at all. For, even a

completely trustworthy poor person will not be able to do much with the cash directly transferred to her unless the conditions required to translate this cash into enduring outcomes are present. The question is not merely one of placing trust in the entity concerned (the poor, the bureaucracy or even gram panchayats) and leaving the rest to fate, as it were. The issue is one of setting up systems and creation of an environment that facilitates enforcement of accountability by the gram sabha on whoever is made the "trustee" of public resources. The issue is not primarily of directness or otherwise of transfer. It is much more about ensuring effective utilisation of this cash, which needs both developmental inputs (markets, technologies, skills, materials) and political ones (social mobilisation to strengthen monitoring mechanisms and institutions).

PDS inequities

As for the PDS, it is not clear how cash transfers will allow the poor to buy grain from the open market at a time of steep inflation. The problem is that the PDS is characterised by a whole range of inequities — its coverage is the weakest in the neediest regions and it fails to cover crops grown and eaten by the poorest. The way forward is to reform the PDS and extend its reach to and density in the poorest parts, where need is the greatest.

The National Rural Employment Guarantee Scheme (NREGS) is upheld as a positive example of DCT. But viewing it as a mere cash transfer scheme would actually guarantee its failure. The NREGS is not an old-style famine relief kind of welfare programme. This is a development initiative providing crucial public investments, which can trigger private investment in the most backward regions. It visualises the involvement of local people in every decision — whether it be selection of works and worksites, implementation of projects or their social audit. This requires a new bottom-up, people-centred approach to planning of works and social audit. But so far the social mobilisers and technical personnel required to make this a reality have not been supplied. The Schedules of Rates remain the same that the contractor-raj used. They underpay labour and discriminate against women. If we view the NREGS merely as a means of cash transfer, we will fail to attend to these critically important dimensions that need urgent change.

Unfinished agenda

A final word of caution. It has become fashionable among scholars of rural India to wave Panchayat Raj Institutions (PRIs) as some kind of politically correct magic wand. A solution for all ills. We certainly see PRIs as critical to the success of programmes like the NREGS, even to the future of Indian democracy itself. But PRIs in large parts of India today are nothing more than work-in-progress. They have a very long way to go before they can become instruments of democracy and development at the grass roots. They need massive support from the state for them to be able to realise their potential. This is the whole unfinished agenda of reform of rural governance, the reform of the public sector in rural development.

Since the 1990s, India has been hailed as a great success story of reforms. India's elevated rates of growth have been attributed to a new liberalised policy regime. It has also been acknowledged, at the same time, that this process has failed to draw into its ambit millions of rural Indians who have suffered unprecedented distress, whether in the form of hunger (malnourished children, anaemic women) or farmers' suicide. And this has happened despite thousands of crores being spent in the name of rural development each year. A major part of the explanation for this lies in the very poor quality of implementation of these programmes. This persists because, unlike India's corporates, our rural poor do not have a voice in pushing for reforms that matter to them. Even Left-leaning politicians across the political spectrum or civil society activists, all of whom claim to speak for the rural poor, have failed to make reforms in the rural public sector, a key ingredient of their political agenda. This means rural Indians have to continue to cope with the same corrupt and insensitive bureaucracy that has ruled their lives since independence. Rural development desperately needs infusion of professional inputs. It is high time we gave up thinking of rural development as routine administrative work. Or charity. At the same time, we need to build strong systems of transparency and accountability into anti-poverty programmes.

Without these changes, a constant reference to PRIs as the answer will only amount to buttressing abdication by the state of its responsibility for rural development. A misplaced Gandhian over-emphasis on "voluntarism" will also end up only reinforcing this tendency of the state to withdraw. It is patently unfair to burden PRIs with massive tasks of development without providing them the requisite support. Funds, functions and functionaries are all vital (as the PRI Minister likes to say). But more than that a reformed, accountable, performing system.

Thus, anti-poverty programmes to succeed demand more than cash transfers (whatever the degree of their directness). They require that simultaneously many challenges be addressed — strengthening people's institutions, extension of appropriate technology, skill development, leveraging markets for the poor and wise and adequate public investment. Only then can sustainable livelihoods be generated and an end visualised to both poverty and anti-poverty programmes.

(An economist by training, the writer lives and works among the Adivasis of central India to help engender sustainable rural livelihoods. Presently he is member of the Planning Commission)

(Courtesy: The Hindu)

The Siren Song of Cash Transfers

By: Jayati Ghosh

Cash transfers cannot and should not replace the public provision of essential goods and services, but rather supplement them.

Cash transfers are the latest fad of the international development industry, as the preferred strategy for poverty reduction. And now Indian policymakers are busy catching up. The idea was mooted in the Government's Economic Survey for 2010-11, and the Finance Minister made an explicit announcement in his budget speech for replacing some subsidies on goods with cash transfers.

So what exactly is this strategy all about? In the recent international experience, cash transfers can be conditional (subject to the households meeting certain demands) or unconditional; targeted (given only to households or individuals meeting particular criteria) or universal. But essentially they amount to just what they sound like — the transfer of money to people by governments, rather than the provision of goods and services.

The basic idea sounds so simple and easy that a toddler could think of it: Why are people poor? Because they have no money. So let's give them money — then they won't be poor anymore!

The proponents of cash transfers tend to present this as a radically new idea, but it actually has a long history. Kautilya's Arthasastra specifies a system of taxation payments from the rich in order to enable transfer payments to the poor, including not only financial assistance during calamities but welfare payments to the chronically indigent and those unable to earn their own livelihood. Islamic rulers in the Middle Ages were required to follow the tenets of zakat, using state revenues to provide income transfers for the poor, the elderly, orphans, widows and the disabled. Other historical examples abound.

The purpose of cash transfer schemes is to provide poor people with money and give them the freedom to choose what to do with it. Of course, this then generates other choices that have to be made: Who gets the transfers? How much do they get? If they are universal, that usually spreads the money around rather thinly, so they account for very little. But if they are targeted, then the familiar problems of targeting (unfair exclusion, unjustified inclusion, large administration costs, possibilities of leakage) all become significant.

If they are to be effective at all, cash transfers have to be assured, relatively easy to deliver and monitor, and large enough to affect household income. But that also means that they have to be reasonably significant chunks of public spending. And this begs the question of what expenditures they are replacing.

Several of the more well-known recent "success stories" involve targeting and conditions on recipients that range from light to onerous. Brazil's Bolsa Familia is a grant provided to families with less than a threshold monthly income, with the requirement of attendance at government clinics and 85 per cent school attendance. The Oportunidades programme in Mexico is a highly conditional cash transfer system based on a complex system of eligibility (age, gender and level of education of each family member, electricity and tap water, household assets) and requiring family members, especially mothers, to meet various time-intensive conditions like attending meetings and providing "voluntary" community labour.

There is no doubt that progressive redistributive transfers are desirable. Indeed, redistribution is a major, even critical element of any fiscal system of taxation and public expenditure. Minimum income schemes for the destitute, pension payments for the elderly, child support grants, unemployment benefits and other forms of social protection are obviously desirable in themselves and constitute requirements for any civilised society, even the poorest one. They also contribute in the short term to more effective demand and therefore have positive multiplier effects, and in the long term to healthier, better educated and more secure populations.

So the question then is not whether or not to oppose cash transfers in general, but rather what specific importance to give them in an overall strategy of development and poverty reduction. Cash transfers cannot and should not replace the public provision of essential goods and services, but rather supplement them. However, the current tendency is to see this as a further excuse for the reduction of publicly provided services, and replace them with the administratively easier option of doling out money.

In many countries, the argument has become one of encouraging governments to give the poor cash transfers that will allow them to access whatever goods and services they want that are generated by private markets, rather than struggling to ensure public

provision.

Such a position completely misses the point. In Brazil, for example, Bolsa Familia can be based on minimum school attendance only because there are enough public (and free) schools of reasonable quality that children of poor households can attend, which in turn means prior and continuing public investment in quality schooling and teacher education. Similarly, providing small amounts of cash to allow people to visit local private quacks will hardly compensate for the absence of a reasonably well-funded public health system that provides access to preventive and curative services. Cash transfers are less effective in periods of rising prices of essential goods. And so on.

This is important, because ultimately social and economic policies are all about choices, and this is most starkly evident than in the allocations of public expenditure. Governments typically do not have the luxury of being able to ensure enough spending to provide good quality public services and provide cash transfers that are large enough to be at all meaningful.

In most developing countries, the choices to be made are not only about having good quality schools versus transfers that incentivise parents to send their children to school but even more basic choices: road or health clinic; electricity or piped water; schools or higher education institution; one airport or many railway stations; this region or that one?

It is evident that the agenda of the UPA government is to bring in cash transfers to replace public distribution of various essential items, including food. To begin with, Finance Minister Pranab Mukherjee has proposed that the existing system of subsidies for kerosene and fertilizers be done away with and replaced by direct cash transfers to chosen beneficiaries.

In his speech, he said "The government provides subsidies, notably on fuel and food grains, to enable the common man to have access to these basic necessities at affordable prices. A significant proportion of subsidised fuel does not reach the targeted beneficiaries and there is large scale diversion of subsidised kerosene oil ... To ensure greater efficiency, cost effectiveness and better delivery for both kerosene and fertilizers, the government will move towards direct transfer of cash subsidy to people living below poverty line in a phased manner."

There are two immediate problems that are evident in this approach. First, what ensures that the amount of the transfer will be sufficient to fully compensate for any price increases in the newly deregulated markets of these goods? Second, how will the government ensure that the cash transfer actually goes to those who were intended to be the beneficiaries of the subsidised kerosene and fertilizer?

The second problem is well known in India, where all public delivery systems have some element of leakage and diversion. How much simpler and easier it will be to divert cash than goods that have to be stored and resold!

The government seems to be under the delusion that a technological fix (such as a Unique Identity number provided to all residents) will somehow eliminate all the potential problems of targeting. But determining who is actually poor and which farmers deserve the cash subsidy are socio-economic decisions that are affected by a complex set of political and social forces as well as power relations. Technology simply cannot address those, they require very different responses.

In India, where much of this basic part of the development project still remains woefully incomplete, the urge to adopt this latest international development fashion involves several risks. In the case of choice between direct public provision of some essential goods (like food and fuel) and cash transfers to consumers instead, the most immediate threat is that the rising prices in these deregulated markets will make such goods unaffordable for those who need them most.

Posing the problem in this way is also misleading, because it completely leaves out the feasible and much more just alternative of universal provision of some essential items, which would ensure better access and create public pressure for greater accountability in public delivery.

(Courtesy: The Hindu)

Ownership Holdings

Let us now examine the land ownership data. At the all India level 10% of the rural households were landless (in terms of ownership). The average area owned per rural household is 0.725 hectare. If we exclude the landless households, then the average area owned is 0.806. On the other hand, in Orissa, landlessness is 9.56%, while the average area owned per rural household is considerably low in comparison to the national average. Including the landless, it is 0.483 ha, and excluding them, it amounts to 0.534 ha.

Table 7 shows the overall skewed nature of the size distribution of ownership holdings at the all India level. Around 50 % of the total households own just 2% of the total area, around 60% own less than 6 percent, and around 80% of the total households own only 23% of the total area. Further, around 9.5% of the rural households own 56% of the total land. This demonstrates a formidable concentration of ownership holdings, measured by Gini's coefficient.

In Orissa, on the other hand, we find 85.50% of the owner households under the marginal category, and they own 41.52% of the total area (Table 8). If we break the marginal category in size classes, as in Table 10, we find that 71.5% of the households own less than 0.5 ha each. More than half of the households in this latter size class (0-0.5 ha) own a negligible amount of productive land. Their ownership is restricted mainly to homestead land. If we exclude homestead land from our calculation, ownership landlessness increases to 38.5% from the meagre figure of 5.65% when we include homestead land. Without the homestead, the size classes above the "nil" category and up to 0.40 ha are almost emptied.

Similar is the case at the all India level. Around 67 percent of households own less than 0.5 ha. Furthermore, if we exclude homestead land from our calculation, the percentage of the landless rises to 41.6.

The Extent of Proletarianisation

Now we come to the last part of our statistical study of the process of proletarianisation in Orissa and rural India in general. Today, even according to government data, wages have become an important source of income for farmer households. For the landless and marginal farmer households (whose average land size is 0.40 ha.) it is the most significant source of income. At the all India level we find that for farmers in the size class <0.01, wages constitute around 78 percent of their income, and they constitute 11.62 percent of the total number of farmer households. For another 34 percent of the farmers (operating 0.01-0.40 ha of land per capita) 60 percent of their income comes from wages. But these figures include only farmer households, which are defined as households operating land. Thus, they exclude the landless (with zero operational land) whose inclusion in the data would conclusively demonstrate that in rural India a staggering majority is dependent on wage labour.

In the case of Orissa, the preponderance of wage labour is more evident. The most important source of income in the entire rural economy of the state is wages. Around 54 percent of the rural income comes from wages. The whole class of marginal farmer households, which accounts for around 82 percent of the total number in Orissa, depends mainly on wages. In fact, interestingly, possibly due to the dire state of agriculture in the region, even for a small farmer, wages constitute around 43 percent of his total income. Needless to reiterate, these figures do not speak for the totally landless wage labourers.

However, there are tremendous inter-state variations in the proportion of wage in the total income of farmer households.

These data are definitely insufficient for explaining to us the true nature of class relations on the land, as "net receipts from cultivation" includes sharecropping income too. In recent times the nature of sharecropping arrangement has changed increasingly. The sharecroppers are being reduced, more and more, to the status of mere labourers on the land. It is the principal owner who provides capital (for buying inputs) and takes decision regarding what to produce and how to produce. The sharecropper is a labourer who indulges in self-exploitation and whose remuneration is subject to climatic and market fluctuations. Similar is the case of "receipts from non-farm business" which may include many piece rate jobs and so on. It requires detailed micro-level researches to understand the forms of labour relations in the countryside and in the areas where rural immigrants find work.

3. On the impurity of rural labour

The centrality of wage-labour in defining capitalism has generally been accepted. And the above statistics show, in a definite manner, that in India (including in

one of its most backward states, Orissa) too, wage labour has acquired a preponderant status. However, what has really confused scholars and activists is the impure nature of labourers in India. Firstly, the majority of Indians are still rural. Secondly, most of them seem to be in possession of some or other kinds of means of production – land etc, which give them a semi-proletarian character, instead of that of being real proletarians.

In mainstream sociological analyses, individuals are fitted into strict pigeonholes and then their numbers are counted to classify them. This is what can be termed as methodological individualism. Surely, in this regard, even in many advanced capitalist countries a large section of workers will fail the test of purity. Hence, proclamations like that of "the death of the working class" and the "rise of the middle class."

However, what exactly is the nature of this impurity? It is generally found that the income that these individuals draw comes, at least in part, from non-wage sources. Furthermore, we find individuals, or their families, engaged in both waged and unwaged labour. Similar issues were raised during the debate in the feminist movement in Europe and the US over housework, in the 1960s-70s. The centrality of wage labour was now understood not in terms of how many wage-labourers were to be found in society, but to what extent it re-signified all kinds of labour relations and economic activities that constitute a given socio-economic formation. Proletarianisation was understood as a process – a process of subsumption of labour by capital. This subsumption can be purely formal or even invisible, not actual/real or visible like wage employment of labour. In fact, the uneven process of labour subsumption is the basis of the labour segmentation that we find in capitalism. Massimo de Angelis points out in his recent book, The Beginning of History: Value Struggle and Global Capital:

...the division between waged and unwaged activities, between public and private, between working for money and "in your own time," between production and reproduction, between work and housework, between what is valued by capital through a corresponding price tag and what is not, is the true material basis upon which the realm of the invisible that is at the basis of capital's exploitation is constructed. Because if...it is true that surplus value is the invisible value that is extracted from waged workers' labour and appropriated in the form of profit, it is also true that waged workers need to reproduce themselves, and this implies that they as well need to access the products of others' labour. Their dinner is prepared, their clothes washed, their health preserved thanks to invisible, objectified workers.

Archaic forms of labour relations are subsumed for the benefit of capitalist accumulation. Who does not know that American slavery was the basis of the development of capitalism in the US? These forms are preserved till they become hindrances to further accumulation. The invisibility of these pre/non-capitalist forms is the basis on which visible forms are actually subsumed.

Even the impurity of individual labourers, whose labour process is divided between waged and unwaged phases, can be understood in this framework. As Angelis notes in the above quote, "waged workers need to reproduce themselves," and unwaged labour contributes in this reproduction. But this reproduction implies access not only to the products of "others' labour," but one's own labour too. To paraphrase, she needs to prepare her dinner, her clothes have to be washed and her health preserved; this is provided for "thanks to invisible, objectified labour" – but not just others', but hers own too. This schizophrenic but real division of an individual worker is considered impurity.

Let's take a typical case. A migrant worker, who stays in a town, while his family stays back in his village, toiling on a small piece of land, is considered an impure worker – a semi-proletarian. Why? His wages are not sufficient to sustain (or reproduce) him or his family throughout the year, and have to be compensated by the unwaged labour of his family or his own, toiling in their own field. Hence, the function of the unwaged component of his labour (along with that of his family members) is needed to reproduce him and his family.

Under neoliberalism – an ideology of policy design that the Indian state has adopted, casualisation and contractualisation of the work process are the major methods of arranging production (and even circulation). This has led to a rapid expansion of the informal sector, which was already quite big in the pre-neoliberal phase of development in India. This assumes a vast reserve army of proletarians or surplus population, which can be "casually" used and thrown away, without many social consequences. As the data above shows, as rural India is increasingly being integrated into the neoliberal expansion of Indian capitalism, much of it is being reduced to a deposit of surplus population. The rural population in this process emerges as a vast, latent and stagnant, surplus trying to subsist (or reproduce) in the face of neoliberal land acquisition, agrarian crisis and underemployment.

Subsistence agriculture in this phase is nothing but a mechanism to stabilise this surplus population, which engages in cyclical and irregular employment that the informal sector creates.

As the above analysis shows, much of the peasant community is directly linked to capital as part-time or seasonal wage labour. Harry Cleaver says aptly in his Preface to the Mexican edition of his now classic work, Reading Capital Politically (1979):

It is clear that peasants are often linked to capital quite directly through part-time waged labour. This is the only role usually recognized...as a "working class function." The problem with the usual analysis is partly methodological. There is an attempt to classify people into one category or another by their dominant role. If a worker works most of the year in a factory then that worker is classified as a member of the working class. If a person lives on the land most of the time, then that person is a peasant, not a worker. This is stupid. What we should see is that there are many roles or functions played by the working class in its relation to capital, and that individuals move from one function to another at different points in time. When a worker is in the factory, that worker is a productive worker. When that same worker is at home doing housework or working on the land in subsistence agriculture, the function has changed - now we are in the sphere of the reproduction of labour power – but the worker is still a worker, still part of the working class.

When a peasant takes a few days or weeks to look for waged work, that peasant passes from the latent to the floating reserve army. If there are no jobs, after a while the worker will pass back from the floating to the latent role. If there is a job, then for a while the worker will be part of the waged labour force instead of being unwaged. There is no change in class status here, only a change in the form of the relationship with capital! All persons who are forced to work for capital – either reproducing themselves as labour power in the latent or floating reserve army or actually producing a product – are part of that working class. The form of the imposition of work is secondary.

But what, some may ask, of the peasants who produce a surplus they sell on the market? Are these not petty bourgeois producers and outside the working class? The answer is that they are still very much part of the working class if the result of their work is only self-reproduction.

4. Political Implications

Identity and Class

If disparity among geographical locations or sectors or communities is the ground for rural mobilisation and struggle, then the political strategy that evolves will not be geared towards structural transformation, but towards creating parity. It will be restricted to fighting for social inclusion. Such struggles will tend to hide internal differentiation, and will depoliticise local conflicts, while stressing on homogeneity at the identitarian level – on the basis of locations, community or sector etc. On the other hand, the centrality of labour and class struggle allows us to radicalise popular mobilisation and struggle by making every conflict and contradiction into a node for politics. Classes are not internally homogeneous – however, class struggle unlike identity struggle does not require homogeneity. Even labour market segmentation can be a ground for class struggle, by which the internalised hegemony is questioned – a struggle against the whiteness of the white worker, waged by the black working class, is a fight for working class unity and against the internalisation of hegemonic structures by the working class. This perspective on class struggle gives us the opportunity to understand and engage with identitarian movements too.

Ambedkar's understanding of the caste system is very relevant in this regard. He did not consider the struggle against caste a struggle for identity assertion, or for mutual toleration among diverse communities. It was not a struggle for mere representation. He called for the "annihilation of caste." In fact, Ambedkar had a subtle conception of caste, which could help us transcend the dichotomy of caste and class. During his days in his Independent Labour Party (ILP) and in his piece "Who were the Shudras?" (1946), Ambedkar viewed caste not as a purely cultural edifice, but as the carrier of specific work functions. The caste system transformed "the scheme of division of work into a scheme of division of workers, into fixed and permanent occupational categories." So the annihilation of the caste system will pave the way for the transcendence of the material and ideological division of workers. But it is important to reassert that the class or the "labour" perspective cannot remain blind to the internal configuration of the class. Class unity is posed not by wishing away the internal divisions within the working class; rather it is a product of class struggle, of struggle against the foundation of those divisions – of intra-class competition and hierarchisation.

The Land Question

As our statistical analysis, coupled with the conceptual issues that we discussed above, indicates, the majority of rural Indians are today proletarianised, in the sense

that they toil for self-reproduction, alternating between wage employment and subsistence self-employment. This fact can give a new insight into the nature of rural struggles today. It is definitely true that the National Rural Employment Guarantee Act (NREGA) that the Indian state has provided to the rural poor gives them a tremendous opportunity to come out of their invisibility. By a single act of legislation, a vast rural labour market has become visible, with millions constituting a surplus population which is emerging out of its latency. But the partial guarantee that this bestows on the rural poor has only marginally altered their invisible status – as the hidden underemployed, and the footloose labour alternating between wage employment and subsistence self-employment.

Another important implication of the above analysis is that it redefines the whole land question. The land issue has generally been associated with the peasant question – peasant hunger for land. But now, with the emergence of a new perspective, the land issue is increasingly been posed as a question of labour, associated with workers' need to self-reproduce. A poor tribal who tills a small plot illegally in the forest area is doing so not to satisfy his hunger for land, but in order to survive.

Earlier the land question was posed as an issue which relates to the development of agriculture – would land redistribution increase productivity or would concentration work better?

…the many popular struggles over land today are driven by experiences of the fragmentation of labour (including losses of relatively stable wage employment in manufacturing and mining, as well as agriculture), by contestations of class inequality, and by collective demands and actions for better conditions of living ('survival', stability of livelihood, economic security), and of which the most dramatic instances are land invasions and occupations. There is now a revival and restatement of the significance of struggles over land to the social dynamics and class politics of the 'South' during the current period of globalization and neo-liberalism... Contemporary land struggles are significantly different from the ('classic') peasant movements of the past, and are much more rooted in the semi-proletarian condition: that of 'a workforce in motion, within rural areas, across the rural-urban divide, and beyond international boundaries'.

This is not to say that land is now exclusively a labour question. Far from it. The dominant discourse in movements against land acquisition, like the POSCO struggle in Orissa, still poses it as an issue of "agriculture" versus "industry", "rural" versus "urban". The only submission that we make here is that regions like coastal Orissa have high rural differentiation, and the homogeneity that we witness today might be temporary and even deceptive. Within these land movements, a working class viewpoint is emerging towards land and development in general, which is not vocalised by the leadership.

NOTES:

(8) CP Chandrashekhar and Jayati Ghosh (2004) "The Possibilities of Land Reform", MacroScan.

(9) Massimo de Angelis (2007) The Beginning of History: Value Struggle and Global Capital, Pluto, p. 57.

(10) Harry Cleaver, Una Lectura Politica de El Capital, México: Fondo de Cultura Económica, 1985.

(11) Henry Bernstein (2004) "Changing Before Our Very Eyes': Agrarian Questions and the Politics of Land in Capitalism Today', Journal of Agrarian Change, Vol.4 Nos. 1&2.

(Courtesy: Radical Notes)

Union Budget Takes Its Toll

Swami Gowda (35), a silk farmer in Karnataka, was found hanging at his farm. His wife Indramma (28) hanged herself at their residence. They are survived by three children. The suicide occurred following the import duty cut on raw silk from 30% to 5% in the 2011 Union Budget.

The import duty cuts on silk have severely affected Karnataka's farmers. who produce more than 60% of India's silk. Other budgetary policies such as fertilizer subsidy reduction have further marginalised the farmers. The same budget wrote off Rs. 88,263 crore on Corporate income tax. Such skewed policies have, over the past led to 25,685 farmer suicides in Karnataka and 1,99,132 in India.

A demonstration and candle light vigil was observed at Town Hall, Bangalore on 26th March 2011 against the anti-farmer budget.

Student protest halts asbestos factory in Bihar, India

26 February 2011: Devendra Ram was overjoyed when he first saw a factory being built near his village in Bihar. It was an asbestos factory and the villagers were told it would provide jobs in Muzaffarpur district, an area where farm incomes had long been dwindling.

But then the children of the village got involved. Mr Ram's teenage son, Hare Krishna, told him about what he had learned in school. In his biology and chemistry lessons at the government-run school, he found out about the harmful effects of asbestos. On hearing that an asbestos factory was going to be built in their village, Hare Krishna and other students launched a protest.

They told their farmer parents about the potentially deadly nature of asbestos.Then they too got involved in the campaign against the factory. The protests against the factory have been so fierce that construction work has come to a temporary halt.

Protest movement

It has been an acrimonious battle. Police fired on protesting villagers, injuring three farmers. More than 24 people were injured in baton charges. Campaigners say this could be the first time that students have launched a protest movement on the back of lessons learned in school. It is remarkable, not just for the vociferous nature of the protest but also because this is a poor, remote area with high levels of illiteracy.

Villager Vinod Kumar Singh said his teenage daughter, Sonam, took the lead in convincing her mother and other women in the village. "She literally forced us to oppose the set-up of the factory," he said. Sonam says she will not stop educating villagers "until everybody comes out to oppose" the factory."If the government allows the factory they should first burn our school books in which they teach us about the deadly effects of asbestos," said Sonam.

Villagers surrounding her clapped and nodded vigorously in agreement. The movement has caught the attention of India's environmentalists and prominent social workers, including Medha Patkar. And India's Environment Minister Jairam Ramesh has sought details about the factory from Bihar Chief Minister Nitish Kumar. Mr Kumar said a consensus must be built across the country on the use of asbestos.

Meanwhile, the schoolchildren of Muzaffarpur are demonstrating every day to make people aware of the hazardous effects of the "asbestos dust". But a manager at the company setting up the factory says the fears of the villagers are unfounded. BK Tiwari, who works for Calcutta-based Balmukund Cement and Roofing company says there are over 50 white asbestos factories and many in densely-populated areas of the country.

"There are no protests against the factories in these areas. Unlike blue asbestos, white asbestos is harmless. The villagers are being mis-informed," he said. Mr Tiwari said the factory was expected to employ 500 villagers when it was fully operational.

One form of asbestos, white asbestos, is widely used in the developing world, but is banned on health grounds in many industrialised countries. The World Health Organisation says it too is associated with diseases such as mesothelioma, lung and other cancers, but its promoters say it is safe if used properly. But the villagers are not satisfied with Mr Tiwari's explanations. They say that school text books approved by the Bihar government itself show that all forms of asbestos are not only harmful but also cause deadly diseases such as cancer.

"Come what may, we will not allow the factory to come up," the villagers chanted in unison.

Workers' Rally: From the Eyes of a Student, P.K.Anand, 23rd February, 2011

It has been almost seven years since I have working in SFI-JNU, as an activist in the beginning and later, coming into the leadership. However, in this entire time frame, 23 February, 2011 will stand out as Red letter Day, when on the solidarity call given by SFI, students from three universities in Delhi-DU, Jamia and JNU marched along with lakhs and lakhs of workers from across the length and breadth of India, who had been mobilized following a Joint Call given by 9 Trade Unions. The march literally brought centre of the National Capital to a virtual standstill. This massive mobilization cannot be just seen from the prism of the Workers; the central demands also very much concerned and went to touch nerves of the common man.

Students' Role in Solidarity to the Working Classes:

As a student, having been trained and empowered through the larger left ideology, working class struggles have always provided me with inspiration; in fact, it always injected in me with a special kind of awe. The early days as an activist itself, many of us comrades, were also part of the protests against brutal lathicharge and repression on agitating workers of Honda factory in Gurgaon by Police in 2005. Having been closely associated with those protests and also joining other senior comrades, in enforcing strikes in industrial areas like Okhla on national calls, also charged me up.

Ever since this rally plan was announced, I was greatly interested in attending it. As secretary of the JNU Unit of SFI, I also had the greater responsibility of mobilizing greater number of people in the organization as well as common students to join the rally in large numbers. More than joining the workers in the March, I was also greatly interested in being a volunteer and helping out the CITU comrades in setting up and helping out, in the residential camp, put up for accommodating comrades coming from across India in Ramlila Maidan in the capital. After having closely followed the rising

upsurge of the people in the Arab world, especially in Tunisia and Egypt, where after long days of intense struggle and perseverance, the people successfully brought about a revolution and dumping dictatorial regimes. Not only this, the fact that militant students' struggles in many parts of Europe were also added boosters. However, one was also sad by seeing the fact four suicides had brought down regimes in Tunisia, but even after lakhs of farmer suicides, the situation in India still remained unchanged. My mind was also calling for 'Tahrirs' to unveil in our country. It is in this context that I heard about the massive working class mobilization on 23rd February.

I feel that the biggest aspect of the students' solidarity with the working class for this rally was also because majority of the demands resonated with the aam aadmi. Primarily, demanding the government to curb rising prices and universalize the public distribution system rallied with the students as well. Spiralling prices break the back of the common man-who is definitely from the Working Class. No proper food to nourish them in the event of these rising prices as well as other related aspects like hoarding and black marketing, greatly affect the struggling masses of this country. Other demands like stopping contractualization, retrenchments, strengthen public sector, and initiating social security schemes for the unorganized sector also greatly resonated with the struggles waged by SFI against neo-liberal policies in education. Also, a crucial aspect is the fact that, I also had a duty to fulfill. My academics had been subsidized; I am getting a good scholarship; Hostel fees are minimal. This all is the result of the money paid by the tax payers of this country, mostly workers and peasants. Their blood and sweat fund my education. So, morally too, there is strong bond, with those unseen faces. Therefore, when their rights are under attack and their issues have to be fought for through struggles, it is also a time to give back. Stand in unison with their issues, join them in their mobilization, echo their slogans and give whatever possible help. My days of working in SFI have also taught me this-perhaps the biggest lesson in my life.

It is only through strong praxis, in the form of actual mobilization with the larger struggles that further boost and strengthen the student movement for greater struggles ahead. It is such inspiration that was provided by marching in arms with the working classes and echoing their slogans, on 23 February.

Being a Red Guard and Camp Volunteer

All the student comrades of the SFI became the Red Guards. Donning the red attire and carrying flags/ banners, they marched in front of the rally. Such an experience not only gave a sense of pride, but also was an occasion to rise above the middle class background, from which most of the students come from. Most of the SFI activists and students also felt an great experience being part of this group. Being the Red Guard also brought me out of my comfort zone, into direct contact with the larger progressive movement, thereby making me sync with its ebb and flow. In waging struggles in the futures, this experience would also stand in good stead. The niceties and compactness associated with the middle classes stand in contrast with the daily struggles of the working class. Hence, being a red guard volunteer lifted my spirits, and made me look beyond my crass middle class confines. In fact, it was getting inspiration from the working class. This was also a moment when in literal terms, the Marxist theories learnt in classroom discussions and debates, were joined in the concrete terms as a symphony in praxis. That was also a crucial point that was reflected in this rally. Being a red guard not only instilled in me, a sense of pride, but greatly resonated even in the slogans of other student comrades. Coming from various language backgrounds and different states, slogans from different languages rent the air, upfront the rally. We also sung revolutionary songs, which was motivational for the participants in the rally. Also, working and volunteering in the residential camp at Ramlila Maidan also made me conscious of the arduous and painful struggles waged by the workers to defend their rights and fight for genuine demands. Many of my fellow comrades also experienced the same feeling, rather than being feeling overburdening with responsibilities. Having seen the common masses, walking barefooted and carrying their families wit them, also shattered many middle class aspirations in me. Seeing the Delhi roads blocked, also gave a sense of satisfaction: the working class on that day had clearly won over the nouveau rich, cynical and the pessimists in the city; being in a traffic block for a few hours was worth it.

Overall, seeing a sea of people, out on the streets automatically gets one charged up and voice support for genuine demands. That was what happened literally, on 23 February. That day, the streets of Delhi and Parliament Street, where the Rally converged clearly brought forth the images of Tahrir Square. After being part of such a massive mobilization, one can surely guess the mammoth size of the Million people swarming Cairo's Central Square for 18 days continuously. This experience also serves as booster for vibrant life of the student movement, and shakes away any sense of monotony. Solidarity in both theory and praxis as well as Once in a Lifetime Experience-that's how one can best sum up participation in this rally as student/activist.

(Courtesy: Pragoti.org)

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