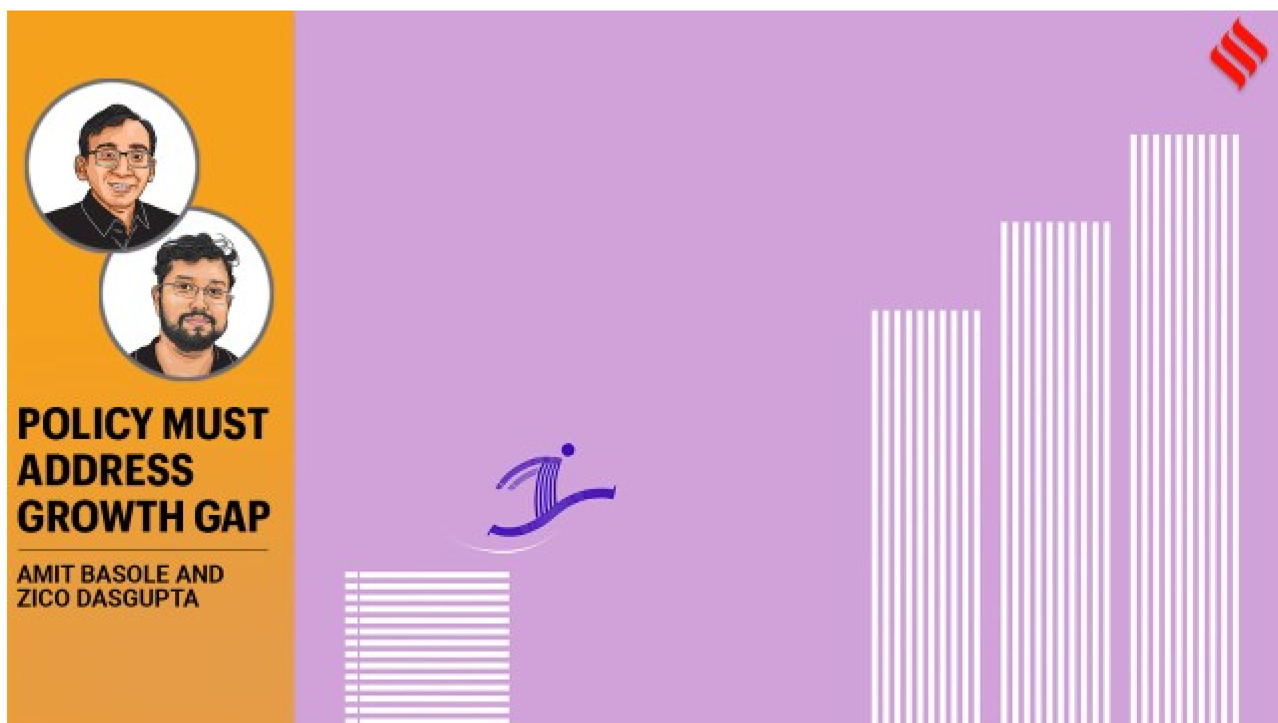
# Wages of inequality: The income-growth gap

indianexpress.com/article/opinion/columns/wages-of-inequality-the-income-growth-gap-9147543/




Labour earnings have been mostly stagnant, too. On average, the quarterly rate of growth of GDP prior to the pandemic (between second quarter of 2017-18 and fourth quarter of 2019-2020) was 4.8 per cent.
**Also By Zico Dasgupta**

The interim Union budget presented on February 1 was only a vote on account since the general elections are due soon. However, it still gives a picture of the government's thinking on macroeconomic policy objectives and allows us to ask if the approach is correct, given the challenges currently facing the Indian economy.

First, let us recapitulate some numbers. In nominal terms, budgeted total expenditure at Rs 47.8 lakh crore is higher by 6.1 per cent over the revised estimates for 2023-24. This increase is the lowest in two decades. In keeping with previous years, capital expenditure has seen a large increase (though less than the increase last year) at 16.9 per cent to Rs 11.1 lakh crore. Revenue expenditure, net of interest payments on government debt, has declined by 0.8 per cent. It had contracted more sharply last year by 3 per cent. In real terms, assuming a rate of inflation of 5 per cent, total expenditure is mostly stagnant while non-interest revenue expenditure has declined by 5.5 per cent. Thus it is overall a fiscally conservative, if not contractionary, budget. It also continues to shift the composition of expenditure towards capex as has been the trend in the last few years.

Also Read | Three ways to deal with the high govt debt
The present fiscal policy framework is based on two distinct objectives: Reducing the level of debt-to-GDP and mitigating the adverse effects of the resulting expenditure reduction on GDP growth. The rationale for debt reduction follows from the FRBM review committee report which had set the targeted

debt-GDP ratio of the Centre at 40 per cent, far lower than the present level of 58 per cent.

The debt-to-GDP ratio of any period depends on two distinct factors. First is the gap between the GDP growth rate (g) and the interest rate (r) that the government has to pay on its borrowing. The greater g is with respect to r, the lower would be the ratio. Second, it depends on the primary deficit-GDP ratio, where the primary deficit is the excess of expenditures net of interest payment over the non-debt receipts of the government. The lower the primary deficit-GDP ratio, the lower would be the debt ratio. The policy objective of reducing debt-to-GDP ratio has involved the government reducing its borrowings and primary deficit ratio since 2021-22.

Also Read | Interim Budget 2024: Concerns over GDP, spending cuts; fiscal deficit is bright spot
There are two ways of reducing the ratio of primary deficit to GDP — increasing the tax-GDP ratio or reducing the expenditure-GDP ratio. With the former largely remaining the same during this period, the burden of adjustment has fallen on the latter. The primary expenditure-GDP ratio declined from 12.7 per cent in 2021-22 to 11.6 per cent in 2023-24. Note that the ratio is just an outcome of two growth rates — the GDP growth rate and the expenditure growth rate. For any level of GDP growth rate that the government expects to prevail, the expenditure growth rate needs to be set at a level that achieves a reduction in the expenditure-GDP ratio. In other words, the target of lowering the debt-to-GDP ratio has de facto set a limit on the expenditure growth rate.

Coming to the second objective behind the budgetary decisions, this involves the government's attempt to mitigate the adverse effect of expenditure reduction on GDP growth. Here the solution has been to shift the composition of expenditure away from revenue towards capital expenditure, under the assumption that an increase in the former has a greater impact on output (multiplier value) as compared to the latter. In short, the two policy targets of the government have together been achieved by squeezing the growth rate of current expenditures.

Also Read | First Advance Estimates of India's GDP out: What are they, and what do the data show?
This fiscal policy framework raises the question: Is it advisable to have an arbitrary level of debt-to-GDP ratio as a target? If the goal is debt stability (ability to repay loans without taking more loans) this can be achieved even at the present level of debt-to-GDP ratio by registering a growth rate greater than the interest rate. India has largely satisfied this condition, except for the odd Covid year. But even if one happens to agree with continuing with a conservative debt target, a second question remains: Are the two policy objectives sufficient to address the developmental challenges of India, in particular the need to promote structural change by generating employment in productive modern sectors?

The Periodic Labour Force Survey data allows us to closely track the employment situation on a quarterly basis. In the normal course of economic development, the structure of the workforce undergoes a slow transformation. The proportion of workers engaged in self-employment (agriculture, petty retail and traditional services) shrinks and the share of wage workers in the modern sector (manufacturing and

modern services) rises. This was the trend in India until around 2018. Just prior to the Covid-19 pandemic, a small reversal of this process of structural change was observed. The reverse trend became far more pronounced during Covid as job losses forced workers to fall back upon self-employment.

Also Read | GDP to grow 7%-plus, touch $5 tn in 3 years: MoF says in review
After reaching a high of 23 per cent prior to the pandemic, the share of regular wage workers in the total workforce declined and then stagnated at 21 per cent. Even after the worst effects of the pandemic were over, between the first quarter of 2022-23 and the first quarter of 2023-24, the self-employed workforce grew by a huge 15.8 per cent while the salaried workforce grew by only 2 per cent. Most of the self-employed increase was in the category of unpaid helpers. Women, in particular, have entered the workforce in large numbers, mostly into self-employment.

Labour earnings have been mostly stagnant, too. On average, the quarterly rate of growth of GDP prior to the pandemic (between second quarter of 2017-18 and fourth quarter of 2019-2020) was 4.8 per cent. In this same period, regular wages grew by 0.21 per cent in real terms, casual wages by 3.9 per cent and self-employment earnings by 1.7 per cent. In the Covid period and its immediate aftermath (First quarter of 2020-21 to second quarter of 2021-22) GDP grew by 1 per cent in real terms (this includes a large reduction and a jump back), regular wages shrank by 0.63 per cent while self-employment earnings shrank by a huge 5.3 per cent.

Post-Covid (third quarter of 2021-22 to second quarter of 2023-24), the average quarterly GDP growth rate recovered to 6.7 per cent, while regular wages continued to stagnate (-0.07 per cent) even as self-employment earnings bounced back and registered a growth of 6.1 per cent.

In real terms, regular wages and self-employment earnings have grown at just under 1 per cent since 2017. The gulf between these rates and GDP growth indicates a worsening of the income distribution as well as weak improvements in welfare. Addressing this will require government expenditure to rise — in fact, the growth gap between labour earnings and GDP can itself serve as a policy target.

**The writers teach economics at Azim Premji University**

© The Indian Express Pvt Ltd

First uploaded on: 07-02-2024 at 07:34 IST