LOK SAMVAD

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EDITORIAL

Pension Bill

Robbing the Workers to Enrich the Capitalists

- Piyush Pant

It seems that Manmohan Singh government refuses to see the writing on the wall or is it that it has deliberately blindfolded itself to avoid seeing the reality. Or can we say that it has conveniently assigned for itself the role of the agent of Multinational corporate bent upon marauding the Indian economy. Otherwise why the Indian government should keep opening mercilessly the door of Indian economy for the foreign capital when the role of unbridled capital in devastating the US and European economy has amply been proved. In order to wriggle itself out from the mounting criticism of policy paralysis and to prove that it has not lost the track of economic reforms, the Manmohan Singh government has now set itself upon the road to further economic reforms knowing it well that these reforms are not the panacea for the falling economic growth and the mounting fiscal deficit. It is well known that these types of reforms played havoc with the economies of Latin American and later East Asian countries. It is to be mentioned that many Latin American countries imitated Chile and reformed their pension systems in 1990s, turning them into a fully or partially funded system of mandatory individual accounts. But the privatization of pension has not lived up to the promises of its proponents and supporters. It was supposed to improve the coverage and benefits to the workers and the generation of savings was supposed to stimulate the market. But it failed on both the counts. Even the World Bank, once the ideological and financial supporter of countries willing to follow the privatization path in 1990s, revised its position, indicating the outward signs of the unsuccessful choice.

Instead of handing over the pension and savings of the workers to the vagaries of the financial market, the Manmohan Singh government should pay heed to the fact that in the new social and economic scenario, countries that had made reforms are now working on "reforming the reforms". Chile itself, which is often quoted as the ideal case of pension reforms by the proponents, has recently created a basic pension for low-income earning over 65 years of age citizens who couldn't retire in the private system. This failure was due to insufficient accumulated funds or simply because individuals could never contribute as many had to survive on low incomes in the informal economy. Similarly in Argentina, President Chrstina Kirchner has announced the government's intention of nationalizing nearly 30 billion USD of private pension funds to protect retirees from falling stocks and bonds as a result of the current international financial crisis. In fact the experience of Latin American countries has been that basing itself on the 'advantages' of private investment over a state-run system, the new social security system has been a complete failure. Says international organisation Social Watch-"Far from guaranteeing workers a dignified pension, privatization has established a system in which the saver has less control over his or her destiny. The new prevailing reality has failed to achieve the reform's objectives of greater coverage, more transparency and the promised increase in retirement income."

Take the case of Bolivia. A report published by Social Watch says- In Bolivia pension system reform was presented as a social necessity, an argument that was supported by the clearly dysfunctional state of the existing pension system in force for several decades - but was in fact designed as a potential source of profit

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for private investment. According to one of the main promoters of the reform (Peña Rueda, 1996), the replacement of the 'pay as you go' (PAYG) social security system was justified by data suggesting its virtually bankrupt state as:

- The proportion of active workers to pensioners was three to one, which is insufficient to financially support the system and much less than what is considered to be the ideal proportion (ten to one).
- The coverage of the system was very limited with only 314,437 regular contributors in an economically active population of 2.6 million.
- The system was discriminatory in its lack of coverage for the substantial number of non-salaried workers.
- The system was vulnerable to inflation and employment fluctuations and mobility.

Hence a new system was implemented that would allow the state to reduce, and ultimately eliminate its financial burden from the old bankrupt system and would provide adequate benefits to guarantee the population a dignified retirement from active working life. The intention was for this new system to have the following characteristics: a broadened reach including segments of the population not previously covered, in particular non-salaried workers; capacity for self-financing; investment management transparency; potential for strengthening the stock market; capacity for continuity in times of economic crisis; capacity to create mechanisms for maintaining the value of pensions; capacity to increase the incomes of Bolivians over the age of retirement.

More than five years after the implementation of pension system reforms, it was found that a comparison of both social security systems' coverage, taking into account their relative size as a proportion of the economically active population, reveals that the situation has not changed significantly since the reform. According to the National Employment Survey, in 1996 the economically active population figures were higher than in the 2001 Census and the projection for 2002.Even worse, if we take the data used by government officials in charge of implementing the reform (an economically active population of 2.6 million in1996), the previous system would have a much greater coverage than the current one, with the number of contributing workers amounting to 12% of the active population. To the discomfort of the reform's designers and implementers, disaggregated data on the number of affiliates per type of worker also fail to indicate any clear superiority of the new system in extending coverage to non-salaried or independent worker categories. According to PFA information, by June 2003 the number of independent workers affiliated to the pension funds was only 4.3% of the total number of affiliates.

This is to be remembered that the promoters of social security reform in Bolivia had made promise of dignified pensions that would improve on the social results of the previous PAYG system. This became the main justification put forward by reformers. However, an evaluation of results indicates a worse situation and reinforces the hypothesis that the true objectives of the reform bore little relation to the endeavour to create better living conditions for the working population. In the first place, transforming the system has not generated a significant increase in the number of beneficiaries, so it cannot be said that it has contributed to a reduction in the widespread phenomenon of large social groups being excluded from social security benefits. Secondly, the promise of increased incomes has met with similar disappointment. The new scheme was designed in such a way that access to a pension is linked to a substantially longer working life and in addition it does not guarantee access to a dignified pension for all workers. There is a special category provision in the Law of Pensions called 'minimum retirement' that is applicable to a worker who has not paid enough contributions to finance a pension equivalent to at least 70% of the minimum national salary but who has reached 65 years of age. He or she will receive a pension or annual income equivalent to this percentage "until the accumulated funds are exhausted," irrespective of whether or not this pension covers all the remaining years of life after retirement. In short, there will be workers who only have access to a very small pension - the current minimum salary is no more than USD 58 a month - for a time that will not necessarily coincide with their remaining life span.

Thus the Bolivian example makes it clear that the two systems are guided by different perspectives: while the previous PAYG (Pay as you go) system regarded the provision of security to workers after their active working life as an inescapable obligation of the state, the new system abandons this state responsibility, delegating the provision of security for the economically inactive population to the 'efficient' workings of the market.

Now the question is-Why Indian government is so desperate to hand over the pension sector to the private players? It should be remembered that when Pranab Mukerjee as Finance Minister had paid a visit to Washington, he had assured the American secretary for treasury that the Indian government would hurry up reforms like privatisation of pension, banking industry and more FDI in insurance sector.

However, the oft-repeated and familiar government plea is that the national exchequer no longer have funds to serve the bourgeoning sector. Moreover, banking on the Old Age Social and Income Security (OASIS) report of 2000 the government says that the ranks of the elderly in India are growing at a higher rate (3.8 per cent per annum) than overall population (1.8 per cent). By 2030 the number of people over age 60 is expected to soar from the current 80 million to nearly 200 million. This will sharply increase the number of people per family depending on the working member for sustenance. The current pension system in no way provides for this shift. But the real objective is to privatise the sector. Through the Pension Fund Regulatory and Development Authority (PFRDA) Bill, the capitalists want to use the big pool of savings of the Indian working class, which has so far been under State control. It is said that the Bill is aimed at expanding the coverage of pension funds and converting them into source of finance for monopolist capitalist ventures. The Bill wants to provide cheap source of finance for the capitalist class, at the cost of guaranteed income to the workers once they are retired and old. It is being said in praise of the new pension scheme that it is meant to include crores of people who presently are not covered by any pension schemes. But the real intention is to make the capitalist employers free of their obligation to contribute to the retirement fund of those they employ. It is set to apply for both regular as well as contractual employees. It means that under this scheme, whatever the pensioner will get in the future will come out from his own contribution alone. There will be no contribution from any other source, not even by the central or state government. Thus the new scheme has all the potential to be doomed from the very start as the workers will prefer to keep their savings in long- term fixed deposits, or gold or in any other form they choose than joining a scheme fully financed by them and which puts their savings at the disposal of speculative world of stock markets.

Anti-employee tenor of the Pension Bill becomes clearer if we look at the provisions of the proposed Act. The important features of the Bill are-

1. Pension will be based on the amount of contribution made by the worker during his working life and the value of contribution at the time of retirement, which would be subject to fluctuations in the stock market. In other words, the value of workers' savings would not be protected and there will be no pre-defined amount or ratio of salary that is guaranteed on retirement.
2. The government will give up its role of protecting the value of workers' savings; it will instead hand over charge to various institutions of finance capital, both state owned and private, Indian and foreign.
3. A part of workers' contributions will be invested in the stock market, and each contributing member will be given a choice about the composition in which his or her savings will be allocated, between government debt, shares of private companies and other financial instruments.

Thus a subscriber to the new pension scheme is exposed to the following risks after retirement-

1. As per the scheme, a subscriber is to make the choice of investment portfolio. As civil servants are mostly uninformed in finance and investment related matters, one might end up in making wrong choices which would eventually rob her or him of the old age pension.
2. If there is a major market shock, he may end with no ability to purchase an annuity and the entire money contributed by her or him may be lost.
3. Since annuity cannot be cost indexed, its real worth may fall, depending upon the inflationary pressures in the economy
4. A subscriber is to perforce contribute towards the charges of investment managers, whose priority often is as to how much profit they could make through investment of the astronomical corpus of pension fund in the volatile share market.

Thus these provisions amply make it clear that on the pretext of increasing the reach of pension to all the working people, the Government is trying to convert the right of workers to pension into a scheme of robbing the workers for the benefit of the capitalists. It is not that this Right of the workers is self-assumed. It has been recognised by the Supreme Court as well in its various judgements. In one of the judgments, the Supreme Court said that "pension was not a bounty payable on the sweet-will and pleasure of the government and … pension is a valuable right vesting in a government servant." Even the Fourth Pay Commission Report categorically declares that ".....pension is not by way of charity or an ex-gratia payment, or purely social welfare measure, but may fairly be said to be in the nature of a 'right' which is enforceable by law."

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By: N M Sundaram

The statement of the union finance minister in the National Development Council meeting was misleading. He was reported to have said that by fiscal 2009-10, the joint liability of States and the Centre on account of pension alone was likely to be over a whopping Rs 1,00,000 crore. This remark is a crude attempt to alienate the employees from the public.

He was further quoted as having said: "no country can afford the `pay-as-you-go' system which extended pension benefits over a 20-year period to all senior citizens."(The Hindu, June 29, 2005). Certain facts relating to pension as being paid to government employees require to be clarified in their historical perspective.

First of all it is not a 'pay-as-you-go' scheme as the government would have the people believe. The simple fact is matching contribution that should otherwise have gone to the provident fund was not funded. Be that as it may there is nothing strange or imprudent to have a 'pay-as-you-go' scheme when one views it as a social security. Many countries have this system.

Privatisation of Pension Funds

India is trying to follow the American example where president Bush was trying to turn social security topsy-turvy by switching to individual private pension accounts, where payments would relate to market value of workers' own contribution at the time of retirement from service instead of on the basis of guaranteed/defined benefits that was introduced as early as 1935 during the presidency of Franklin Roosevelt.

What is being attempted is privatisation of pensions; it is as simple as that - a corollary to implementation of neoliberal reforms. It is a diabolical attempt to funnel enormous pension funds into the unfathomable casino world of stock markets. It is simply acting as per the dictates of world finance capital. The way the stock markets have gyrated, one can visualise the risks involved. One can only wonder at the temerity of the proponents of pension being turned into private funds related to individual contributions and their value at the time of retirement or cessation of service. This is part of a global conspiracy we are witnessing once again; a bizarre unfolding of a drama under the auspices of the dictated neoliberal economic policies.

Evolution of Social Security

Historically, levels of social security came to be recognised as an important criterion among others, to distinguish whether the people in a country were mere subjects or citizens. There is considerable historical material to trace the metamorphosis that took place by which charity turned into a social responsibility of the State. It can be seen that the path of evolution of social security is not very much different from the one that democracy itself took over the years.

There is no evidence that people preferred social security doles to employment. There is no evidence either that provision of social security reduced savings. On the contrary, evidence in many countries shows there has been expansion of savings that followed pay-as-you-go system of financing social security. The biggest disincentive to savings in recent times is absence of profitable and safe investment avenues whose space has been encroached upon by the speculative arena of the stock markets. If investments are hampered, the government can always generate a budget surplus by a suitable taxation policy, providing incentives to savings and measured borrowing with an eye on targeted investment and employment generation.

State sponsored social security or pension schemes, unlike the private schemes required capitalisation. After the Second World War, this was the fundamental change that took place that State sponsored pensions were paid on the basis of the expected cost of pensions in the following few years, without long term funding as in the case of private pension schemes. A significant improvement was made around the 1950s that pension would be paid relative to the average of the better paying period of their working life rather than the average of their entire working life which would be low, though different approaches developed in this regard in different countries. **But the general principle was the same namely that the pension payment should be as close as possible to the pay on retirement.** Then came the principle of indexing of pension by linking pension to inflation through a defined formula. There were many other changes too like the retirement age or the qualifying period of service for entitlement to full pension.

Indian Experience

In India, pension, at least in so far as civil servants and military personnel are concerned, has a strong historical continuity and foundation. The benefit was not gratuitous but in exchange for contributory provident fund. If its contribution was not funded it is not the fault of the employees. The government must admit this reality and tell the people the accumulations in the pension fund at least notionally. It is not a pay-as-you go scheme as the government would pretend

and have the people believe. That was why the Pension Rules of 1972 included in the list of exclusions "persons entitled (that is opted) to the benefit of Contributory Provident Fund."

It would be useful to refer to the principles enunciated in its justification in volume II of the report of the Fourth Pay Commission chaired by Justice P N Singhal of the Supreme Court. The report published in December 1986, traced the 'custom' of providing pensions for aged employees who were no longer able to discharge their duties efficiently to the nineteenth century in Europe.

Pension an Enforceable Right

Referring pensions to former members of the armed forces and civilian employees of the central government, the report categorically declared: "In so far as these employees are concerned, **pension is not by way of charity or an ex-gratia payment, or purely social welfare measure, but may fairly be said to be in the nature of a 'right' which is enforceable by law**." The report also drew sustenance from the judgment of the Supreme Court in the 'Deokinandan Prasad Vs State of Bihar and others' (1971- Supp. SCR 634) which held that "pension was not a bounty payable on the sweet-will and pleasure of the government and that on the other hand, the right to pension is a valuable right vesting in a government servant." The court also held that the right to receive pension "is property under Article 31(1) …" and under Article 19(1) (f) and it is not saved by sub-article (5) of Article 19." **Though right to property is no longer in vogue as a fundamental right the validity of the right to pension is well substantiated**.

Having firmly laid the legal basis of the right to pension, the Fourth Pay Commission Report went on to trace the historical background of this right as it developed in India. The report recounted: "As a result of the recommendations of the First Central Pay Commission, the Liberalised Pension rules, 1950 were notified on April 17, 1950, with option to those who had entered permanent pensionable service before October 1, 1938, to come over to those rules or continue under the earlier regulations and orders." There was continuity in that these were in the nature of "modifications to the earlier Civil Service regulations and instructions and implementation of later pay commissions. Ultimately, a single set of rules called the Central Civil Services (Pension) Rules 1972 were issued and came into effect from June 1, 1972. The Civil Pension Commutation Rules, 1925, were replaced by the Central Civil Services (Commutation of Pension) Rules, 1981, and came into force from July 1, 1981." The option as stated above notified allowed employees hitherto covered by contributory provident fund to come over to coverage of pension. And the option continued thereafter, so much so the Pension Rules of 1972 referred to employees to whom these rules applied simultaneously listing out exclusion from pension of "persons entitled to the benefit of Contributory Provident Fund."

It would be interesting to note that the Fourth Pay Commission did not merely deal with the legal basis of provision of pension but also dealt with the philosophical and moral basis too to buttress its recommendations. The Commission postulated: "but the concept of 'pension, however old in its origin, had the latent and real desire to provide for an eventuality – known or unknown. The known eventuality was old age and probable reduction in earning power, while the unknown eventuality was disability by disease or accident or death. **Its real purpose was security, even though the beginning was oblique, undiscernible and faint. But the germ of an effort to provide security ran through the provision and it is natural that it should have grown and flowered with the development of human understanding and desire to look after and provide for those who deserved it, for man has constantly been seeking means by which to enhance his economic security…** Some benevolent employers go to the extent of regarding pension as an absolutely indispensable complement of wages – as a terminal benefit. That, however is apart from another aspect bearing on pensions – the social benefit…."

The report goes on to declare: "the political philosophy to which the State has committed itself is also a relevant factor. Thus in a country like ours where the Preamble to the Constitution itself declares that the people had solemnly resolved to constitute it into a 'socialist' democracy and to secure to all its citizens 'justice, social, economic and political', it will be quite reasonable to hope that an honest effort will be made to achieve that objective. … The political philosophy of the State is also a relevant factor in determining what will be a proper and suitable scheme of pension."

The Commission has made one other factor clear that the pensioners constitute a class by themselves (upheld in the Punjab and Another Vs. Iqbal Singh and D S Nakara (1976 - 3 SCR 360 & D S Nakara Vs Union of India AIR-1983 SC 130) and there could be no discrimination among them on the basis of the date of retirement (for that matter their date of appointment as well).

Analysis Summed Up

From all this certain things are crystal clear:

1. Pension is not a gratuitous payment.
2. It is a social, moral and legal commitment; it is

enjoined that the State should expand the scope of its coverage and not abridge it.

3. That includes protection of the class of people who are already entitled to it, like the government employees who constituted a class by themselves. Any differentiation such as the one sought to be made as between those who were appointed on or after April 1, 2004 and others would be discriminatory on moral and ethical grounds as well.
4. For the government employees pension was in substitution of the contributory provident fund and it is not as if the government was paying pension from out of taxes.
5. The scheme of pay-as-you-go is by no means an irrational concept and is in vogue in many countries. Be that as it may, pension for government employees is in reality, in lieu of government's contribution to provident fund.
6. Merely because the government did not fund its contribution along with those of its employees and constitute a pension trust (as is done in many countries including in respect of Federal Social Security in the US, its character does not change.)
7. The government should make public what would be the value of the fund if such funding had taken place and not beguile the general public into believing that it is paid out of the revenue. (In respect of Social Security in the US, where the Trustees park the funds in US Treasury bonds whose worth, it is estimated, is a whopping $4.5 Trillion. This is what the Federal government must borrow in the first two decades, to substitute social security with private accounts – vide an article by Paul Krugman)
8. The central theme of providing pension is to ensure certainty of defined and adequate payment when the contingency of old age, disease, disablement or death occurs. The central idea therefore is certainty. The pension reforms as contemplated by the government and as per the change brought about arbitrarily for government employees appointed on or after April 1, 2004, militates against this principle of 'certainty' as it would be based on the future value as dictated by the fickle stock market.
9. All along the government did not contribute to the Pension Fund as it would have done in respect of contributory provident fund. As per the new dispensation, it has to physically set apart a matching contribution to the pension fund. Has the government considered how much it would cost if it starts making the contribution and funding it and that too without the certainty of pension payments to the beneficiaries?

The government should clarify whether it intends to apply the new dispensation to those recruited to defence services as well. As per the Fifth Pay Commission recommendation, the government accepted the principle of 'same rank-same pension', whatever the pension was for those who retired earlier. Is the government proposing to apply the same changes to defence personnel as well as they do now for the civilians? In that event, the government is treading on thin ice. Already the problem is young men and women find service in the armed forces unattractive.

No crocodile tears please: The finance minister need not shed crocodile tears as he did when he said in feigned anguish that unless the Bill was adopted into law the 40,000 and odd government employees who were appointed after April 1, 2004 would be left without protection. All that is government requires to do is to withdraw the Pension Fund Regulatory and Development Authority Bill and revert back to the existing scheme of pension for these employees too.

The element of certainty sacrificed: The pension reform as mooted by the Pension Fund Regulatory and Development Authority Bill is precisely to introduce the element of uncertainty in an area where certainty has been held to be the salutary characteristic. A benefit like pension that requires to be expanded in scope and coverage is being left to chance and vagaries of the casino world of stock market.

Pension for others too is the need: The finance minister can follow it up by devising methods of extending assured pension to others in the organised and the unorganised sectors, including those in the agricultural sector. This is the opportune moment to introduce such a scheme for which there would be a two way contribution from the workers as well as the employers. Unlike in the industrial countries who are burdened with an aging population, in India, those under the age of 25 years constitute almost 50 per cent of the population. Contribution to such a scheme should be made an essential and additional component of wage. This should not be considered a burden. On the contrary, it would prove to be a major long term source of resource mobilisation for infrastructure and other development.

Pension reforms must be opposed: Instead, what the government seeks to do is funnel enormous amount of money of the people into the stock market as demanded by international finance capital with attendant uncertainties for those who seek protection through pension when they are most vulnerable. What the government wants the people to do is to speculate on their retirement benefits and hope. This is madness. This is an anti-workers regressive exercise. **This amounts to turning the clock back on an essential social security measure. This must be opposed.**

(Courtsey: People's Democracy)

The Tension of Pension

By: Buroshiva Dasgupta

The pension funds are in for reforms. The cabinet has already approved the amendments to the Pension Fund Regulatory and Development Authority Bill 2011. It is expected that the Bill will be placed in the winter session of parliament for approval. The foreign investment in the pension funds sector – as in case of the insurance sector – will be 26 per cent but the caps will be left 'flexible' to be mentioned only in the regulation, and not included in the legislation itself. The government has also rejected the suggestion of Parliamentary Standing Committee – headed by former BJP finance minister Yaswant Sinha – to provide minimum guaranteed returns to investors.

The pension funds reform is a bold step. The Manmohan Singh government is perhaps desperately trying to come out of 2G and other scams and get back on the rails of the reforms agenda. The telecom reform was a bold step too. But its good intentions could not keep away the creations of Sukh Rams and the Rajas. If we follow the history of the pension funds in the US and its involvement in the recent sub-prime housing muddle, we have reasons to be alarmed about the future of Indian pension funds and the government's 'good intentions' of reforming the sector.

Since pension is a worker's deferred wage, he needs to have a say in the use of the pension fund corpus. The Indian government has rightly agreed to have worker members in the advisory committee of the pension fund regulatory body. But how much power will the workers have? Will they really have a say where the funds will be invested in? Do our present insurance companies allow the insuree to decide in which stock – good or bad – they will stake his money? In the 1970s, thanks to Peter Drucker and other management gurus, the US free market was swayed by the idea of pension fund socialism. The institutional investors, not the private owners, were promoted as the real boss of the corporates. The wave struck India too – and we have not forgotten Lord Swraj Paul and his aborted bid to take over Escorts. At that time at least, people became aware for the first time of how the private owners, backed by institutional funds, ruled the companies – holding just a fraction of shares of the units.

In the 1990s and early 2000 in the US, we also noticed some kind of pension fund activism where corporate heads – for example the CEO of General Motors - had to step down because of pressures of the pension fund bodies like Calpers, discreetly backed by the government. These retirement plans, often known as Taft-Hartley plans in the US, were supposed to give labour unions a voice on how these huge funds are to be managed. Ideally, the structure of the pension funds was made labour-friendly. It was supposed to improve corporate governance and deliver better shareholders value.

But in reality, things looked quite different. The phenomenal run of the stock market during the 1990s was mainly because of the investment of the pension funds, but the profit went to the private equity firms through which the pension funds were routed. A 2010 study revealed that the private equity funds – hedge funds, venture capital funds, real estate trusts – charged a management fee of 2 per cent on every dollar they managed and took a 20 per cent of the profits they made through investing pension funds. **The 10 largest public pension funds paid $17 billion to the private equity firms between 2000 and 2010 as service fee. The funds also gave 45 per cent of their total funds to manage the private equity firms. The amount of money invested by the private equity firms in the stock market rose from $200 million in 1980 to $200 billion in 2007 – a 1,000-fold increase because of pension funds. The explosive growth of private equity in the stock market in the 1990s was primarily due to pension funds.**

The pension funds had become the money bags for the biggest risk takers of the Wall Street, who went for corporate takeovers with their money in the 1980s and then bundled mortgages, including subprime mortgages, into new kinds of 'securities' – in the late 1990s and early 2000 – which they sold to naïve pension fund managers, who after the Enron disaster, was trying to shift their investment to real estate. Many of the public pension funds ended up with the financial organisations that received government bailout from the money that was given by the Department of Treasury to AIG, the insurance company in 2009. While in the 1990s, the growth in terms of revenue earnings of the pension plans were considerable, the figure, after the subprime crisis, slumped to somewhere around 15 per cent!

The Indian pension funds reforms cannot ignore this murky history. The government has a responsibility to improve upon its social security network even among the huge unorganised sector. In addition to the existing Employees' Provident Fund Organisation, the new scheme, the National Pension Scheme – introduced in January 2004 – has already drawn 24 lakh subscribers. One would be tempted to make good use of these locked in funds. But how? Already more than 40 foreign pension funds have registered with

the Securities and Exchange Board of India (SEBI) in the past few months to operate in India. Following their miserable performance in their home ground, would India dare to open up its treasures to them? We are certain to hear again the rationale of pension funds being introduced in the stock market for better corporate governance, introduction of workers' representatives in fund management and for better shareholders' value.

The government's stand in not ensuring minimum guaranteed returns for individual pensioners has been welcomed by the private fund managers. Already, the new National Pension Scheme is reportedly giving a better return than the scheme under the old Provident Fund Organisation. Guarantees will force the pension fund managers to move to government securities rather than to the equities. In the new set up, individual pensioners would also have the feeling that their representatives would be among those to decide where to invest the money. But the objection lies elsewhere. Can we trust the Indian fund managers? Pension funds reforms, along with the tainted FDI, would be more risky affair. We need change, but for a country which can create Suresh Kalmadis, Rajas and Sukh Rams at the drop of a hat, people are not very hopeful of a proper use of public funds – to say the least. Already, the Marxists have appealed to the opposition to unitedly defeat the Bill. In 2005, the first UPA government failed to pass the Bill because it was again the Marxists, then its ally, who opposed it. Now a depleted force, their voice may not be heard.

(Courtsey: Tehelka)

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New Pension Scheme: Defeat This Nefarious Conspiracy

By: Sukomal Sen

In order to face the economic crisis which is of their own making, neo-liberal regimes are hatching conspiracies in several ways to bleed the workers. Pension privatisation and the privatisation of banks and other public sector institutions are parts of this conspiracy.

The Pension Fund Regulatory & development Authority (PFRDA) Bill is now slated for introduction and passage in Lok Sabha --- at a time there are only a few members in the house, mainly from the Left parties, who are opposed to this anti-employee bill. This poses a serious threat to the government employees and other categories of employees who are covered by the statutory pension system.

Why is the UPA government so much bent upon pushing the bill through?

Retrograde Changeover

In an unwarranted intervention in the statutory defined benefit pension system, the IMF, in its work paper WP/01/125,(2001), stressed the creation of a pension fund by eliciting contribution from the wage earners at the earliest stage of their employment so as to fetch for them a decent (?) enough annuity to sustain them in old age. However, in fact, it was a suggestion for a retrograde changeover from the defined benefit pension scheme to a defined contributory system. While suggesting so, the IMF categorically stated that India did not suffer the demographic pressure the major countries experienced, for India's population beyond the age of 60 was about 7 per cent in 2004 which rose to 8.6 per cent in 2010 and is estimated to be 13.7 per cent in 2030 and 20 per cent in 2050.

During his recent visit to Washington, union finance minister Pranab Mukherjee assured the US secretary for treasury, when pressed by him, that the government would hurry up economic reforms (!) like privatisation of pension, privatisation of banking industry and more FDI in insurance sector. Naturally, it was under US pressure that our government bowed down to hurry up implementation of economic reforms (!) including privatisation of pension. Why are the US government, the World Bank and IMF showing so much interest in getting such measures adopted in haste? Is it not dictated by international corporate world?

The new contributory pension scheme, enunciated by the government of India and adopted by most of the state governments, marks the PRFDA Bill. The bill, inter alia, envisages a social security scheme for all who desire to have an annuity in old age, but it is voluntary and not mandatory. However, in the case of civil servants, who are recruited to government service after the prescribed cut-off date (January 01, 2004), the scheme is mandatory in as much as such employees are bound to subscribe 10 per cent of their emoluments to the pension fund while the government, as the employer, would contributes an equal amount.

No employee is entitled to opt out of the scheme.

Despite its inability to bring in a valid enactment, the government of India has thus decided to impose the new pension system arbitrarily on the central government employees and teachers, while excluding the personnel in the armed forces and paramilitary establishments. Also, all the state governments except the Left-led governments of West Bengal, Kerala and Tripura, did the same in regard to the state government employees and teachers in pursuance of illegal executive orders from the government of India. The governments of the Left ruled States of West Bengal, Kerala and Tripura consciously continued the defined benefit pension system existing earlier.

PRFDA Bill's Stipulations

The PRFDA bill stipulates that there will not be any explicit or implicit assurance of a benefit except the market determined return. A subscriber to the new pension scheme is thus exposed to the following risks after retirement.

a) If there is a major market shock, (s)he may end with no ability to purchase an annuity and the entire money contributed by her or him may be lost

b) Since annuity cannot be cost indexed, its real worth may fall, depending upon the inflationary pressures in the economy.

c) As per the scheme, a subscriber is to make the choice of investment portfolio. As civil servants are mostly uninformed in finance and investment related matters, one might end up in making wrong choices which would eventually rob her or him of the old age pension.

d) A subscriber is to perforce contribute towards the charges of investment managers, whose priority often is as to how much profit they could make through investment of the astronomical corpus of pension fund in the volatile share market.

The pension fund thus created by the employees' subscription and the employers' contribution --- the latter directly flows from the exchequer which is nothing but tax revenue of the government --- will be made available for the stock market operations which is not only unethical but also a blatant diversion of public fund for private profit --- to both foreign and Indian capitalists.

It is rightly feared that, when enacted, the PFRDA bill will empower the government to alter or even deny the present employees and pensioners the statutory defined pension benefit, as has been done in the case of those who are appointed after the cut-off date.

While considering the agenda of contributory pension scheme, the 6th Central Pay Commission (CPC) asked the Bangalore based Centre of Economic Studies and Policy to examine the issue. The study conducted by the institution concluded the following:

"Since most of the state governments have chosen to switch over to "contributory pension scheme," in fairness (from the study conducted by the Centre for Economic Studies and Policy) it can be concluded that the pension liability of all the state governments are bound to increase to three times of what it is today, by 2038." This plainly means huge losses of government revenue for the benefit of Indian and foreign capitalists.

We may, in fine, quote the conclusion reached by the committee set up by the 6th CPC to judge the issue. This paragraph appears on page 76 of the report by the Centre for Economic Studies and Policy, Institute for Social and Economic Change:

"Mainly given the fact that the future liability although may be large in terms of absolute size is not likely to last very long and does not constitute an alarmingly big share of the GDP which is also on the decline. It appears that pursuing the existing 'Pay as you go' to meet the liability will be an ideal solution."

We must therefore strongly demand of the government of India that for the reasons adduced in the foregoing paragraphs by an expert research institute, the new pension scheme enshrined in the PFRDA bill must be withdrawn forthwith --- in the interest of the civil servants as well as the exchequer.

Why Pension Privatisation

The toiling people of the world cannot forget the second biggest world shaking deep capitalist crisis, after that of 1929, one which began in September 2008 with the crash of New York's Wall Street, the nerve centre of world capitalism. The catastrophic effects of this crisis are still operating in respect of the working class and the poor in particular.

Immediately after the collapse causing crisis, political leaders of major capitalist states in the world got together several times and harped on the same theme --- that public expenditure has to be drastically curtailed and austerity measures have to be strictly followed by all the governments to tide over the crisis. Along with it, they granted bailout packages to the bourgeoisie, spending tremendous amounts of money from their state exchequers. In other words, they transferred the common people's money to the same collapsing industries and companies whose limitless greed for profit was the chief cause of the system's breakdown.

What they actually meant by curtailing public expenditure and by austerity measures? In fact,

they wanted to hoodwink the people by some apparently innocent terminologies. But, in reality, cutting public expenditure and adopting austerity measures, means cuts in workers' and employees' social security measures in the form of privatisation, cutting down pensions, stopping recruitments, promotion of contract basis or piece-rate basis employment, cuts in medicare and educational benefits, cuts in wages and salaries to cripple the already deteriorating economic condition of the workers and the poor by all possible means.

The sharply rising unemployment and the rising trend of the number of contract employees overtaking that of regular employees are the main features of this so-called austerity.

To be sure, such policy measures impacting the workers and the poor were already there, and also the mass and class struggles against them were rocking Europe and other parts of the world, including India. What happened after the Wall Street crash was that additional economic attacks were launched against employees and workers, and their trade union rights. These now became backbreaking for the workers and the poor.

That is why the international trade union movement, and the World Federation of Trade Unions (WFTU) in particular, raised the slogan that workers must not be forced to pay for the crisis; it is the capitalists and their governments who created the crisis, who are responsible for it, and it is they who must pay for this crisis. It means the governments and the capitalists cannot be allowed to augment the workers' hardships. On the contrary, governments must mop up a part of the enormous profits the capitalists are gaining and increase the taxes on the rich to generate resources in order to meet the deficit.

Which governments have followed the course suggested here? None of the governments, including that of India, has cared a hoot to follow it. On the contrary, they are merrily imposing further backbreaking burdens on the workers and the poor people while the rich are wallowing in their sharply increasing wealth.

Whose Money is at Stake?

Pension privatisation is an attempt of the same kind. In India, more than one crore of people are in government employment --- in states, centre, railways, defence and other public sector units like the BSNL. **Privatised pension means deduction of 10 per cent of a worker's pay every month, following which the government will contribute an equal amount to the pension fund, and this astronomical sum will be handed over to capitalists, both Indian and foreign. The fund managers selected for the purpose would invest this fund in the share market and the capitalists would garner fabulous amounts on this investment when the share market index rises. But whose money they are to invest in the share market? Not theirs but of the poor employees, while the benefits will go to the pockets of these Capitalists and not of the employees. Employees may get a portion of it only when the share market rises. In case the share market falls, the employees' money would get drowned in the sea.**

In addition, the government intends to make a 'pension plan' for poor workers as well. The project is alluringly named 'Swalamban,' which means self-dependence. But what self-dependence? The government will take a certain amount from the wages of the poor workers and that money too would be invested in the share market to help the capitalists reap huge profits. In the process, a poor worker may lose every pie of her/his life-time savings as (s)he would be at the mercy of an unreliable share market.

Capitalists are like vultures in the sky, searching for an animal carcass lying below. The PFRDA bill intends to help them.

During the recent debt-limit crisis in USA, President Obama's Democratic Party and the opposition Republican Party came to agree on a formula --- the rich would not be touched by further taxation; on the contrary, medicare and other public expenditure would be cut and the money, meant for the common people's benefit, would be utilised to meet the deficit and tide over the crisis.

This process of rescuing the ailing and collapsing corporate houses is calculated to transfer the burden from their shoulders to the government's. This may set in a sovereign crisis that would engulf the entire economy of a country. The poor would be its biggest victims.

This is the inhuman logic of capitalism in its neo-liberal phase.

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Importing Risk into Insurance

By: C. P. Chandrasekhar

On October 4, in a cabinet decision that had been predicted by the media and expected by the stock market, the United Progressive Alliance (UPA II) government announced hikes in the ceiling on foreign equity ownership from 26 to 49 per cent in units in the insurance sector and from nil to 49 per cent in the pension fund industry.

The immediate motivation for approving these measures was the government's declared intent of winning the approval of international rating agencies and foreign investors. To that end, the insurance reforms were presented as part of a set of decisions, including clearance for FDI in multi-brand retail and civil aviation, hikes in diesel and LPG prices and changes to the forward contracts regime, announced end-September and early-October.This combined reform thrust was aimed at establishing that the government was not just committed to reform, but also not paralysed on the policy front. Thus, the measures also would, according to Finance Minister P. Chidambaram, "one, stabilise the rupee; two, reverse the direction of capital flows from outflow to inflow; and three, control expenditure" (in order to reduce the fiscal and current account deficits).

However, as of now, the liberalisation of foreign investment norms in the insurance and pension fund industries is still symbolic. The cabinet decision requires parliamentary approval before it becomes law and can be implemented. To secure support, the increase in the FDI cap is being justified as a measure aimed at attracting much-needed capital for the insurance industry itself. As the Finance Minister put it: "The estimated capital requirement in the insurance sector is about $5-6 billion in the immediate future," ostensibly to increase insurance penetration. Hari Narayan, the Chairman of the Insurance Regulatory and Development Authority, has declared that FDI in insurance was in any case required, and that the new measure could attract the 300 billion rupees the industry requires over the next five years. More capital in insurance is also seen as the base required for mobilising the resources needed to finance crucial investments in the infrastructure sector, even though a small proportion of insurance funds flow directly to the infrastructure sector at present. For example, the figure is four per cent in the case of the life insurance companies.

The validity of these claims is suspect. Moreover, what is being underplayed here is the implication for financial stability of allowing easy entry for profit-seeking players known to adopt practices that have had adverse consequences even in countries like the US. Insurance has always been a highly regulated sector, with some emphasis on restricting rather than encouraging competition. This is because what the industry sells as "products" are mere promises to pay specified amounts, if and when, specified events occur. The buyers of insurance seek to insulate themselves from risks such as fire, theft or illness or to provide for dependents in case of death. To that end they enter into contracts requiring them to pay in advance large sums in the form of premia, in lieu of a promise that the insurer would meet in full or part the costs of some future event, the occurrence of which is uncertain. The difficulty is that the distance in time between the payment of the advance premia and the registration of any likely claim is large, during which time the insurer would have to deploy funds in investments that are safe and offer returns that ensure the availability of adequate funds to meet those claims from the insured.

There are many risks here. Given the likelihood of the event insured against afflicting any among the insured, the insurance company would have to price the contract such that the sums collected and invested yield stable returns needed to cover claims that arise. The contract may be underpriced. The probability of claims arising may be underestimated. The insured may not take adequate precautions to prevent the occurrence of the event insured against, such as ill health or fire. The insurer may make wrong investment choices. As a result of any one or a combination of these either the insurer or the insured (or both) can suffer losses.

This makes excessive competition in insurance a problem. In an effort to expand their business volumes and earn higher profits, insurance companies could underprice their insurance contracts, not obtain or ignore information on policy holders, and invest their funds in high-risk, ventures that promise higher returns. Not surprisingly, countries where competition is rife in the insurance industry, such as the US, have been characterised by a large number of failures. As far back as 1990, a Sub-committee of the US House of Representatives noted in a report on insurance company insolvencies revealingly titled "Failed Promises," that a spate of failures, including those of some leading companies, was accompanied by evidence of "rapid expansion, over reliance on managing general agents, extensive and complex reinsurance arrangements, excessive underpricing, reserve problems, false reports, reckless management, gross incompetence, fraudulent activity, greed and self-dealing." The committee noted that

"the driving force (of such 'deplorable' management practices) was quick profits in the short run, with no apparent concern for the long-term well-being of the company, its policy holders, its employees, its reinsurers, or the public." The case for stringent regulation of the industry was obvious and forcefully made.

Things have not changed much since, as the failure and $170 billion bail-out of global insurance major American International Group (AIG) during the 2008 crisis made clear. AIG was the world's biggest insurer when assessed in terms of market capitalisation. It failed because of huge losses in its financial products division, which wrote insurance on fixed-income securities held by banks. But these were not straightforward insurance deals based on due diligence that offered protection against potential losses. It was a form of investment in search of high returns, which allowed banks to circumvent regulation and accumulate risky assets.

As one witness at a post-crisis hearing of a Senate committee on AIG put it: "At AIG, it was not enough to insure lives or property or health. A largely unregulated corner of the company decided it would make enormous bets on exotic financial arrangements, providing insurance where there were no actuarial tables, almost no actual experience, and no Government regulation and no oversight." When a lot of the assets turned worthless AIG could not be allowed to go because of the systemic effects it would have, necessitating a tax payer-financed bail-out that amounted to nationalization.

It is firms like this that are now being offered a foothold in the Indian market, with even less experience of regulation. Through much of the post-Independence period, risks of insurance company failure were substantially reduced in India because of two factors: regulation, especially of the investments undertaken by insurance companies; and public ownership, which helped government ensure that insurance managers adopted sound business practices. Both of these are now being diluted.

The insurance business in India has gone through four phases, with some variation across the life and non life business. In the first phase starting around the last quarter of the 19th century to the First World War, an emerging insurance industry functioned without any statutory regulation, with attendant adverse consequences for firm survival, insurer protection and financial sector stability.

In response, starting in 1912 and going up to 1950, the British government and then the government of independent India put in place and consolidated a regulatory regime, geared initially to protecting the interests of those buying insurance by limiting bad business practice and stalling company failures. However, one problem remained, which was relatively free entry, leading to excessive competition and unviable and speculative investments in the industry, which in turn contributed to failures.

Finally in 1956 in the case of life insurance and 1972 in the case of general insurance, the industry was nationalised. At the time of nationalisation there were 245 Indian and foreign insurers in the life insurance business. In the case of general insurance there were 107 companies. These were consolidated under the Life Insurance Corporation on the one hand and four companies (namely National Insurance Company Ltd., the New India Assurance Company Ltd., the Oriental Insurance Company Ltd and the United India Insurance Company Ltd) in the general insurance business on the other. The General Insurance Corporation of India was incorporated as a holding company in 1971 and began operations in 1973.

Nationalisation had four principal objectives. One was the extension of the reach of insurance to a larger proportion of the Indian people. The second was the protection of the interests of the public that was to be encouraged to develop the insurance habit. The third was the use of the large volume of resources expected to be mobilised for developmental purposes. And the fourth was to ensure the stability of the insurance industry, which was an important segment of the financial sector. Public ownership was seen as a means to achieve these objectives, by keeping rates low, cross-subsidising activities and pre-empting a significant share of the mobilised resources for government-financed investments.

Despite the relative success of nationalisation, the post-1991 liberalisation wave saw the onset of a fourth phase in the history of the Indian insurance business. The phase began in 1999 when the 1994 recommendations of the liberalisation-inspired Malhotra Committee (set up in 1993) began to be implemented with the constitution of the Insurance Regulatory and Development Authority (IRDA). This was followed by the decision to implement the recommendation to permit the entry of private sector firms into both the life and non-life business, with provision for up to 26 per cent ownership by foreign firms.

Further, in December 2000, the subsidiaries of the General Insurance Corporation of India were made into independent companies and the GIC was converted into a national re-insurer. Since then there has been a continuous stream of private entrants into the business, so that after a little more than a decade there were 23 life insurance companies and 24 general

insurance companies (including the ECGC and Agriculture Insurance Corporation of India) populating the industry. The justification for and the declared objectives of insurance liberalisation were the promotion of competition so as to improve customer service, the enhancement customer choice and the reduction of premiums, while ensuring the stability of insurance firms and the insurance market. The actual outcome seems different. One effect has been a sharp increase in the volume of the insurance business with total premia in the life insurance business, for example, growing at a compound rate of around 25 per cent per annum during 2000-01 to 2010-11. This was partly because of a faster pace of expansion of business in the private sector, resulting in a decline in the share of the public sector Life Insurance Corporation from 100 per cent in 2000-01 to 70 per cent in 2010-11. In the non-life sector the market share of PSUs fell even faster, from 96 per cent in 2001-02 to 58 per cent in 2010-11.

Unlike in the case of the LIC, where the original infusion of equity was small given the implicit sovereign guarantee provided by the government, the norms for private entry require a much larger infusion of equity into private insurance firms. Equity capital in the combined life and non-life business rose from Rs. 3,186 crore in 2001-02 to Rs. 29,938 crore in 2010-11.This, together with the fact that there is at present only one fully Indian private company in the life business, meant that the expansion of the insurance sector did bring in a reasonable amount of foreign capital into the country.

Among the new features of the insurance sector after liberalisation, a few are particularly worth noting. First, equity infusion into the life business segment of the industry has been much greater than into the non-life business, resulting in the equity share of the former rising from 52 per cent of the total to 80 per cent. This may be indicative of private, including foreign, interest in areas that are more profitable and less risky. However, despite the large inflow of equity, the overall ratio of equity to assets under management remains small, amounting to just 1.7 per cent in the case of the life business as a whole in 2010-11. This increases the possibility of insolvency. Second, within the life segment, the share of hybrid instruments, such as unit linked insurance plans that involve market investments, which ensure better returns for the insurer and higher cost and more risk for the insured, have been increasing. The share of funds garnered through such instruments in the total rose from nil in 2000 to 28 per cent in 2010-11. Third, within the non life business too, private firms seem to be concentrating on the motor insurance area, with its share of outstanding private, non-life premiums rising from 24 per cent in 2005-06 to 42.4 per cent in 2010-11.

The focus on motor insurance is partly because of the large and growing market and the ability of the industry to hike premia. For example, in July 2002, just when liberalisation was resulting in private entry into the non-life insurance business, a number of nationalised general insurance companies took measures to raise rates of premium and actually reduce the number of policies on offer. Rates of premium went up by a third to around 40 per cent on many policies. Insurance firms justified these increases by pointing to the much higher rates being charged by new private entrants into the insurance business. **Competition under liberalisation was clearly not lowering prices but equalising profits across private and public, with public sector companies required to show that they were no less "efficient" than private players. Keeping premia low by accepting just reasonable profits and resorting to measures like cross-subsidisation was no more acceptable, and insurance companies were calculating profits on each line of business separately. This was despite the fact that both the LIC and the general insurance sector were already highly profitable. The thirst for profits also resulted in an unwillingness to provide insurance cover to consumers who cannot pay enough to deliver a "competitive" profit.**

Given these trends it is indeed surprising that the government has decided to increase foreign presence, on the grounds of increasing insurance penetration and density. This is unlikely to increase the spread of insurance across the population by much, but would import practices of the kind described earlier that characterise the industry in the US. This would subject the savings of the middle classes to increased probability of loss by enticing them into investing in new schemes that are opaque but involve higher risk. The government, of course, argues to the contrary. But the direction of movement is clear from the fact that, having introduced the new pension scheme that diverts a part of the lifesavings of the middle classes to investment in the market, the government has decided to allow foreign equity participation to the tune of 49 per cent in the pension fund industry as well. That may appeal to foreign investors and temporarily enthuse speculators in stock markets. But the consequences in the long run are likely to be the return of fragility and increased failures.

(Courtsey: Macro Scan)

FDI Hike in Insurance Harmful

By: Amanulla Khan

The UPA government's decision to hike FDI limit in insurance and allow foreign equity participation in the pension sector is meant to placate the domestic and international finance capital. The government feels this decision will fuel foreign investors' interest in India and help revive our faltering economy. But from the past experience, it becomes clear that this move would neither benefit the Indian economy nor bring any gains to the insuring public. Despite vehement protests by the AIIEA, a number of political parties and the democratic opinion in the country, the government appears determined to bring the necessary legislation in the coming winter session of parliament and work for its approval. The finance minister has been going round the country justifying the FDI hike, exuding confidence that the Bill will pass the test with the support of BJP, the main opposition party.

The decision to hike the limits of foreign equity participation is not new. It was taken in 2004 itself when UPA-I assumed the reigns of power in the country. The UPA-I government could make no headway in this direction as it was critically dependent on Left parties' support for its survival and the Left had made known in no uncertain terms that FDI hike is unacceptable to them. The arguments against FDI hike put forth by AIIEA also pushed the government on the back foot. The UPA-I introduced the Insurance Laws (Amendment) Bill 2008 after the withdrawal of support by the Left parties. This Bill was brought to amend the Insurance Act 1938, IRDA Act 1999 and General Insurance Business Nationalisation Act 1972. The government justified the Bill saying that some of the provisions in these three Acts had become archaic and need modification to meet requirements of the modern insurance industry. But the real intent was to further liberalise this sector and place it in the architecture of global finance capital.

Standing Committe Decides against FDI Hike

The opposition of the Left to this Bill and the popular support AIIEA mobilised against this move forced the government to refer the Bill to parliamentary standing committee on finance for closer scrutiny. The AIIEA submitted a written submission to the standing committee and also deposed before the committee to explain its opposition to the FDI hike. The AIIEA also argued against the proposal to allow the GIC and four public sector general insurance companies to raise capital through disinvestment. **The standing committee came to the unanimous conclusion that there is no need to increase the foreign capital in insurance industry. The standing committee observed that "the government seems to have decided upon this issue without any sound and objective analysis of the insurance sector following liberalisation". Cautioning the government of the global financial crisis, the committee recommended to the government that the private companies may explore avenues to tap the domestic capital instead of increasing the FDI limits. The standing committee, however, by majority opinion agreed with the provision enabling privatisation of GIC and four public sector general insurance companies with Moinul Hassan, CPI(M) MP, being the lone dissenting voice. In order to allay our fears on privatisation, the standing committee recommended that the government must ensure that at no stage the government equity holding in these companies comes below 51 per cent.**

The union cabinet that met on October 4, 2012 rejected the unanimous recommendation of the standing committee and decided to hike the FDI limit in insurance to 49 per cent from the present 26 per cent. It also decided to allow the GIC and four public sector general insurance units to raise capital through public offerings. In a separate move it also decided to push ahead with the Pension Fund Regulatory and Development Authority (PFRDA) Bill permitting foreign equity into pension funds on the lines of insurance. In deciding these issues, the government has been advancing the same beaten arguments again.

Totally Unconvincing

The finance minister and the chairman of Insurance Regulatory Development Authority (IRDA) have been making statements that the insurance industry is starved of capital and is unable to grow. Both of them have been projecting that the industry needs another 5 to 6 billion US dollars to expand the businesses and increase the penetration level. The statement of IRDA chairman contradicts its own earlier stand that 26 per cent cap on foreign equity limits has not hampered the expansion of the private sector. These were the very same projections made before the parliamentary standing committee on finance. The standing committee noted that the projections as per the chairman of IRDA during his deposition are "just an arithmetic', 'not very accurate' and 'just a general estimate of where the industry stands'. The standing committee dismissed these arguments as lacking sound basis and totally unconvincing. The total capital deployed by the foreign partners in a period of over 10 years is just a little over 1 billion US dollars (Rs 6813 crore). The experience of the past 10 years does not justify the

expectation that foreign capital would flood the industry once the FDI cap is raised.

The private companies did not suffer for want of capital either. All the 41 private companies in the sector have pan India presence. These companies have been promoted by big industrial and financial houses. Being the giant industrial and financial conglomerates, they have access to enormous resources. **The experience of the past few years suggest that the parent companies of the private insurers have been heavily investing and purchasing businesses outside the country. The available statistics also suggest that there has been more outflow of capital than inflow.** These companies can tap the domestic resources if infusion of capital is needed. The rules also permit the companies with more than 10 years in business to make public offerings. Therefore, the argument that insurance industry can survive and expand only with the hike in FDI is untenable.

The life insurance industry in India had been performing exceedingly well since its nationalisation in 1956. The coverage by LIC even at the time of opening up of the industry was surprisingly high considering the low per capita income and lack of disposable income in the hands of overwhelming sections of the population. It is a fact that the reach and coverage of life insurance at the time of opening up of the sector was greater than that in many countries with 5 times or more higher per capita income. It was a mere coincidence that the country registered a growth of 8 to 9 per cent in the post opening up period till the economy felt the impact of global financial meltdown of 2008. The IRDA Annual Report for 2010-11 notes that premium mobilisation of the life insurance industry is around 4.4 per cent of the GDP. The life insurance penetration in India compares favourably with the United States 3.5 per cent and Germany's 3.3 per cent. It also compares favourably with the global average of 4 per cent. The argument that insurance penetration is low and therefore the industry needs additional infusion of foreign capital is just not correct.

The growth of the life insurance industry critically depends on the levels of incomes, particularly levels of disposable incomes. The last two years have been very difficult for the Indian economy. The insurance industry cannot be an exception. The domestic savings for the year 2011 were at an 11-year low and the financial savings were at a 21-year low. This resulted in the lower collection of premium and also forced the private companies to close down branches and prune down the work force. Some foreign insurers like Sunlife have exited India and others like ING are looking to sell their stake. Most of these foreign insurers are in difficulty in their own countries and their first priority is to consolidate their businesses there. Even in such difficult period the public sector performed well. The LIC regained the market share. Its share in premium income in August 2012 is 76 per cent and it has 81 per cent share in the number of policies. The private sector finds it difficult to beat the LIC and the FDI hike is another attempt to weaken the public sector.

High Repudiationof Claims in Private Sector

The experience of the past one decade confirms that the insuring public has not benefitted by the opening up of the industry. The claim settlement is the final test for an insurance company. The IRDA statistics reveal that nearly 11 per cent of the death claims are repudiated by the private companies on average. The LIC holds the best claim settlement record. It settles 99.86 per cent of the claims intimated. The IRDA itself has expressed concern that the lapsation of policies in the private sector is very high. There are companies with lapsation ratio of over 40 per cent. The LIC has the lowest lapsation ratio of 5 per cent. The IRDA has gone on record to say that insuring public has suffered due to high lapsation and private companies have been able to earn profits due to this. This scenario clearly makes a case that FDI hike cannot bring any gains to the policyholders.

Not Much Contribution to Infrastructure

There is no dispute that India needs huge funds for infrastructure building. But the argument that increasing foreign equity in insurance will help in generation of funds for infrastructure is flawed. The experience of the past one decade and more of opening up of the industry clearly suggests that the private sector has made minimal contribution to the infrastructure funds. **The hype created at the time of opening the sector that foreign partners will bring substantial portion of their global premiums into Indian infrastructure has turned out to be totally untrue. It is a pity that this UPA-II government has made development hostage to foreign capital with the understanding that Indian economy cannot grow without it. Finance capital is always in search of quick profits. It does not come to any country to express gratitude or help the growth and economic development of that country. It basically comes for profits. Therefore, to expect that foreign capital will come into infrastructure projects that have long gestation period is a totally flawed understanding. Hiking the FDI limits and allowing the foreign capital gain greater access and control over the domestic savings will harm the national economy instead.**

The insurance industry is facing serious

stagnation in the United States and the West. India has a young population. More than 65 per cent of the population is below 35 years of age. The country lacks any social security. All this makes India a very attractive market for both insurance and pensions in the long term. That precisely is the reason why foreign capital wants a greater space in the financial sector.

Privatisation is Imprudent

The move to privatise the GIC and four public sector companies is imprudent. These companies are profit making and have contributed enormously to the nation-building activities. They are adequately capitalised and have huge assets and reserves. They are capable of raising resources internally in case they need additional capital. Privatising them is to hand over the most precious public assets to the private interests. The public sector needs consolidation instead of privatisation. The four companies should be merged into a single corporation on the lines of LIC to help in leveraging the collective strengths to meet the competition and to carry out the social obligation.

The FDI hike in insurance, foreign equity participation in pension funds and privatisation of public sector general insurance companies would harm the national interests and place the savings of the people in the hands of the speculative forces. These measures have to be fought resolutely. The public and political opinion has to be mobilised along with the industrial actions by the insurance employees to defeat the nefarious games of the UPA-II government.

(Courtsey: India Current Affairs)

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India, China and the World

By: Prabhat Patnaik

During the first decade of this century when both China and India were experiencing high rates of growth, they were often bracketed together as the new "emerging economic super-powers". Terms like "Chindia" were coined to refer to this phenomenon of the two large countries of the world growing impressively in tandem. What was missed in all that euphoria was the fundamental difference between the growth experience of the two countries. This difference is becoming more apparent now, as the impact of the world capitalist crisis reaches Asian shores; and it consists in the fact that India's economy is far more vulnerable to the crisis than is China's.

One may be critical of China's economic policies, notwithstanding their success in ushering in high growth, for a variety of reasons, but it is undeniable that China's economy is on an altogether different footing today than India's, a fact that was somewhat camouflaged earlier when the world capitalist economy itself was doing well. An important corollary which follows is that those who defend neo-liberal policies in India by citing China's growth-success, as if India can simply replicate China's experience, are completely wrong.

Crucial Difference

Two aspects of this difference are relevant here. The first is that China's export success was based on manufacturing, while India's export-success, such as it was, related to services, especially to IT-related services. Per unit value of exports, the former creates larger employment than the latter, since the wage rates of those employed in the former are relatively lower than of those employed in the latter. What is more, the relatively-lower paid workers in the former, precisely because inter alia they are lower-paid, tend to spend more of their incomes on domestically-produced goods than the relatively better-paid employees in the latter, who spend proportionately more, directly or indirectly, on imported goods.

The total employment generated per unit value of exports, both direct and indirect, when these exports consist of manufactured goods is therefore larger in the domestic economy than the total employment generated per unit value of exports when these consist of IT-related services. The impact of a unit value of exports in alleviating unemployment and using up labour reserves, which lie at the root of poverty in economies like ours, is therefore larger when these exports consist of manufactured goods as in China. This, together with the fact that China's exports in its area of success was larger in value terms than India's, meant that the export-success achieved in China had a more profound effect on its economy than that achieved in India.

In addition, for the reason already mentioned, viz the higher import-intensity of the expenditure of the relatively better-paid service sector employees, more imports are demanded per unit value of exports from this sector than per unit value of exports of manufactured goods (a proposition that would be true even after taking account of imported inputs of the manufacturing sector when the manufactured goods are of the relatively simple kind, as in the case of China). Hence the balance of payments effects of export growth when this growth is of exports such as China's would be far more positive than when the

growth is of exports such as India's. And this brings us to the second, and even more important, difference between the growth stories of India and China.

Another Basic Differnce

China has systematically had a current account surplus on the balance of payments, while India more or less systematically has had a deficit. China's surplus has contributed to the building up of its foreign exchange reserves, while India has had to depend upon foreign capital inflows to finance its deficit; and its reserves have got built up only because this inflow has exceeded the deficit. The implications of this basic difference can be seen through a simple numerical example.

Consider a country whose exports are 100 and imports, for a particular level of domestic economic activity, are 50. If world demand falls because of a crisis, and its exports fall to, say, 80, then it can still maintain its level of domestic activity without any balance of payments difficulties; all that would happen is that its trade surplus, instead of being 50 as was the case earlier would now shrink to 30. True, the decline in exports from 100 to 80 would mean reduced aggregate demand, especially demand for those goods that were being exported earlier; but this deficiency in demand can be made up by increasing its fiscal deficit by 20. The world economy's crisis in other words would not affect such a country: it can maintain its output and employment by expanding its fiscal deficit to offset the decline in world demand for its goods, and can do so with impunity because its balance of payments current account, already in surplus to start with, would not get into the red anyway (unless the decline in world demand for its goods exceeds its initial current account surplus).

Now, consider the case of another country which has a current deficit to start with, at some particular level of domestic economic activity. Suppose its exports are 100 and its imports are 130 and its gets foreign capital inflows of 50 which pay for its current account deficit and add 20 to its reserves. Now, suppose its exports fall to 80, ie, by 20 as in the previous example, because of the world crisis; then its current account deficit increases to 50 and it cannot do without getting the same amount 50 of capital inflows as before, even when it does not add to its reserves. Any lower amount of capital inflows would mean a depletion of its reserves, which of course cannot continue for long; besides, such a depletion, if it sets off a capital flight by speculators, can make the reserves disappear overnight. If the decline in exports compared to the initial situation is larger than the accretion to reserves in the initial situation, then the amount of capital inflows needed to maintain the same level of output and employment as in the initial situation, will be even larger than initial situation.

Mounting Attacks

To maintain, or even expand, the inflow of capital, in the changed situation when everybody, including the financial speculators, know that the country's balance of payments situation has become precarious, the country will have to undertake massive measures to entice global finance capital into its shores; and every single one of these measures would be aimed at squeezing the people, for that is precisely what boosts the "confidence of investors" in the economy. Thus, reducing subsidies to the people, raising administered prices, privatising public sector assets, cutting down on welfare expenditure, making the State retreat from the responsibility of providing the essential services needed by the people, increasing the burden of indirect taxes to close the fiscal deficit, are the typical measures that have to be undertaken by the State to entice finance capital.

But it is not as if these measures, once undertaken, will suffice for ever in enticing an annual flow of finance capital of the requisite order of magnitude to meet the current account deficit. The enticing effect of any particular set of measures wears off after some time, and a whole new set of measures have to be announced in addition to what has been already done. Like a drug addict needing repeated doses of drugs to keep himself going, finance capital requires repeated announcements of pro-finance and anti-people measures to come to a particular country, and since each set of measures is anti-people, their cumulative effect against the people builds up over time. To keep up the level of activity of the country in this second case therefore, there has to be a cumulative attack on the people to entice the flow of finance capital into the country. Besides, since there is no guarantee that finance would still come in to an appropriate extent if such measures are announced, and since finance itself generally wants "austerity" policies that lower the level of activity, such an economy typically ends up with a combination of both lower levels of activity (which in effect means, once we move out of our simple example, lower growth rates), and cumulatively mounting attacks on the living conditions of the people.

The contrast between the two examples given above is the contrast between China and India. China, even in the context of the world capitalist crisis, can still maintain its growth rate with the help of domestic fiscal stimuli that would offset the contractionary effects of reduced exports, without worrying about its balance of payments because it has a substantial current account surplus to start with. But India, which

generally has a current account deficit, will only experience a widening of this deficit because of export reduction (as it is already doing), and will make ever increasing concessions to global finance to meet this deficit, because of which it will end up with both a lower growth rate and a growing attack on the living conditions of the people. The Manmohan Singh government at this very moment is engaged in this task of enticing global finance to meet the current account deficit; and we already see a combination of lower growth and mounting attacks on the people.

True, if the world capitalist crisis was just a passing event, so that the export drop was merely temporary, and the desperation associated with the need to attract global finance within the context of "liberalised" economy was a merely transitory affair, then matters might not have been as serious. But the world capitalist crisis, far from being a passing phase, is turning out, for good reasons, to be a protracted one. "Liberalised" economies like India, if they stay "liberalised" during this protracted world crisis, will experience both reduced growth rates and growing attacks on the people, even as global finance is allowed greater control over the nation's resources, and the State becomes fully preoccupied with the task of keeping a group of international financial speculators happy.

China does not face such dire prospects, which is why those who are inspired by China's export and growth successes to endorse "liberalisation", who cite the Chinese experience as exemplifying the fate of a "liberalised" third world economy, are so completely off the mark.

(Courtsey: Macro Scan)

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The Working of Wal-Mart in U.S.

As America's largest retailer, second-largest corporation, and largest private employer (with 1.3 million workers), Wal-Mart made headlines last year at an unprecedented rate. All too often, these headlines revolved around Wal-Mart's infamous employment practices.

While Wal-Mart isn't the only big box store criticized for its policies, it has become a symbol for much of what is wrong with employers. Wal-Mart reported a net income of over $11 billion last year—surely plenty of money to remedy some questionable workplace practices—yet stories persist about wage law violations, inadequate health care, exploitation of workers, and the retailer's anti-union stance. Altogether, some 5,000 lawsuits are filed against Wal-Mart each year, or roughly 17 suits per working day.

Wal-Mart Documentary: Public Relations Nightmare

November 2011 saw the release of the film Wal-Mart: The High Cost of Low Price. Through interviews with employees and former managers, the documentary presented a critical view of Wal-Mart's policies, particularly with respect to treatment of Wal-Mart employees. In response to the film's release, Wal-Mart hired several former presidential advisers to establish a "rapid-response public relations team." In December, Wal-Mart formed an advocacy group, called Working Families for Wal-Mart, which was headed by former Atlanta mayor and UN Ambassador Andrew Young.

Unfortunately for Wal-Mart, this public relations campaign hit a snag in August 2012, as Young told the Los Angeles Sentinel that Wal-Mart should displace traditional mom-and-pop stores. Young elaborated further: "You see those [small store owners] are the people who have been overcharging us, and they sold out and moved to Florida. I think they've ripped off our communities enough. First it was Jews, then it was Koreans and now it's Arabs." Young resigned hours after the interview was published.

Anti-Union Stance

Wal-Mart's anti-union stance made headlines once again this year. After workers at a Wal-Mart store in Québec successfully unionized, Wal-Mart announced that it would close that store, citing "economic reasons." Last September, Québec's labor relations board rejected Wal-Mart's argument and found that Wal-Mart's firings were illegal.

In November of last year, Wake Up Wal-Mart, a UCFW-sponsored group critical of the retailer, formed a national association, called the Wal-Mart Workers of America, in an attempt to organize Wal-Mart workers, albeit without forming a union.

In January, the 8th Circuit Court of Appeals handed Arkansas Wal-Mart employees a victory, reinstating a lawsuit alleging that Wal-Mart engaged in anti-union activities.

In August, at the same time Wal-Mart was agreeing to work with Chinese officials to establish unions for 30,000 store employees, the retailer reaffirmed its anti-union stance in North America. Wal-Mart explained that its motivation for permitting unions in China was to comply with Chinese laws, while the company's critics argued that the move was not done for the interests of workers and instead only demonstrated Wal-Mart's desire to please its biggest trading partner.

(Courtesy: Workplace Fairness, 2012)

How Wage-led Growth has Powered Argentina's Economic Recovery

By: Jayati Ghosh

As the global economy sputters into yet another recession in the ongoing drama generated by the 2008 financial crisis, it is easy to be pessimistic. Many countries that are critical to overall trends in the world economy seem to be locked into a self-defeating downward spiral of fiscal austerity measures that add further negative impulses to economies that are already affected by the impact of the initial crisis and the winding down of excessive private debt. So GDP stagnates or declines, making the indicators that financial markets are obsessed with (such public deficit or debt to GDP ratios) look that much worse, further adding to the pressures even on finance.

Everyone hopes for salvation from higher exports, which is a false hope in a period when almost all economies are trying the same thing. A big part of the problem is the continued dominance of an economic policy model that has clearly failed, and currently has no answers to deal with the escalating problems. Clearly this situation cannot carry on for very long, and on current trends an unhappy outcome cannot be very distant. But in fact, this is not actually inevitable – even in this extreme situation it is possible to imagine some ways out of the current predicament, if only policy makers have the imagination and will to embark on a quite different trajectory.

Fortunately, there are some bright spots of alternative macroeconomic trajectories, particularly in Latin America. One example of an alternative strategy that has paid significant dividends in terms of generating more genuinely inclusive growth is Argentina. Curiously, this country regularly gets a hard time in the global financial media despite its evident success in terms of relatively stable GDP and employment growth. Could this be because its strategy had defied so many of the current orthodoxies that are so clearly failing in most other places? Or because more knowledge about the actual nature of the policies that have been applied in Argentina might encourage more governments to think differently from the current mainstream?

Consider just some of these facts. Since 2003 (when Argentina had just been through one of the most severe financial crises ever experienced by any developing country) real GDP has grown at an annual rate of around 9 per cent. This has been sustained not just by increasing exports fed by the global commodity boom (which is the point generally harped upon by most external commentators) but by sustained expansion of the domestic market, strengthening of production and increase in investment, which reached historically high rates of 23 per cent in the period 2003-09. This was not all or only about public investment – there were nearly 130,000 new private enterprises registered between 2003 and 2009. This investment in turn powered a substantial increase in labour productivity, which had languished through the earlier two decades.

The increase in the domestic market was in turn led by labour market dynamics and the expansion of social protection systems – precisely in the manner advocated by proponents of wage-led growth. Total employment increased substantially, much of it in better quality jobs. There was a significant increase in formal employment, which increased by 70 per cent between 2002 and 2009. The ratio of registered workers to total working age population (which had stagnated for the previous 25 years) increased by 30 per cent in just these seven years, such that by 2009. The aggregate unemployment rate fell from 21.5 per cent in 2002 to 7.9 per cent in 2010.

And even during the latest crisis, the economy has shown substantial resilience in growth and employment terms. The unemployment rate has not changed and real wages have not suffered (although partly as a result of this, it is true that new problems are emerging in the form of inflation and its consequences). This is due to a combination of macroeconomic and active labour market policies, as noted in what follows.

A publication from the Ministry of Labour, Employment and Social Security of the Government of Argentina ("Work and Employment in the Bicentenary: Changes in employment and social protection dynamics for an extended inclusion, 2003-10", Buenos Aires 2010) highlights some of the factors behind this impressive achievement.

Basically in 2003 the government sought to change the economic policy model quite drastically, to move away from dynamics of exclusion and marginalisation in labour markets, which had become the norm in the economy since the mid 1970s. The promotion of quality, productive and fairly remunerated employment, together with the expansion and redefinition of social protection, focused on protecting a greater part of the population, were the main tools through which the model sought to improve the living conditions of the people. These turned out to have significant macroeconomic implications as well, providing a vibrant source of domestic effective demand that could encourage the proliferation of new productive employment.

Therefore the economic advantage provided by a boom in primary commodity exports was not concentrated in the hands of a few privileged elite groups as had hitherto been the case, but spread much more widely amongst the population. And the expansion of public employment and social protection provided opportunities for employment diversification within the economy, as well as assisting the productivity improvements that have been witnessed in the recent past.

Some of the early changes were legislative or administrative in nature. In 2004 Law for Labour Regulation, was passed. The National Council for Employment, Productivity and Minimum Salary was reactivated to decide upon and enforce minimum wage and salary rules. The National Plan for Work Regularization (PNRT) was set in motion, with the goal of expanding the Ministry's capability to inspect and control the compliance with labour laws and social security contributions of employers.

Importantly, collective bargaining – which had languished under the earlier regimes – was brought back to centre stage, with a dramatic (more than five-fold) increase in the number of agreements and negotiations approved each year. In addition, negotiation activity at the branch level was re-introduced, so as to reach a greater number of workers and "collectivise" the benefits, as opposed to the "individualisation" of employment relationships that had predominated in the 1990s. As a result, collectively agreed salaries accounted for 81% of the wage bills of enterprises in 2009, compared to less than 50% in -2001. As a result of these changes, the wage share of national income increased from 34.3 per cent in 2002 to 43.6 per cent in 2008.

Another major element was the doubling of social protection grants. There was an increase in the value of pensions and extension in coverage, including the introduction of social pensions for defined categories. Today it is estimated that the pension system covers 84 per cent of the elderly population.

At the same time, social protection for children and adolescents was extended, going from 37 per cent coverage (in terms of monetary transfers) in 1997 to 86 per cent in 2009. Some of this was the result of the expansion of registered employment, which allowed an extension of the coverage of family allowances. Those who were excluded from this have benefited from the creation of a non-contributive sub-system: the Universal Per-Child Allowance for Social Protection, which currently reaches about 3.5 million children.

As a result of this emphasis on inclusion and social protection, social spending expenditures of the government amounted to nearly a quarter of GDP in 2008. This and other measure outlined obviously had a direct effect on income distribution. Argentina was known as one of the more unequal countries in the world, and income inequality had been steadily increasing since the mid-1970s. In the past decade this was finally reversed, as the Gini coefficient for income distribution improved by 16 per cent between 2002 and 2009.

In the current crisis, these measures have been sought to be maintained and even expanded. There has been a focus on countercyclical macroeconomic policies, including public works, housing plans, incentives for stimulation of productive sectors, exports pre-financing loans, loans for small enterprises. In all policies implemented, an employment preservation clause was included as a requirement to access and maintain the benefits and subsidies. In addition, the reach of the Productive Recovery Program (REPRO, through which the state subsidises part of the workers' salaries in enterprises in a critical situation) was extended. Fiscal incentives were provided for formal hiring and regularisation of non registered employment. There was also a strengthening of the active training and employment policies targeted to people that needed to further develop their skills in order to enhance their occupational insertion opportunities. Active income policies were maintained, so that as of the last quarter of 2008 the raises in retirement and pension transfers were guaranteed by law. Collective labour bargaining was sustained. There was a reduction in income taxes for salaried workers, and the amounts of the family allowances were increased. Also, there were monetary transfer programmes for vulnerable or impoverished groups.

Obviously these policies make severe fiscal demands, and the current inflationary pressures in Argentina do suggest that further increases will have to be moderated. However, this very different approach to social and economic distribution and the positive macroeconomic effects that it has generated thus far show that there are other viable economic trajectories that can deliver both growth and economic justice. This in turn provides valuable lessons for the rest of the world.

(Courtsey: MacroScan)

The Constitution of India directs the State to; securing all citizens, men and women equally, the right to an adequate means of livelihood; ensure that ownership and control of material resources of the community are so distributed as best to sub serve the common good; that, operating of the economic system does not result in the concentration of wealth and means of production to the common detriment. Giving wide meaning to the right of life, the SC had ruled that, "the expression `life' in Article 21 does not connote mere physical or animal existence. Right to life includes life to live with human dignity."

The Indian State: Defaulting Even on People's Right to Life

How is it that the Indian state ignores its constitutional duty to securing all citizens, men and women equally, the right to an adequate means of livelihood including even their fundamental right to life? The conditions of life of the vast majority of country's population present a dire social situation marked by absolute poverty, increasing inequality, food insecurity and malnutrition, privatization of education and health and all round neglect and decay of people's welfare. A central government commission startlingly found 77 percent of Indian population, about 836 million, lived at less than Rs. 20 per person per day (GoI, 2006) An multidimensional poverty index (MPI) shows 55 percent of India's population of 1.1 billion, or 645 million people, are living in poverty with as many as 81.4 percent of Scheduled Tribes, 65.8 percent of Scheduled Castes and 58.3 percent Other Backward Castes (OBC) living in poverty. This Oxford University study was based on the household's income, assets and conditions of life including : child mortality, nutrition, access to clean drinking water, sanitation, cooking fuel, electricity, and years of schooling and child enrolment.

With such poverty, it is no wonder that India continues to be home to 46 per cent of the malnourished children of the world and more than 5000 children die every day from malnourishment 3 Another sign of the growing disconnect between economic growth and the upliftment of millions of citizens, is that India ranks 65th out of 79 countries on a global hunger. The Justice Wadhwa committee appointed by the Supreme Court has dubbed the functioning of public distribution system (PDS) as bogus and engulfed in corruption, leakage and inefficiency. However, the government is reluctant to improve its functioning and universalize it in order to benefit all. Recently, the Supreme Court of India asked the Planning Commission to fix the problem. "You (India) are a powerful economy" the court said. "Yet, starvation deaths are taking place in many parts of the country. What a stark contradiction in our approach. How can there be two Indias?" The Planning Commission found an easy and unique way out, it told the Supreme Court, (in September 20 ,2011) that, it doesn't consider a person spending over Rs 32 daily in urban areas, or over Rs 26 daily in rural areas, poor.

Increasing Inequality of Income and Opportunity

Scandalously, the destitution of the common people is accompanied by increasing wealth of a very small segment of the elite population. There were two billionaires in India in the mid-1990s, worth a combined total of $3.2 billion. By 2012, there were 46, with a total net worth of $176.3 billion. Total billionaire wealth to gross domestic product (GDP) rose from around 1% in the mid-1990s to 22% at the peak of the boom in 2008, and was still 10% of GDP in 2012. All billionaires in India are linked to corporate activity. Overall, 43% of the total number of billionaires, accounting for 60% of billionaire wealth, had their primary sources of wealth from rent-thick sectors such as real estate, infrastructure, construction, mining, telecom, cement and media with pervasive role of the state in giving licenses, The real estate sector is well known for the large number of "black" transactions. It is perceived to be the most corrupt in India and for its nexus with politicians. (Gandhi and Walton, 2012) .Interestingly, the average salary of top CEOs in India has risen to Rs 2 crore, up by close to 30% in the last one year, the study covered 87 top Indian and MNC CEOs (no family CEOs were included) operating across industry domains. It found that some 50% of them are now in the Rs 2 crore per annum category and 12% in the Rs 7 crore category. The corporate CEOs who used to get Rs 5.25 crore on average a year ago now get about Rs 7 crore."

Such income and social inequality seriously limit the opportunity for occupational Mobility. Lack of financial means and poor quality of education (if at all available) dent equality of opportunity. Studies show that almost half the children of farmers end up as farmers and more than half the children of agricultural labourers end up as agricultural labourers. Not only such occupational stagnation persists, there is also downward mobility where sons move to a lower socio-economic position compared to their fathers.

Concentration of wealth and power in the hands of the corporate sector and the elites provide them all the means to influence the government decision making and policies. The Cash-for-Votes scandal and the leaked Radia tapes show that big corporate houses not only control the government but also play a major role in the formation of government and allocation of ministries. Such concentration of wealth is bound to promote authoritarian leadership resulting in disempowering of the people and their internal subjugatation. As an indication, as is well known, agriculture being in dire straits a farmer is led to suicide every thirty minutes. And, not just the farmers, there is a sense of deep frustration among the youth, more so among the educated, resulting in increasing tendency of suicide among them. Suicide is the second leading cause of death in young people of both genders. Suicide death rates are generally greater--nearly a ten times higher - in the more developed four southern states than some of the less developed northern states.

Health and Sanitation

In an unequal society like ours, the health and sanitation situation is expected to be poor. Interestingly, this is starkly symbolised by the fact, that, as revealed by the 2011 Census, 49.8 per cent of households in the country as a whole have no toilet facilities and they are forced to defecate in the open. However, irony of the neoliberal development policy is that 63.2 per cent of households have a telephone connection, of which 52.3 per cent have cell phones. Therefore, In the present scenario where the poor are forced to spend 75 percent of their health expenditure from their pockets and in view of a dire health situation in the country, a High Level Expert Group (HLEG) of the Planning Commission had recommended free healthcare whether it's primary, secondary or tertiary to all citizens. It also recommended that the government's health spending should rise from a lowly 0.9% of the GDP to a reasonable 2.5% and also that the programme simultaneously addresses the social determinants of health. However, contrary to its own experts' opinion, the Planning Commission, in its 12th Five Year Plan, recommends: not only an increase in public expenditure to just 1.58 per cent but also, and more ominously, to promote increased public private partnerships (PPP). PPP an euphemism for backdoor privatisation. True to its colour, it is effectively preparing to hand over the health care to the corporate sector.

Food and nutrition are essential to any person's health condition. Food security is therefore imperative for a healthy society. In fact, it is an integral part of the right to life. However, here also , the Government dithers on enacting a comprehensive Food Security Act because it may cost something like one lac crore rupees a year. (Dreze , 2010) Such an attitude assumes an ominous significance when the same Government does not blink in foregoing annual revenue of more than five lac crore rupees on account of tax exemptions including about Rs. 80,000 crore of corporate income tax foregone and nearly Rs. 40,000 crore of foregone customs duties on "vegetables, fruits, cereals and edible oils."

Education

The freedom movement's aspired mission for education was to 'unleash the potential of India's civilisation by a process of intellectual decolonisation.' However, like the health sector, the state has given up this legacy and replaced it 'by an educational policy which prioritises private profit over public good ' Such a policy 'will encourage cultural and intellectual imperialism.' One of the fatal consequences of such a drive for profit is the decimation of quality in education, Surveys show an alarming decline in mathematics and basic reading skills particularly in States across north India, where quality dropped further in 2011 as compared to 2010. Interestingly, and it is noteworthy, that, a majority of the 97 per cent of rural children going to school were enrolled in a privately-owned institution Nationally, private school enrolment has risen over the years for 6-14 years age group from 18.7 per cent in 2006 to 25.6 in 2011.

In a historic judgment in 2011, the supreme Court said "The right of a child should not be restricted only to free and compulsory education, but should be extended to have quality education without any discrimination on the ground of their economic, social and cultural background." Further, that "Uniform education system would achieve the code of common culture, removal of disparity, depletion of discriminatory values in human relations. It would enhance the virtues and improve the quality of human life, elevate the thoughts which advance our constitutional philosophy of equal society.

However, the apex court's stress on quality of education and common culture stands ignored in the RTE Act which retains the discriminatory school system with its neoliberal policy framework. It is ready to opening new markets by demolishing the vast government school system. As for the quality, a recent social audit of RTE conducted across India found classrooms giving shelter to cows and buffaloes, while students sat outside in the compound. Children carried their own plates to school for mid-day meals and later rushed back home on the pretext of washing the dishes, but never come back for classes. The commodification has led to black market in education.

For example, authorities unearthed Rs 288 crore of black money from some educational institutions in the 2009-10 ; a growth of 550 per cent as it was Rs 44 crore in 2008-09. The state's withdrawal from its responsibility for education is shown by the fact ,that, while private schools make black money, the government schools are starved of teachers. Out of 19.14 lac posts of teachers sanctioned between 2001-02 to 2011-12 in the Sarva Shiksha Abhiyan, as many as 6 lac and 87 thousand remained vacant till 31 December 2011. Poor quality of education is an everyday experience. It is no wonder because the country is short of 1.2 million teachers and 17% schools have just one teacher. Appointment of para teachers on very low salary and on short term contract in place of regular and full time teachers shows governments` eagerness, not for good education but for cutting cost on education as required under the neoliberal structural adjustment programme.

Like the health sector, the neoliberal state seeks to withdraw more and more from its responsibility to the people and hand over education to the private sector. It has been continuously reneging in adequate budget allocation for it. The New Policy in Education (NPE), 1986 had promised an increased annual allocation of 6.5% of the GNP. However, ten years later, in 1996-97, it was just 3.8% (of GNP). The actual expenditure on education really declined from 1.69 per cent in the 1980s to 1.47% in the 1990s. The budget allocations for the social sector, particularly the actual expenditure on education, since liberalisation in 1991 have tended to really come down. Instead of public expenditure , the Government plans to motivate students to take loans from the banks and to expand higher education with the active involvement of the private sector and through various modes of public-private partnership (PPP). Its intention was revealed at a recent roundtable of the education Ministers of India and the USA, where education in India was viewed as an integral part of the US-India strategic partnership and vitally important in an interconnected, competitive global economy India is, thus, heading toward a situation like the USA, where the commodification of knowledge has converted university into an adjunct of corporate power, rendering it as a marketing machine essential to the production of neoliberal subjects. Such a situation rules out the possibility of expanding of human capabilities, which is both the paramount goal of development and the leading means for generating the increased productivity that is the foundation of economic growth as well as of the construction of democratic institutions that help us to "lead the kind of lives we value"

Lack of capability to access literacy, primary education, health care, child care, housing, drinking water, sanitation etc. reveal poverty more meaningfully than just a lack of income. It is also lack of capability and inability to secure human rights and to escape poverty. Such social sector human poverty significantly weakens people's productive potential and force them to take up any kind of poor quality work for survival.

The declining quality in education, health care and nutrition is bound to slow down technical progress, weaken the concern for excellence and slow down innovations in the economy. Though there has been an explosive growth of engineering colleges, much of it is however at the cost of quality. One of the fatal consequences of this deteriorating situation is the reinforcement of the tendency of routine performance in education. In a recent assessment, some 90% of colleges and 68% of Universities were medium or poor on almost all indicators. An earlier CSIR sponsored survey on a sample of 9000 Ph.D theses revealed that, out of about 3000 doctoral theses in various science and technology disciplines, approved every year in the country, only 30% were considered of good quality, such as could be of interest to user agencies; 80% of them were in applied research areas most of which were often on trivial subjects with mediocre intellectual input; 40% of the scholars reported favoritism on the basis of domicile, caste or religion; 60% of them were repetitive studies. (Thus, instead of expanding human capabilities, we seem to be going in the opposite direction and dissipating the country's potential.

Characteristics of Government's Authoritarian Behaviour Betting on the Rich ; Disempowering the People

Despite clear evidence of such serious negative consequences for quality of life for the vast majority of the Indian population, the state has been persisting on the neoliberal reforms and insisting on more and more of the same polices. It is becoming increasingly clear that the Government's concern is to promote and safeguard the interests of big capital, Indian and the multinational, led by the USA. It is not, that, it is unaware of the disgraceful health and nutrition situation, increasing inequality and the falling purchasing power of the people. However, instead of ameliorating the situation, it has no hesitation in putting further burden on the people by increasing privatisation of public services. The same behavioural pattern is seen in other walks of life. On the one hand, for example, it is eager to open multi brand retail to foreign investment, sale equity in well functioning and profitable public sector enterprises, defer and /or eliminate anti tax avoidance rules, on the other, it

colludes with the corporate sector to ignore the labour laws and the basic rights of the people. It has continued to neglect agriculture as also creation of jobs. It uses the policy regime to facilitate "primitive accumulation of capital" and plunder of natural resources via a variety of 'scams' and crony capitalism. The Indian state has thus moved so radically away from the mission of a socialist pattern of society as its goal as visualized at the Awadi AIIC session in 1955 to a regime for the rich only.It has increasingly become accommodative of corruption in public life. It responds instinctively in favour of the super rich high value individuals and private corporations?. It is eager to hand over the power of delivering people's basic needs like water, education, health and energy to profit driven private companies? As briefly discussed below, the governance and the policy decision making have been increasingly marked by characteristics of authoritarian behaviour with serious adverse consequences for the Indian democracy.

Manipulative State Abdicating Responsibility

As seen above, the situation regarding food security, health, nutrition and education etc is alarming. The state seems to have abdicated its responsibility to the welfare of its people. It is revealed glaringly by the 2012 report of the International Food Policy Research Institute. India ranks 65th out of 79 countries on a global hunger index. The GHI is composed using three equally weighted indices: the proportion of people undernourished, child mortality, and the proportion of underweight children. India's GHI score of 22.9 (where anything over 10 is "very serious") is back to its 1996 levels. Of the three components of the index, India performs the worst on underweight children: it is second to last of 129 countries on the proportion of its children who are underweight with 43.5 per cent. The report says, there is a growing disconnect between economic growth and the upliftment of millions of citizens. As the State of Food Insecurity in the World 2012 (FAO 2012) brings out, growth will not necessarily result in better nutrition for all. Agricultural growth is particularly important in reducing hunger and nutrition. Along with it, social protection is a crucial factor. However, opening of retail trade and agriculture to giant multinational corporations would result in elimination of small land holders as corporations tend to consolidate land into big and bigger farms..

Another important indicator of neoliberal political psychology is its reluctance to implement its own promise made during the UPA I to universalize the Integrated Child Development Scheme (ICDS). The disastrous consequences of early childhood malnutrition are well known. Also, equally well known is, that, an effective ICDS programme can make a considerable difference in the lives of nutritionally compromised children. Poor performance in this direction and the failure to take corrective measures in this respect show the policy regime's low o concern for the deprived children and their future productive lives. Indifference in such life threatening area shows state's Manu-like brahmanical paternalistic and manipulative attitude of making pledges without caring to fulfill them with no respect for the deprived people.

The Neoliberal fundamentalists' Sense of Certainty

As is well known, acknowledgement of the limits of knowing saves science from degenerating into a dogma. The loss of certainty opens up the possibility that we must also look elsewhere, to other sources. Uncertainty, therefore, is the best corrective to fundamentalism (Luhmann, 1979) The neoliberal fundamentalists, entrenched in the Government, however insist that there is no alternative. As Stiglitz (2010) shows, such blind faith in the certainties of unfettered markets has led to as many as 100 economic and financial crises in the last 30 years.. Since the present neoliberal Government in India is so certain about the corporate led economic growth, foreign investment and market forces, that it is not able see alternatives to improve the nutritional and food scenario and the quality of life of the people beyond paying it electorally useful lip service.

Cognitive Closure and Right Wing Authoritarianism

Despite such wide spread deprivations in the population, sense of certainty blinds the Government of India to peoples' lived experience, although it repeatedly invokes the Aam Admi (common man). Lack of openness to experience is an important characteristic of what has been labeled as right wing authoritarianism (RWA) (Altemeyer, 1998). The climate of authoritarianism breeds and reinforce dominative values in the elite society. Structural inequalities do more than distribute wealth and power upward to the privileged few. The more money influences politics, the more corrupt the political culture becomes.

As mentioned above, the thought that, there Is no alternative (TINA) is one of the most popular expression of the cognitive need for closure , suggesting that in no way have their policies have been selected arbitrarily; that they are not in fact a result of choice at all, they are so certain that no other effective policies existed. Such a mindset not only facilitates the distribution of wealth and power upward to the privileged few but also make punishment and

exclusion highly seductive possibilities. Instances of violence, including murder and rape, have also been increasingin the country. Exclusion of the poor from health, education and other such welfare facilities is also so apparent. The motivational mechanisms, (Webster and Kruglanski, 1996) underpinning the process of cognitive closure includes bias in selecting the most relevant information and in initiating and sustaining cognitive manipulations that are required to achieve particular outcomes. Such a need for closure may have serious social consequences as seen, for example, in the then Law Minister's response to the Apex Court judgment on 2G Scam. Khurshid 'was reported as saying: "It will affect the functioning of the government if other institutions do not understand the kind of political economy we are faced with today' He reportedly said that locking up top businessmen will affect foreign investment. The Government's response to The Comptroller and Auditor General of India (CAG) report on coal blocks, blaming the government of India and Prime Minister Manmohan Singh, for condoning and encouraging corruption to the tune of several trillion rupees does not show an openness of mind on such nationally and socially vital matters. As in the case of 2G, it was a failure to abide by due processes in a transparent manner in the allocation of national resources that has enabled such monumental corruption scandals to be perpetrated. A similar mindset is reflected in ignoring the people's safety and well being in setting up nuclear power plants when it is now public knowledge that the Fukushima Daiichi Nuclear Power Plant cannot be regarded as a natural disaster. It was a profoundly manmade disaster. Indeed the failure to abide by due processes and arrive at a price discovery mechanism in a transparent manner is an important behavioural characteristic of authoritarianism.

The Other -Directedness: Bypassing Parliament to benefit Corporate Sector and Multinational Companies

The hurried way in which the policy of foreign direct investment in multi brand retail was announced followed by opening the pension fund and insurance to foreign investors, and the desperation to please them by facilitating tax avoidance provide an interesting case study of the other-directed motivation of the state's policy making. As soon as he took over, the Finance Minister made his intention (the first statement made by the Finance Minister, P. Chidambaram, after assuming office recently) clear to reverse the retrospective effect in the tax law. This retrospective provision was in the Finance Bill which was adopted by Parliament. No change can now be and/or should be made without the Parliament's approval. The government is keen to help multinational companies to facilitate tax avoidance by foreign and Indian corporate by reviewing the General Anti Avoidance Rules (GAAR) which was meant to plug the loopholes using the Mauritius route. Such tax concessions and the hurriedly announced reforms show Government's other - directedness and its readiness to address the needs expressed by interested western countries, notably USA, and multinational companies. Similarly, in 2010, under pressure from multinational nuclear suppliers, the government pushed through a law to protect them from the consequences of a nuclear accident showing its willingness to compromise on its laws and the safety and rights of its citizens to protect the business interests of reactor suppliers. Recently, for example, noting that India prohibited foreign investment in too many sectors such as retail, U.S. President Barack Obama expressed concern over deteriorating investment climate endorsing another "wave" of economic reforms. Earlier, influential western magazines have called the prime Minister an ' under-achiever' chiding him for more 'reforms 'The other directed' motivation in this respect is so strong that it is willing to bypass even the Parliament and, therefore, the people of India, thereby damaging the democracy in the country.

The Rhetoric of Development and Loss of Empathy

The Government constantly uses the rhetoric of development which is really a cover to hide its panned efforts to favour the powerful corporate sector and the rich at the cost of the welfare of the common people. The recent statement of Narendra Modi , Chief Minister of Gujarat , who often invokes development as his brand , illustrate it so well. He had said in an interview to the Wall Street Journal, that, malnutrition exists in Gujarat because it is "by and large a vegetarian state" and also because it is a middle class state which is "more beauty conscious than health conscious". However, he totally ignores the fact that,, as, the National Family Health Survey of 2005-06 found, 42.4% children under 3 years of age in Gujarat were stunted, 17% were wasted and 47.4% were underweight. It also found that a shocking 80% of children between 6-35 months old were anaemic. Over 55% of ever-married women between 15-49 years of age were anaemic, while 61% of pregnant women in the same age group were anaemic. Among men of the same age group, 22% were anemic. Further, the National Sample Survey Organisation in 2009-2010, shows that the average intake of food in Gujarat is declining steadily, and in rural areas it is now considerably lower than even the national average of 2,020 kcal. It seems the neoliberal state is producing a social order with no

commitment except profit for the wealthy corporate sector. It can, therefore be very well imagined as expected, that, India's super wealthy elites have stashed at least $72.7 billion (Rs 4,06,900 crore) of its wealth in tax heavens (the actual figure is likely to be far higher, and could be as much as 50 per cent. The money looted in a series of scams since 1991 has been pegged at a mind-boggling amount of Rs 73 lakh crore. What was unthinkable is now considered normal and taken for granted. Such a system loosens the sense of public good, weakens social responsibility and the sense of empathy. As elites go higher on the social ladder they lose their compassionate feelings towards other people They tend to become more unethical in their behaviour.

Promoting Pessimistic Variant of Neo-Darwinism: Self-interest as Human Nature

Neoliberal policies promote a pessimistic variant of neo-Darwinism, which advocates self-interest as a dominant part of of human nature. Such a concept negates human beings' innate tendencies towards helpfulness, altruistic concern and a sense of fairness. Social organisms, from man to microbes, even single-celled organisms, have sophisticated means of working together. This also negates our lived experience of altruism and cooperation as nourished by our own values. Indeed, as evolutionary theorist Peter Kropotkin pointed out in his landmark 1902 book Mutual Aid,, evolution is driven by cooperation as well as by competition. Thus, a biased view of human nature is advanced only to feed profit and greed oriented economic and social system. This corresponds with the idea of a neo-liberal state that practices laissez-faire towards corporations and those at the upper end of the class and status spectrum, but is interventionist and authoritarian towards those at the lower end. This is illustrated by the " Right to Fair Compensation, Resettlement, Rehabilitation and Transparent Land Acquisition Bill, 2012 ".it seeks to lay the foundation of infrastructural development and urbanization on what has been described by activists 'on the graves of citizens of this country.'

Regenerating Caste Discrimination and Conservative Values

A neoliberal regime which enables the country's dominant social groups to usurp the gains of economic and educational opportunities also shapes /reinforces an authoritarian outlook in them. A vast majority of educated middle class beneficiaries of higher education, not only Hindus but also other communities, continue to believe in supernatural powers in the country show a signs of growing religiosity. They are also able to mould the state apparatus and body politic to reinvent caste as a modern institution capable of reproducing caste inequalities. Thus, rather than getting weakened, traditional hierarchies continue with upper castes at the top, scheduled castes-scheduled tribes at the bottom, and the other Backward Classes (OBCs) somewhere in between. Labour markets show a deep awareness of caste, religious, gender, and class cleavages, and that discrimination is very much a modern sector phenomenon, perpetuated in the present. So it is neither a thing of the past nor confined only to the rural areas.

The CSR for those aged 0-6 years (number of boys for 100 girls) is indicative of the domination of prevailing feudal/authoritarian climate. For example, In Gujarat, the state with the highest decadal increase in sex ratio from 1991 to 2001, the total rural CSR is 111, declines sharply to 93 for landless households and increases to 149 for households with more than 10 acres of land. In Punjab, the CSR it is 119 among landless households but 128 among households with 10 or more acres. A similar pattern prevails In Haryana. (Arokiasamy and Goli, 2012). Under such conditions, it is no wonder that there is a regeneration of unconstitutional Khap Panchayats in the areas benefitted by the green revolution and increased agricultural and economic development. Such areas represent not only increasing female deficit in the sex ratio but also enhanced violence against women and dalits and 'honor killings'. Such conservative caste consciousness is prevalent not just in rural areas. A similar climate of intolerance seems to afflict even our prestigious institutes of higher education. For example, recently, several students belonging to Scheduled Castes and Scheduled Tribes in a medical college of the Capital alleged discrimination by their teachers who failed them repeatedly. They had to go the Delhi High Court to get justice. Even after the court judgment, the students continued to face hostile atmosphere in the college Prestigious and expensive higher education seem to have inculcated money as the only value in them as was evident in the thoughts of India's elites and the middle class. In a recent survey, they perceived economic growth as the biggest event in their lives in the year 2009. There was no place for poverty and malnutrition in their mind space.

Peoples' Struggles against Neoliberal Authoritarianism

People however, are not likely to take it lying down as the government(s) fail to meet the basic needs of the people though voted to power on such promises. it forgets them once in power. The erosion of basic values of welfare, security, self actualization etc.;

increasing corruption and scams and the perception that the government(s) is not fair take away its democratic sheen. It remains democratic just in form otherwise it works , what has been described in another context, as democracy incorporated and as 'inverted totalitarianism'. Presently, there is a growing discrepancy between the actual conditions of life and the peoples' rising aspirations. Peoples' unmet vision for a better life tends to create a volatile situation in the country. The context of visible unequal society promotes a sense of frustration and relative deprivation (RD) in them. It is accompanied by a sense of humiliation borne out of the experience of being unfairly, unreasonably and unwillingly pushed down, held down, held back or pushed out. All this is fueling protests and struggles in the country.

We are thus witnessing growing peoples' struggles, such as at Koodankulam against the KKNPP in Tamilnadu where we find a clash between organization's self interest and the interest of public safety. Elsewhere the struggles for protection of natural resources by fishermen, landless workers, Dalits, tribals, rural folks and urban poor who have been consistently giving their feedback and suggestions regarding this and engaged the government in negotiation on its provisions. The government (s) is however eager to hand over the natural resources to corporations and private hands including foreign multinational corporations . No part of the country has been untouched by people's struggle including Narmada, Tehri, Damodar, Koel-karo, Singur, Nandigram, Sonebhadra, Chhindwara, Lakhimpur, Bhavnagar, Mundra, Kashipur, Raigarh, Srikakulam, Wang Marathwadi, Fatehabad, Assam, Arunachal Pradesh, mining areas of Central India, Mumbai, Patna, Delhi, Bangalore and other urban settlements. In fact, the whole scandal surrounding the coal block allocation is a perfect metaphor for how everyone from politicians to bureaucrats to business barons to power brokers are milking India behind the smokescreen of due process and a larger accountability to Parliament. It is an unprecedented scenario indicating the scope and intensity of RD, frustration, humiliation and the peoples' anger at the neoliberal pro-corporate policies. In doing so, these new social movements have called the larger neoliberal Zeitgeist into question.

(Courtsey: Counter Currents.org)

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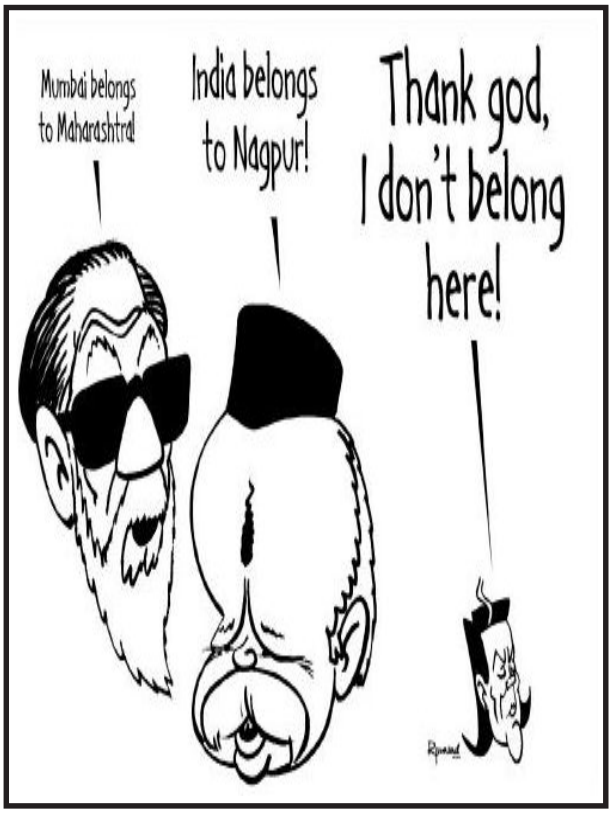

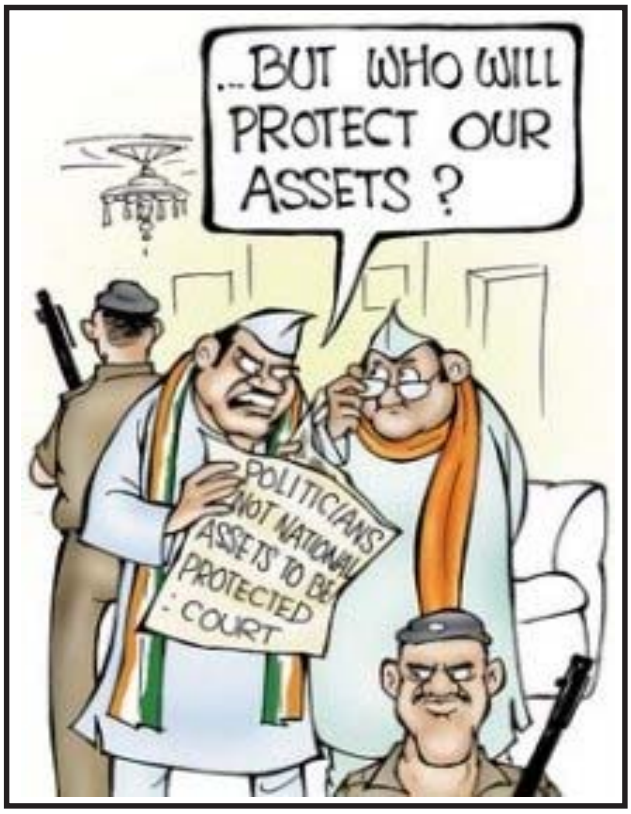

The Plurilateral Service Agreement Game at the WTO

By: Chakravarthi Raghavan

Moves are afoot at the World Trade Organisation for a select group of countries to get around the Doha Round impasse and negotiate a plurilateral International Services Agreement, which would then be open to other WTO countries to join. Such a trade pact would be clearly illegal under the WTO rules; the talk is more like a bluff game to pressure all WTO members to open up their services to foreign suppliers.

With the World Trade Organisation's (WTO) Doha Round of negotiations at a complete impasse, those who launched it 12 years ago appear to be trying to find a way of burying the "corpse", and looking for other ways to achieve their neo--mercantilist agendas.

The air has been thick in recent weeks with news of the talks and tentative agreements among the "Really Good Friends of Services" (RGFS) for an International Services Agreement (ISA) with a new architecture of sorts and a heavy dose of liberalisation. Some of the contours of the intended ISA, and the progress in negotiations, have been spelt out in testimony in September before the United States Congress by Michael Punkhe, the deputy US Trade Represen-tative (USTR) and US ambassador to the WTO, as also in more recent statements by the Australian minister for trade and some other participants about "tentative accords".

There is talk of the "ISA architecture", as involving a "conditional plurilateral" agreement to be lodged at the WTO, with other members enabled to accede to it on the analogy of the existing plurila-terals in the WTO (in Annex 4 of the -Marrakesh treaty on the Uruguay Round of the General Agreement on Tariffs and Trade (GATT)). There is also a projected scenario of the ISA, as a services integration agreement of the participating countries under Article V of the General Agreement on Trade in Services (GATS), or of an Information Technology Agreement (ITA) type agreement, with most--favoured nation (MFN) status for all WTO members, provided the major emerging economies join such an ISA and liberalise their markets.

The RGFS countries are said to be Australia, Canada, Chile, Colombia, Costa Rica, the European Union (EU), Hong Kong, Israel, Japan, Mexico, New Zealand, Norway, Pakistan, Peru, Singapore, South Korea, Switzerland, Taiwan and the US. More recently, it has been reported that Singapore has withdrawn from the group. And several of the leaked reports also underline the absence from the RGFS of Brazil, India and South Africa – the major emerging economies, whose services markets are greedily eyed by the US and EU services industries – and attempts to persuade them to join the RGFS.

WTO Illegal

From leaked information about the ISA architecture and its liberalisation contours, it is clear that the moves, whether for a stand-alone plurilateral outside of the GATS/WTO, or as an agreement to be lodged in Annex 4 of the Marrakesh treaty, or as an Article V GATS integration agreement to be notified to WTO, the ISA would be prima facie WTO/GATS illegal – an open-and-shut case for the Dispute Settlement Undertaking (DSU) of the WTO, unless the disputes panel and -appellate body turn perverse to favour the US.

The ISA, as a plurilateral agreement on trade in services, applicable only to its members, is legally inconceivable under WTO. There is no way to do this, unless such plurilaterals are excepted as a clear departure in the -multilateral agreement itself, like in the cases of free trade agreements (FTAs) in the GATT and the GATS.

In the days of the old GATT, when confronted at a media meet with the view that the European Commission's (EC) proposals for a provisional executive agreement among governments were contrary to the Punta del Este mandate for negotiations under the Uruguay Round, the EC negotiator responded that "anything is possible in GATT among consenting adults". The WTO is now a rules-based international organisation, set up under an international treaty, with binding rights and obligations for members, with a dispute settlement process and specific provisions for any amendments to the treaty and agreements annexed to it and for their entry into force after acceptance of members.

Under provisions of Articles II.1 and -Article III.2 of the WTO, any negotiations for any trade accord on any of the agreements in Annex 1 are to be conducted with the WTO "as the forum for such negotiations". Article II, paragraph 1 of GATS, the MFN treatment provision, -relevant to the ISA issue, reads as:

> (1) With respect to any measure covered by this Agreement, each member shall accord immediately and unconditionally to services and services suppliers of any other Member, treatment no less favourable than it accords to services and services suppliers of any -other country.

Paragraphs 2 and 3 of Article II set out some exceptions and limitations, but they are not relevant to the consideration of the ISA issue. They provide for derogation from MFN, if it is listed in a particular way in a member's GATS schedule, as also for ability

of two -adjacent countries conferring advantages to services locally produced and consumed in contiguous frontier zones.

Thus, under WTO rules the parties to the ISA cannot make liberalisation of their services markets applicable only to ISA members. Nor can they extend it to other WTO members on any conditional basis. The liberalisation (reduction of barriers) in any sector has to be unconditionally extended to all other WTO members, whether ISA or non-ISA.

For the ISA to coexist with the GATS and for its lodgement for this purpose in Annex 4 of the WTO, there needs to be an amendment of the Marrakesh treaty. And since the ISA is intended to cover "service transactions" across sectors and modes of supply and involves non-MFN treatment to those who are not members, for such an amendment to be adopted and come into effect it needs the acceptance of all WTO members.

For any agreement to be viewed as an Article V.1 (as an FTA in services trade of its members, or an integration agreement in services among its members), the agreement must satisfy the terms of Article V of GATS. Among others, Article V.1 (a) requires that such an agreement should have "substantial sectoral coverage"; and a footnote explains

This condition is understood in terms of number of sectors, volume of trade affected, and modes of supply. In order to meet this requirement, agreements should not provide for the a priori exclusion of any mode of supply.

Article V of GATS provides for negotiations when the services integration -accord involves modification of scheduled commitments of its members. Irrespective of any working party consideration and recommendation, or decisions by the Council on Trade in Services (CTS), any non-ISA WTO member can raise a dispute and get a ruling via the DSU. Such a grievance could arise for a WTO member, if the ISA does not comply with the Article V.1 (a), or the member finds its existing access to the service markets of the ISA members reduced as a result of the infringement of the provisions of Article V.4. The latter provides that any Article V.1 agreement, in respect of a non-member "shall not... raise the overall level of barriers to trade in services within the respective sectors or sub-sectors compared to the level applicable prior to such an agreement."

A Bluff Game

Thus, all the current noise about the planned ISA can be understood only as a big bluff game and an attempt to panic the major emerging economies (and/or their particular service sectors or -subsectors) that have stood out into joining the ISA negotiating process.

When the Marrakesh treaty was signed in April 1994, developing countries -accepted onerous commitments in advance as the price for bringing the agriculture sector under normal GATT trading disciplines, and for the initiation of a irreversible, longer-term reform process that envisaged gradual elimination over time of governmental aid and support to domestic producers. There were also other reform measures that the major industrial countries were required to undertake over a period of time and for time-bound negotiations after WTO -entered into force within specific agreements. At the Singapore ministerial of the WTO in 1996, the EC sought to put spokes in the wheel by injecting extraneous issues (the so-called studies and negotiations on four "Singapore issues"), so that further agricultural trade reforms could be delayed or subverted. The EU has more than achieved that objective, through the impasse in the Doha Round. And the US and EU now balk at any further cuts in agriculture subsidies and want to now bury the Doha Round, and move on to new agendas.

At the turn of the century, to avoid more agriculture reforms and subsidy cuts, the EC mooted the "millennium round" with the Singapore issues, asking everyone to put any issue they wanted on the table. Along with a number of other issues and negotiations in terms of various WTO agreements, a new round of services negotiations (mandated every five years) also came up and was actually agreed upon and started in 2000 at the WTO Council on Trade in Services. (This was rolled into the Doha Round in November 2001, at the instance of the EU and US.)

Just before the 1999 Seattle mini-sterial of the WTO, the US had indicated its reluctance to engage in further services talks, while the US and EC also clashed over further agricultural reform. And both wanted a further opening up of agricultural and non-agricultural products markets of the deve-loping countries. The collapse of the Seattle meeting resulted in 2000 of the WTO General Council decision to start a -programme of confidence building. But this did not suit the US or the EU (or the WTO Secretariat) and the process was subverted.

In this stalemate, using the opportunity of the 2001 terrorist attacks on the US, the US and EC forced the launch of the Doha negotiations with a large range of issues, as a single undertaking. Soon after its launch, then EC trade commissioner, currently the WTO director--general, Pascal Lamy told the EU members of parliament at an informal meeting that through the Doha Round, he had got the EU countries 10 years time to gradually adapt to and change the modes of farm subsidies.

Any prospects for concluding the Doha Round were lost when in 2006, at the meeting of the G-6 (Brazil, India, EU, US, Australia and Japan) trade ministers near Geneva, Pascal Lamy abruptly adjourned the talks, not only of the G-6 but of the Doha negotiations too and announced it to the media present near the meeting. Lamy subsequently came to Geneva and got the World Trade Organisation's Trade Negotiations Committee to endorse it at an informal session. The G-6 talks had been adjourned by Lamy when the US found itself cornered on some key issues – including the issue of cotton subsidies. Lamy had hoped perhaps that after the 2006 US Congressional elections, the US would be able to make concessions, and the talks could be concluded. But the George Bush administration and the -Republican Party lost control of the House of Representatives and could no longer make any concessions. The -congre-ssional fast track authority to the admin-istration to conclude trade deals also expired. Since then (and more so after Barack Obama became president in 2009, and the Democrats lost control of the House of Representatives in the 2010 elections), the US system has -become non-functional.

To believe that in this situation, the US and EC, and their service industries could recover ground and through a new ISA capture the markets of the developing countries and via a new finan-cial services accord dump the toxic securities held by the US Federal Reserve or EU central banks on the markets of major emerging economies, is to chase the fool's gold, and in the process wreck the WTO.

(Courtsey: Economic & Political Weekly)

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Who are the Poor in India?

The fact is nobody quite knows. There are various estimates on the exact number of poor in India, and the counts have been mired in controversy.

The Planning Commission says 29.8% of India's 1.21 billion people live below the poverty line, a sharp drop from 37.2% in 2004-2005. (This means means around 360 million people currently live in poverty.) But one estimate suggests this figure could be as high as 77%.

The problem, believe many, is that the new count is based on fixing the poverty line for a person living on 28.65 rupees (56 cents/35p) a day in cities and 22.42 rupees (44 cents/33p) a day in villages.

This was lower than last year's recommendation by the Planning Commission to set the poverty line at 32 rupees (65c/40p) a day which stirred up a major debate across the country.

Last year activists dared the head of the country's planning body to live on half a dollar a day to test his claim that it represented an adequate sum to survive in a country with high inflation and leaky and shambolic social benefits. They concluded that the claim appeared to be grossly unfair and scandalous.

In India, poverty counts are based on a large sample survey of household expenditures. In other words, they are based on the purchasing power needed to buy food with some margin for non-food consumption needs.

The fresh decline in poverty - rural poverty has declined faster than urban poverty during the latest period under review - has been attributed to the government's increased spending on rural welfare programmes. If this is true, it is good news.

But whatever the figure is, the number of poor in India remains staggeringly high. And, what is more worrisome, demographics and the social character of the poor do not appear to be changing.

Labourers (farm workers in villages, casual workers in cities), tribes people, Dalits (formerly called low caste untouchables) and Muslims remain the poorest Indians.

Almost 60% of the poor continue to reside in Bihar, Jharkhand, Orissa, Madhya Pradesh, Chattisgarh, Uttar Pradesh and Uttarakhand. Significantly, 85% of India's tribal and Dalits live in these states.

Most agree that India has reduced poverty - from 55% in 1973-74 to 29.8% in 2009-2010, if the recent figures are correct.

But it is not happening fast enough, considering India's reasonably high rate of economic growth. "High growth, though essential," says the India Development Report, "is not sufficient for poverty reduction on a sustainable basis."

If the demographics and social character of the poorest in India is not changing rapidly, what is wrong?

Economists like Arvind Virmani believe that bad governance, misplaced priorities, unchecked corruption and a huge failure in improving the quality of public health and literacy are to blame. All of this is correct. More importantly, does all this happen because the Indian state is inherently anti-poor?

(Courtesy: BBC.News)

Asia

West Bengal - On the spontaneous strike by workers in factories of Falta SEZ

On 12th May, all the workers of the Falta SEZ #1 and #2 went on a spontaneous strike. Why this sudden strike? What made the workers of different factories come together? What were their demands? To search for answers, we spoke with the striking workers of the Falta SEZ.

We came to know that workers of the plastic waste-recycling factory led the agitation. Exploitation of workers by factory owners is most extreme in these factories. Owners do not obey any rules or regulations. Managers are constantly threatening workers and abusing them both verbally and physically. Plastic waste from different foreign countries comes to the different factories in Falta SEZ for recycling. This plastic waste consists of dirty and poisonous waste from foreign hospitals. These are sorted and recycled in the SEZ factories. The workers are primarily female. No one knows how many of the workers, who have little or no protection at work, have been infected by viruses and other germs from handling toxic plastic waste from the hospitals. They get Rs. 130 a day; one of the main demands of the workers has been to have this increased to Rs 194, which is the minimum wage as stipulated by the government. However, this demand has been ignored till date.

On 8th May 2012, a deal was signed in Nizam Palace in Kolkata between the Falta SEZ Development Commissioner (DC), the head of the Gram Panchayat, representatives of the managers and the factory owners. We will highlight some parts of the deal here. In the deal, it was stated that daily wages for skilled, less skilled and unskilled workers, would increase by Rs 15 on 1st April 2012, and this increase would be valid until March 31st, 2013. Besides, the daily wage for all levels will increase by Rs 15 per year from 2013 to 2015. It was mentioned that workers needed to be brought under the ESI Workmen's Compensation Act, and EPF Act. For inclusion in the EPF, the daily wage would need to be Rs 75.

In addition to the wage increase, the agreement had several disciplinary clauses, which stated:

1. The production would need to be of the best quality.
2. If any labourer is absent for 2 or more days, then (s)he would be asked to provide reasons and not allowed back to work unless the management was satisfied with the given reasons.
3. For the following improper behaviours, any worker could be suspended.
   (i) Smoking in the factory.
   (ii) Disobeying an order.
   (iii) Use of profanity.
   (iv) Theft in factory
   (v) Committing illegal activities in the factory
   (vi) Disrupting the discipline of the company
   (vii) Taking leave without permission
4. Not willing to do the following will be considered a misdemeanour and could result in warning, termination, with or without severance pay.
   (i) Taking leave without permission
   (ii) Neglect at work
   (iii) Taking a break without authorization
   (iv) Disobeying management order
   (v) Absence without permission
   (vi) Staying longer in factory for 2 days without permission
   (vii) Not listening to good orders or discipline
   (viii) Illegally stopping work or provoking others to do so.

Quite naturally, the workers raised the question: how did the DC, Panchayat, representatives of the management, and the managers agree to such a set of rules? Why were workers' representatives not involved in the discussion? Why is the minimum wage of Rs. 194 not applicable to this factory? Why should people be frequently turned back from the gate, after having come long distances, by hiring vehicles, looking for work ? Why can workers not get more no more than 15/20 days of work per month? Why do managers subtract Rs. 15-20 per day even if workers do not work for 24 days at a stretch ? Why do the workers have to endure verbal abuses from managers and supervisors? Why are they being misbehaved with? These grievances were like a powder keg waiting to ignite for many years, but the discontent had not reached the level where it would materialise into workers agitations and strikes.

Days of the strike

It was on 11th May 2012, Friday that the workers of the Promozin factory had decided that they would go on strike. During earlier meetings with the workers, the owners had said that the daily wage would increase by Rs 30, and workers had accepted that offer. On payday Friday, workers noticed that their wages had increased only by Rs. 15 and not Rs. 30 as promised earlier. The workers refused to withdraw their wages, and stopped work. They got together, and decided that some action needed to be taken. It was felt that if they were alone in the strike, it would not be successful. So they decided that the other factory workers should also be incorporated into the struggle. The first day of the historic strike in Falta SEZ thus began.

12th May, 2012 Saturday could be considered a historic day for the SEZ. Like other days, there was no change in the morning grouping of people from the villages. Plastic waste is recycled in the factories of Promozin,

Plastolin, Anita, Bavaria, Amarnath; these factories employ 7,000-8,000 workers out of which 70-80 % are women. On that day (Saturday) when the Promozin factory workers stopped work, they grouped together and requested other factory workers to stop work and join in their strike. A worker of the Anita factory stated, "We were just waiting for when the strikers would ask us to join in the strike." One by one, all workers of all the plastic factories emerged from the factory and the units of sectors 1 and 2 fell silent.

The distance from sector 1 to sector 2 is almost 1 km. These sectors are connected by a concrete road and are connected to smaller roads. Workers streamed out on all roads. There were no scripted slogans, no organised marches. When the swelling crowds came to the DC office, factory managers became nervous and were not able face the crowds. Feeling uneasy, they fled the area. On the same day, workers submitted a list of their demands to the DC. They demanded compensation as per the government prescribed rate, holidays with bonuses, etc. Meanwhile, the workers had decided that no official or unofficial cars would be allowed in the complex. As a result, locks were put on the large #1 and #2 gates of the SEZ. The DC then declared that there would be a conference with representatives of labourers on 14th May around noon. Finally, the DC declared that in the next Monday (14th of May), a meeting with the representatives of the labourers would be held, around noon.

Meanwhile, labourers had decided that the strike would continue only in the plastic waste recycling factories, not in other factories. The discussion with the owners and management was to be held at noon on Monday. In the morning it was rumoured that the DC would not be coming, and there would be no discussion. Some workers left on hearing this news but others stayed back. The discussion started at 2 pm. Apart from the 40 labour representatives, there were local representatives from INTUC and CITU. At that more than 1500 workers were present outside the office. The meeting was inconclusive. It was decided that the workers would not have to work on Tuesday and there would be further discussions on Wednesday.

As expected, the workers did not show up for work on Tuesday. This is what the agents of the owners were waiting for. On that day in the afternoon, there was a meeting with the DC, LC, owners, supervisors, and local Trinamool Congress leaders. It is worth mentioning that no representatives of the workers was present in that meeting. In the evening, it was announced via loudspeakers mounted on auto-rickshaws that the dispute had been resolved — the daily wage would increase, and that the next day (that is Wednesday) production work would begin again. The workers got to know that the owners had decided that the wage would increase by Rs. 15 that month and what would happen next month would be decided later.

On Wednesday morning, the agents of the management took control of gates 1 and 2. According to some labourers, the head, the sub-head, the Trinamool leaders and thugs were standing in front of the factory gates since dawn. People who came by were sent inside sometimes by threats; sometimes they were physically pushed inside. Though unsatisfied, the workers returned to work. This is how the historic 4-day strike at Falta SEZ ended. Later on, 7 workers were also dismissed.

Why did the labourers fail in the end?

To answer this, we can say that the workers of the Falta SEZ were not able to come together in an organized manner. Or, in the absence of a strong organisation, a struggle cannot be taken too far. Here, the workers did not have their own organization. Therefore, they had no clear idea of how to organize the movement, how to take it forward, or how to use the strike to extract their demands.

One of the features of a spontaneous movement is that it can begin suddenly, spurred by some evenets, without any previous preparation, and it can quickly die in the absence of planning and organization. This is exactly what happened in Falta. Without adequate organizing and without any proper union, the workers had entered into a fight with the owners.

But one must still state confidently that in no way the oppression by the owners has put an end to the narrative. The struggle at Falta establishes that if the workers wish, it is possible for them to stand up courageously against the owners and demand their rights. However, the agitation also showed that no spontaneous struggle can continue for long and win that struggle, if there is no genuine organization of the workers. Maybe now is the right time to organise. After taking lessons from the shortcomings of this spontaneous movement, whether the workers of Falta can now build up a strong workers union to carry forward the struggle, this remains to be seen.

(Courtesy: Shramik Shakti)

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