On Denials and Rejections in the Recent Budget

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Denials and rejections, of the most pressing issue in the Indian economy today – which is providing employment as minimum livelihood options for the majority, needs to be underscored in the current budget. Added to above are the woes related to the cuts on the already small social sector spending for health and education, especially with the Pandemic; along with reduced public offers of rural employment under MNREGA, and not to speak of the steep rise in food items which is continuing.

Following the most reliable statisticsprovided by the Centre for Monitoring Indian Economy (CMIE) 61 per cent of the labour force could not find any job, as indicated by the labour force participation ratio (LFPR) at 39 per cent over the 21day lock-down months of 2021. The sample covers all sections of labour force other than the migrants, mostly located in construction sites who are further affected. As compared to the employment figures of FY 2019-20 at 409mn, the number employed in December 2021 was, according to the CMIE, stood at 405mn. This amounted to a 3mn job loss as compared to the pre-Pandemic period. Counting on the already low LFPR, the job requirements, according to same source, shot up to 8.5mn - a rather tall order when compared to the budget estimate of 60 lakh (or 0.6mn) jobs expected over the next FY.

To explain the announced target for job creation as above, the budget in all probability relies on the additional capex of Rs 5 to Rs 7 lakhs on infrastructures as an aid to job creation. That the multiplier effects of capital expenditure do not create demand for jobs instantly follow from the basics of macro-economic logic. The failure rests on investment (say capex) and the demand generated for jobs in the same units which usually are capital-intensive. The next round of job availability comes when the newly employed persons in those units spend on consumption goods, creating additional consumption demand which leads to expansion of output with additional demand for labour. The sequence, which may continue, neither generates instantaneous labour demand nor is it adequate to fill up the much needed gap in the number of jobs which keep missing.

One can contrast here the gains, small or large, as are available for the rich, primarily consisting of big capital, in the budget. One notices the big cut in surcharges on corporate earnings from 12 per cent to 7 per cent, obviously to subsidise those concerns. Taxes are reduced on co-operatives, which however, may be of especial help to the losing concerns where money is often looted by the corrupt management. Announcement of further reductions in taxes include the Long term capital gains (LTCGs) on equities by capping those taxes down to 15 per cent. This will of considerable gain to large corporates as well as the rich individuals as who can afford to be risk-averse in the stock market. Possibilities of hiding undisclosed income has been facilitated by extending the period of submitting returns to two full fiscal years. Finally, the passive role of the state towards the portfolio-led boom as well as volatility in the stock market has acted as a major force to widen income disparities between the rich and poor. Accepted as a norm under de-regulated finance with moderate to free capital flows in the market, the state exercises no concern for the resulting inequity as well as financial instability. Nor has the state any authority under de-regulated finance to manage the basic parameters in the domestic economy which include the interest rate or the exchange rate. A classic example of the related state of subordinate finance include the emergence of the “taper tantrum” on part of the US FED as a measure to control US inflation. The rise in interest rates by the FED may be responsible for a flight of short term capital from countries like India with serious consequences which include drop in official reserves, depreciation of the exchange rate and attempts on part of the RBI to stall the capital outflows by raising domestic interest rates. None of those measures indicate a state of autonomy on part of the monetary authorities, especially by forcing the tightening of domestic interest rates which will cause downslides in the real sector involving jobs and output growth.

To amend the limitations of the so-called Capex –led creation of jobs as projected in the recent budget one needs supplementary and remedial interventions to thwart the vicious cycle which is incapable to address the major issue of employment and related livelihoods. This can not be achieved by sheer expansions in the sum spent on capital goods in infrastructure projects, nor by temporary cash grants to the poverty-stricken people which can not be a substitute for jobs providing income on a continuing basis. Addressing the joblessness for the poor needs additions to MNREGA expenditure, not cuts as in the budget, and not just in the rural but also in urban areas. Creation of jobs also demands better deals for labour much of which has been scrapped by the newly initiated labour code in February 2020, just before the onset of the Pandemic. The measures also need to restore the rightful claims of casual labour and the migrants having no official status as employed persons. Finally, with privatisation of public sector units, the shortfall in job opportunities relative to demands for jobs can not be met by job offers with MNREGA alone. One needs a pro-active private sector sharing the responsibilities by using labour-intensive technology, which may need a carrot and stick policy on part of state using subsidies or taxes.

The budgetary exercise cannot be meaningful unless it addresses the primary concerns in an economy. For a democratically elected government the concern needs to focus on the well-being of people who constitute the electorate. A negation of above, as with the present situation in India, conflicts with the basic responsibilities of the state as well as the rightful claims of people including the workforce. The claims obviously include a sustainable livelihood with job openings and social security measures.