ALL INDIA INSURANCE EMPLOYEES' ASSOCIATION

LIC BUILDING SECRETARIAT ROAD HYDERABAD 500 063

Cir.No.14/2009 **9th July 2009**

To all the Zonal/Divisional/State/Regional Units:

Dear Comrades,

Union Budget 2009 – The lurking dangers

The Union Budget 2009-10 presented by the Finance Minister was disappointing and loaded with many lurking threats to the public sector and its workers.

The Minister said that the financial crisis could not have a serious impact on the Indian economy because of the public sector financial institutions and went on to say that the public sector banks and insurance companies shall remain under the government control. Some TV channels started scrolls saying that banks and insurance companies are left out of the disinvestment programme. But the reality is that the Government is already having a clear policy outline under which any public sector with 51% government holding would be considered a public sector undertaking. This means that the public sector banks and insurance companies would be under government control even when the government off loads upto 49% of its shares. Similarly the finance minister went on to say that he would strengthen the banks and financial institutions by increasing the equity. But he did not make any provision for the funds needed to recapitalize the Banks. LIC (Amendment) Bill 2008 was introduced in the Lok Sabha on the 22nd December 2008 but now stands lapsed due to the dissolution of the 14th Lok Sabha. So, the government would once again make the attempt to introduce the Bill and would try to push it through. In the name of capitalization, what the government would try is to increase the capital of LIC to Rs.100 crores and prepare for its disinvestment. The four PSU general insurance companies when they were de-linked from GIC in the year 2002, were treated as new companies being registered afresh and were recapitalized in the guise of meeting the IRDA norms. The Insurance Laws (Amendment) Bill 2008, pending with the Rajya Sabha proposes to allow these companies to approach capital markets to raise resources by selling their shares.

After the Budget was presented, Prime Minister Manmohan Singh assured the industry that disinvestment process would go on. The Finance Minister, Shri Pranab Mukherjee, reiterated the next day that the public sector character of an undertaking would remain unaltered so long as the government holds 51% of the shares. This was to assuage the pro-reform lobby and the market sentiments and to send a clear message that the government remains committed to disinvestment. There is already a discussion in the media that the amount realized from the disinvestment of the public sector units could be utilized to meet the social subsidies. Thus they are trying to put the public against the public sector. The government is not lending its ear to the proposal that the investible surplus of the Public Sector units to the tune of Rs.2 lakh crores could be utilized by the government by offering infrastructure and other government bonds.

The proposal for increase in the FDI quantum from 26% to 49% in insurance is already there in the form of a Bill introduced in Rajya Sabha on 22nd December 2008 which was referred to the Standing Committee on Finance. The government would try to hasten the process of getting it passed. Hence, nobody should be under any illusion that the government would go slow on this important demand of both the Indian and foreign capital. The need, therefore, is to mobilize the public opinion and resist this measure.

The proposal that New Pension System trust would be exempted from STT (securities transaction tax) and DDT (dividend distribution tax), clearly sends signals that the pension amounts under the NPS are going to be invested in shares and the dreaded derivates.

The life insurance industry has been asking the government to have a relook at the direct taxation of the surplus and also to review the service tax on risk premium which is discriminatory vis-à-vis the mutual fund industry. The life insurance industry has also been asking for a separate treatment for tax exemptions under Section 80 (C) rather than bunching this crucial long term savings along with other kinds of savings. Unfortunately, the budget failed to address any of these issues.

The middle classes who were expecting substantial relief in Income Tax were disappointed. While those with taxable incomes above Rs.10,00,000 would be benefited by the abolition of surcharge of 10% and thus would gain from Rs.30,000 on wards, those in the income brackets of less than Rs.10,00,000 would be benefited to the extent of Rs.1,000 to Rs.3,000 depending upon the tax rate. Naturally the middle class employees and workers are disappointed, and this once again betrays the elitist bias in the government policies.

Going by the statistics of NREGA there are 7.38 crore job card holders under the scheme as at 31st March 2009. If one were to get Rs.100 per day as promised by the Finance Minister and for a minimum 100 days, the amount would come to Rs.73,800 crores for wages alone. Add the material cost and the administrative cost to this and then reduce the share of the states (1/4th), and then the allocation in the central budget should be double the amount proposed for the scheme. The allocation required to implement the Right to Education is shockingly absent in the Budget.

Antyodaya Anna Yojana (AAY) was launched in the year 2000. As at April 2008, 2.43 crore house holds are covered under the scheme. Each family gets 35 kilos of wheat at Rs.2 a kilo or 35 kilos of rice at Rs.3 a kilo. Now, there is a proposal in the budget about bringing in a National Food Security Act with a proposal to provide 25 kilos of rice or 25 kilos of wheat at Rs.3 per kilo. Thus the proposal is to reduce the quantum from 35 kilos to 25 kilos and increase the price of wheat under the scheme to Rs.3 per kilo.

Hence, on many counts the budget is disappointing and also alarming that in spite of the fact that the withdrawal of state control and its intervention have wrought havoc on the economies of many countries across the world, UPA Government continues to follow the same policies. People have to question this and counter this.

Comradely yours,

General Secretary.