

Budget emphasis on urban governance could benefit workers living in small towns

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This year's budget comes at a critical juncture when the bounce-back from the Covid-19 pandemic seems to have exhausted itself and the economy risks sliding into the low rates of growth witnessed right before the pandemic. Furthermore, as I've highlighted before and as mentioned in the [Economic Survey](#), the pace of creation of regular wage jobs has been slower than desired, share of self-employment has increased, and labour earnings have stagnated. The related divergence between labour earnings and profits of large firms has also found a mention in the Economic Survey.

The reason is continued weakness in [private investment](#), due to low rates of capacity utilization, signalling poor demand. Completing the vicious circle, low demand in turn seems to be a result of anaemic job creation and crowding of workers into surplus-labour sectors such as agriculture and petty retail. Efforts to break out by increasing public capital expenditure have thus far not yielded the expected results. There were voices from corporate India leading up to the budget asking for a direct boost to consumption instead.

In this backdrop, the budget has clearly focussed on boosting consumption and stimulating job growth. Only time will tell if the new measures have the required fiscal support and the policy structure to deliver results, but the intent seems clear.

But first, on the overall budget numbers, it is worth noting that the estimated expenditure for the coming year is only 5.7% higher than the revised estimates for 2024-25. That means that in real terms, the size of government spending is expected to remain approximately the same. Instead, the demand-side push

has come in the form of an extension of the tax rebate for incomes up to ₹12 lakh per year (up from ₹7 lakh) under the new tax regime.

Coming to the supply-side push to create jobs, one can think of this in terms of horizontal policy measures that have the potential to impact several sectors at once and vertical measures targeted at a particular industry or sector.

Among the former are attempts to improve credit allocation to [MSMEs](#), greater investment in skilling, a push for better urban governance, municipal services and planning, and lower regulatory costs. While skilling has been a long-term item for the present government with mixed results, the emphasis on urban governance, land and planning is a welcome one. Especially if it improves the ease of doing business in India's small towns (think district headquarters and smaller, not metros and state capitals) where the majority of the urban workforce resides.

Another point worth noting is the attempt to create platforms for cross-ministry coordination in the form of the National Manufacturing Mission and the Export Promotion Mission that will coordinate the activities of the commerce, finance and MSME ministries. One hopes that the ministries of labour as well as skill development and entrepreneurship will also be a part of these missions.

Coming to sectoral focus areas, the concern with job creation is also clear when we look at the industries that found mention in the speech. These include labour-intensive industries such as food processing, leather and footwear, toys, tourism and healthcare. On toys and leather/footwear, there seems to be a shift in emphasis indicated by the elimination of the tiny allocations made under the [PLI scheme](#) last year. The expenditure tables contain the mention of a "new employment generation scheme" which has had a substantial budget revision up from ₹7,000 crore to ₹20,000 crore in the coming year. But details are not clear.

Alongside broadly subsidy-oriented schemes, there are also several proposed adjustments to the trade regime in an effort to reduce incidences of an inverted duty structure and provide a more conducive trade environment for Indian firms. This is a continuation of the review of India's tariff structure announced in the July 2024 Budget.

Finally, on the supply side, there is a strong signal on reducing regulatory costs as well, for example, via Jan Vishwas 2.0 that will carry forward the decriminalisation agenda.

On the job-quality front, there is a small signal that the government is ready to think about social security for gig and platform workers. Gig workers will be made a part of the e-Shram portal and provided health insurance under Ayushman Bharat. Clearly, this is a very small step given the enormity of challenges facing this rapidly growing part of the workforce.

In sum, the budget sends the right signals, and one needs to wait and see if the coming year brings the expected results.

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