Jobless growth still the leitmotif

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Drivers of growth?: The primary constraints on micro, small and medium enterprises (MSMEs) are demand and infrastructure.

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IN what has been termed as a "routine" and "calming" budget, Finance Minister Arun Jaitley's team has checked all the appropriate boxes. Increased outlay for popular schemes like the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) and for public investment in infrastructure, and tax cuts for small businesses and the lower end of the salaried classes, while keeping to the announced path of fiscal consolidation with a deficit target of 3.2 per cent. Overall the budget contains no big surprises (such as inheritance tax, universal basic income etc.). But after the economic turmoil caused by demonetisation, was this a lost opportunity to make some big changes? Or is it a deliberate attempt to go back to business as usual?

While the broad patterns in the budget are fairly routine this also means that there is no vision commensurate with the challenges that the Indian economy is facing. Here I will speak only to one of the biggest challenges, that of generating livelihoods that provide regular, living incomes for everyone. India is going through a well-documented job-creation crisis. The lack of well-paying formal sector jobs forces many into the informal sector. For example, the Labour Ministry's latest "Employment-Unemployment Survey" (2015) estimates that at the all-India level just over 67 per cent of households earn less than Rs 10,000 per month. Fully 77 per cent of households at the all-India level do not have a regular salaried person working, but instead are either self-employed or are casual workers.

What does the budget do to address this crisis? Broadly by four measures --- increased spending on agriculture, increased allocation to MGNREGA, increased public expenditure on capital goods, and decreased taxes on small business, micro small and medium enterprises (MSMEs). Let us take each in turn.

The substantial increase in the MGNREGA budget from Rs 38,000 crore to Rs 48,000 crore will, no doubt, be welcomed in general. The fact to note is that, as per the budget documents, while the budget estimate for 2016-2017 for MGNREGA was Rs 38,000 crore, the revised estimate for the past year (the money actually spent) is Rs 47,499 crore. This is a huge increase over the actual spending for 2015-2016 which was Rs 37,341 crore. Thus the new budget allocation is merely keeping up with the demand for employment in the countryside. In the medium to long term, it is also important to keep in mind that a programme such as MGNREGA is designed as a safety net and a stop-gap measure. Rural policy should be designed to increase farm and non-farm incomes in the private sector in such a way that people no longer need to work in MGNREGA.

In this regard, the most prominent announcement in the budget speech has to do with doubling of farm incomes over the next five years (by 2022) by setting aside Rs 10 lakh crore (roughly 8.3 per cent of GDP) for the agricultural sector. The goal is, of course, laudable, but is there a vision that accompanies it? Achieving this goal requires agricultural incomes to grow by a whopping 12.5 per cent per year over the next five years. The actual rate of growth in agriculture has been far lower (the estimates for 2016-2017 are 4 per cent). While a detailed examination of the budget documents may reveal some mechanism, the Finance Minister's speech did not give any such indications.

One could argue that growth rates in the agricultural sector could be driven by growth in the secondary and tertiary sectors (a variation on the trickle-down theory). But there are serious constraints on such a process, the principal one being that spending on primary sector output (such as food) does not grow very much beyond a certain point as people get richer. This implies that increasing incomes in the agricultural sector requires us to focus on that sector in a bottom-up strategy. Indeed, lack of broad-based aggregate demand in the Indian economy, a simple consequence of the aforementioned meagre earnings of the vast majority of households, is generally acknowledged to be behind the current slack in private investment, a lack made all the more severe by demonetisation.

Increased expenditure on infrastructure is another selling point of the budget. Like increased spending on MGNREGA this is an uncontroversial move, likely to elicit broad support. It is also welcome that the government has recognised the close synergistic links between public and private investment (as opposed to the "crowding out" logic that sees the two as competitors). If the government is serious about things such as 100 per cent rural electrification that actually ends the current grossly unequal distribution of electricity and other public goods, this is to be welcomed and can potentially be very good for job growth. However, if it entails projects that will serve only the urban, middle classes (such as more highways), bringing displacement to those in the informal sector then the welfare effects are more ambiguous. Coming to decreased taxes on MSMEs, in general this should be a welcome step as far as making these businesses more competitive goes. However, in the face of weak demand they may still not choose to expand operations and create jobs. The primary constraints on MSMEs are demand and infrastructure (such as electricity), not the tax burden. Given strong demand and sales, the incentives for evading the tax net may also reduce.

A genuine attempt at ending the crisis of jobless growth will have to start from the bottom up, and not rely on trickle-down approach. This means vastly increased public spending on agriculture and on other non-farm economic activities in which the vast majority works. This can take the form of expanded public works programmes or wage-subsidies to the private sector that allow people to work in occupations that they are already trained for rather than on road construction and other putatively "unskilled" work they are not trained to do. Reports from the rural areas indicate that, in addition to farmers, skilled weavers and other workers are taking to MGNREGA work due to distress. This is skill-destroying and should be stopped.

But won't such fiscal expansion run afoul of fiscal consolidation? Here I end with a question that is not asked often enough: Why are we so obsesssed with the fiscal deficit and international ratings? Paying inordinate attention to ratings is consistent with the insistence on Foreign Direct Investment (FDI) as a path to development. But this need not be the case. India is a large market and a large economy and is capable of financing its own development path. The only other reason for the emphasis on fiscal prudence is the popular yet flawed "crowding out" argument that has been challenged many times in academic literature as well as popular media and that the government also does not believe in, as indicated by the argument that public spending will boost private investment. Thus there are no other good reasons for insisting on such arbirtrary targets such as 3 per cent or 3.2 per cent. The Finance Minister seems to have played it safe in the current budget while attempting to square the usual circle of increasing spending and decreasing tax rates, while at the same time reducing the fiscal deficit. The casualty, as is often the case, are the bottom 80 per cent of Indians who have yet to see trickle-down economics work for them as it has for the top 20 per cent.

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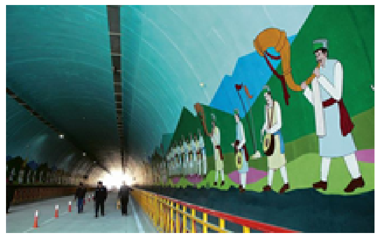

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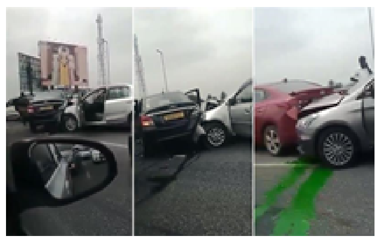

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