A Low Growth, No Employment and No Hope Budget for 'Aspirational India'

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The Union Budget of 2020 is conspicuous by its non-recognition of the ongoing and widely discussed slowdown of the economy, let alone its impact on the different sections of the people. Given the negative growth in employment and consumption in the rural economy, the budget seems like a cruel joke on the plight of the poor, in general, and women, in particular. Instead of measures for boosting the aggregate demand, especially in the rural economy, the government has exhibited a track record of aiding the process of wealth creation for corporate capital and throwing a few crumbs to the middle class. What comes out crudely and sharply is the ideological predilections of the regime in power.

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The timing for the presentation of the union budget for India's Finance Minister Nirmala Sitharaman was not an enviable one by any stretch of imagination. Not being a party to the high level pre-budget discussions chaired by the Prime Minister must have added to her understandable but hardly revealed anxiety. There has been an ongoing discussion and debate on the slowdown of India's economy that got compounded by serious doubts raised on the methodology of computation of the national income and, consequently, its growth rate.

Then, there was the news about a decline in absolute levels of employment in the economy by 6.2 million between 2011–12 and 2017–18 (Kannan and Raveendran 2019). This report of the National Sample Survey Office (NSSO) was first withheld and then released after the general elections of May 2019. We do not know the current situation from official statistics, although the report of the second PLFS 2018–19, since it is an annual survey, should have been ready and released by now. This decline in employment is perhaps the first since independence and certainly since 1972–73 that marked the beginning of the quinquennial (or thereabout) surveys on employment and unemployment undertaken by the NSSO, whose professional integrity has so far stood in great stead both nationally and internationally. The net decline in employment was wholly borne by less educated women in rural areas. If one takes a look at the dualistic nature of the economy, the loss in the informal sector was 16.9 million along with a gain in the formal sector to the extent of 10.7 million.[1] When one takes a locational view, the rural economy lost 21 million jobs while the urban economy gained 14.8 million. This, in my view, is an indirect confirmation of the devastating impact of demonetisation on the informal sector, possibly reinforced by the flawed implementation of the goods and services tax.

To add insult to injury, as the old saying goes, another report on consumer expenditure for 2017–18 prepared by the NSSO was not only withheld, but reportedly rejected. If it is indeed the case, it opens up serious questions on India's data integrity that would not only hurt the country's reasonably good reputation on national statistics and its statisticians, but also its ability to assess objectively its own national economic performance by professionally managed and independent but official statistical institutions. The report got leaked, as was the case with the earlier employment report, and the results show that there has been a 3.7% decline in monthly per capita consumption, with the rural areas reporting a much higher decline of 8.8% as against an increase of 2% for urban areas (Jha 2019). There is hardly any doubt that this report is further confirmation of the slowing down of the economy through a decline in aggregate demand, which I think has been largely contributed by the devastation visited upon the informal sector that currently accounts for close to 80% of the workforce. That it has a sharp rural dimension has been confirmed by the fact that the decline in both employment and consumption is only in rural India.

These developments should be read along with the not-so-encouraging other macroeconomic statistics, such as the declining and stagnant rates of domestic savings, investment and exports for the last five years. It is no wonder then that the officially released growth rate for the economy for 2019–20 has come down to 7.6% in nominal terms.[2] One, however, wonders that the same publication—the *Economic Survey* 2019–20—gives the real growth rate as 5% when the country is told that the consumer price inflation has been on the rise and crossed the 7% mark. The implicit inflation of just 2.6% raises another doubt about the credibility of the official pronouncements.

Such a convergence of economic events has raised the spectre of a severe economic slowdown, mainly due to a deficiency in aggregate demand that has got even the corporate sector to openly articulate its concerns as a "demand problem" and asking for measures to stimulate the economy. Not that they have suddenly become Keynesians since there are plenty of them still crying for interest rate cuts, tax cuts, cutting out the public sector and then handing over the benefits to them. This "cut-and-give" syndrome certainly has a bigger appeal with the government than other solutions.

Undermining Distribution

The finance minister, and by proxy the government, however, chose to ignore or even acknowledge that there is a problem of slowdown in the economy, that there is an employment crisis with a sharp rural dimension and that the aggregate demand problem is real. She repeated the ambition of making India a $5 trillion economy, but left unspecified, by her or anyone in the government, the detail as to why such a target is important for the country in general and the *aam aadmi* in particular. Is it for raising the income and living standards of the poor? Is it for raising the average educational level of the younger generation? Or is it to reduce anaemia that has afflicted more than half the children and women in the country? Or is it to reduce the maternal mortality rate and other disempowering deprivation of women in the country that is the highest among those sitting around the high table of G20 (Group of Twenty)? I mention the G20 here if only to remind the readers that the finance minister is reported to have

> called upon [G20] member countries to enhance their efforts aimed at empowering women, youth and small and medium enterprises. (*Hindu* 2020: 13)

Or, is it to increase the wealth of the rich further that seems to have got a backing from the latest *Economic Survey* eulogising "wealth creation" but not its distribution? No country in the world usually sets the targets of increasing income in absolute terms in US dollars. It is about rates of growth in income and its per capita, along with reducing poverty or increasing welfare. Of course, very few countries talk about the rates of reducing inequality. And so is India. So, this absolute level of national income as a target could help deflect any talk of existing inequality, not to speak of further increases in inequality. What a wonderful way to deflect public attention and debate from mundane questions of employment, poverty and inequality!

The finance minister, in her attempt to deflect issues of slowing growth rate, rising inflation, rising unemployment and the declining consumption, went on to elaborate what she called three themes of the budget, namely "aspirational India," "economic development" and "caring society." Students of economic development may wonder why the overarching theme of economic development of a poor country has been narrowed down to a segmented agenda in a budget speech. Under "aspirational India," the finance minister talked about (i) agriculture, irrigation and rural development, (ii) wellness, water and sanitation, and (iii) education and skills. Are these not parts of the all-embracing theme of economic development? And, the same doubt pertains equally to the items discussed under "caring society." By repeatedly mentioning the absolute figures of allocations to several of the schemes under these heads, the finance minister sought to convey the impression that her government is embarking on something so expansive and ambitious. But, the devil was in the detail.

The overall budgeted expenditure works out to 13.5% of the national income for 2020–21, as against the revised figure 13.2% for 2019–20 and the actual figure of 12.2% for 2018–19. One should not be surprised if the actual figures for the current and coming year turn out to be the ones for 2018–19 or near about. So, instead of a stimulus to the economy, you get a "kicking down" that could lead to a vicious cycle, dragging the economy further down the lane. A close reading of the budget papers would tell one that such a fear is not a misplaced one, given the ambitious targets set for revenue collection under various items.

What should be more worrying is the prospect of a further decline in tax–GDP ratio of the union government that seems to have begun in 2018–19. The highest ratio in recent times of 11.4% was in 2017–18 that declined to 11.0% in 2018–19 and then to 10.6% in 2019–20 as revised estimate, but could turn out to be below that, given the performance in revenue collection. It will certainly lead to a cut in budgeted expenditure of a large number of socio-economic heads spread over at least 17 ministries, but is unlikely to affect either the expenditure of the ministry of defence (external security) or that of home (internal security). It would be instructive to see the skewed nature of budget allocation, year on year, as between the "coercive apparatus of the state" (represented by the Ministries of Defence and Home as proxies) and the "development-cum-welfare" expenditure (represented by 17 ministries). Table 1 gives the statistics for three years, although the figures for 2020–21 are budget allocations and could change. Two ministries relating to external and internal security (that is defence and home affairs) together get more than one-fifth of the budget, whereas 17 ministries dealing with various socio-economic programmes get a marginally higher share. Within the 17, three ministries deal with some of the most basic areas, that is food

Table 1: Budget Expenditure on Security vs Development and Welfare (₹ in crore)

	2018–19	As % of Total	2019–20 (RE)	As % of Total	2020–21 (BE)	As % of Total
(1) Defence	4,03,457	16.5	4,48,820	16.1	4,71,378	15.5
(2) Home	1,07,573	4.4	1,19,025	4.3	1,67,250	5.5
(3) Security (Total of (1) + (2))	5,11,030	20.9	5,67,845	20.4	6,38,628	21.0
(4) Development and welfare*	5,42,221	22.2	6,51,920	23.4	7,17,872	23.6
(a) Agriculture and allied	56,791	2.3	1,13,240	4.1	1,46,786	4.8
(b) Rural development	1,13,706	4.7	1,24,549	4.5	1,22,398	4.0
(c) Food, Public Distribution and Consumer Affairs	1,08,848	4.5	1,17,290	4.2	1,24,535	4.1
(5) Total of 4 (a)+(b)+(c)	2,79,345	11.5	3,55,079	12.8	3,93,719	12.9
Total budget	24,42,213	100.0	27,86,349	100.0	30,42,230	100.0

* Covers the budget of 17 ministries.

Source: Compiled from CBGA (2020: 55) and budget documents.

production, consumption and public employment. Their combined share in total expenditure, catering to well over two-thirds of the Indian population (that is, over ₹880 million), is less than the share of the single Ministry of Defence by a good margin. Among the three, the only increase in share is for the Ministry of Agriculture and allied areas due to the introduction of Pradhan Manthri Kisan Samman Nidhi of ₹6,000 per year to farmers that works out to ₹500 per beneficiary or a little less than two days of the average wage of a rural casual worker in the country in 2017–18. But, this increase, as one can see from the table, is partly achieved by reducing the shares of the Ministries of Rural Development and Food and Public Distribution. From a larger perspective, there is indeed a problem—or is it a dilemma?—between the expenditure for security versus expenditure for welfare/development. Careful diplomacy could tilt this trade off in favour of welfare and development and a careless one of xenophobia, and hatred against unchangeable neighbours could tilt it against the welfare and development of the vast mass of people. But, what is significant with this security-related budget is the increase in allocation for internal security (home affairs) and a reduction in the external one (defence). That problem has clearly to do with increasing internal conflicts and unrest that we all see in the country, by a politics of hate and bigotry setting people against people. No more needs to be said on the budgetary implications of divisive, as against cohesive, politics.

Demand Deficiency

Let us assume that there is recognition of the problem of deficiency in demand. Let us also recognise that there is a deficiency in investment, as the finance minister rightly says. Given the fact that the urban economy is doing reasonably well (except the plight of the labouring poor in the informal sector that is partly a spill-over from the rural economy), are there ways to boost the aggregate demand in the rural economy? The instrumentality of the budget may not be the only tool, but one could start with that.

Take the case of the Mahatma Gandhi National Rural Employment Scheme (MGNREGS), which is a legal entitlement for those demanding work. The 2017–18 figures show that 7.7 crore persons were given employment for 51 days at an average wage cost of ₹181 per worker. That would have entailed a total expenditure of ₹71,078 crore and that is what the budget papers show. If the legal entitlement of 100 days of work were to be provided, it would have added another ₹69,291 crore to the poorest in the rural economy. This is less than half of the money gifted to the corporate sector by way of reduction in corporate tax that must have benefited just a few hundred entities.

But, the more important question from the point of the persistence of low wages—starvation wages, if one may call so—is that of the minimum floor-level wage for the country. Trade unions of all hues and colours made a combined demand for a national floor-level minimum wage that should not be less than the earnings of the last grade government employee. Whatever be the logic in that, the government was quick to reject the demand, but was soon met with massive protests. In response, an expert committee was constituted that gave its report in January 2019. The committee was an "insider committee" with five officials from the Ministry of Labour and Employment including the chair, one independent scholar and a technical expert from the International Labour Organisation.[3] It examined the issue from a basic-minimum-needs point of view

> to meet a working family's minimum required expenditure on food and non-food, which should be adequate to preserve the efficiency of workers at their job and the health of their families. (Government of India 2019b: 67)

On this basis, it recommended a national minimum floor wage of ₹375 per day as of 2017–18, as against the existing but non-statutory national minimum wage of ₹176; yes, ₹176. Does this recommendation sound unreasonable in an economy that has increased its per capita income in nominal terms by 17.8 times between 1991 and 2018? In 1991, the recommended national minimum wage by the Hanumantha Rao Committee on rural labour was ₹20 per day that reached, to ₹178 in 2017–18, through a series of administrative revisions. That is to say, an increase of 8.9 times. Proportionality would demand at least ₹356 that excludes the changes in consumption pattern, but is closer to ₹375. Suppose the government had agreed to this what may be called the basic needs-based minimum wage, what would have been the stimulus to the aggregate demand? A quick estimate is given in Table 2. We work with 2017–18, since the latest official employment figures relate to that year.

First, we take the wage income loss due to low wages. Sixty percent of the workers, that is, 276.9 million workers (casual, regular and self-employed) earned less than ₹375 per day. The average wage/earnings gap was ₹145. Had they been enabled to earn at least ₹375 a day, this would have worked out to ₹12,88,831 crore, equivalent to 7.5% of the gross domestic product (GDP) in 2017–18.

Second, we take the wage income loss of potential workers, that is, those who should have been in work (based on the Labour Force Participation Rate and the unemployment rate in 2011–12) and assuming current composition of work status

Table 2: Wage Gap of Potential Workers ₹375 and Actual Wages

	Workers (Ml)	Total Loss ₹ Crore	% of GDP
(A) Wage income gap of existing workers			
Wage gap of existing workers	276.9	12,88,831.0	7.5
(B) Potential workers (those who should have been working but outside the labour force and in education)			
Women*	29.4	1,90,528.9	
Men*	8.9	1,24,366.5	
Men (excess unemployed)*	14.8	2,06,811.6	
Women (excess unemployed)*	2.8	18,145.6	
Total for B		5,39,852.6	3.2
(C) Wage income gap of potential workers			
Wage gap of potential workers	55.9	2,60,186.6	1.5
(D) Excess wage income of MGNREGS workers			
Potential income of MGNREGS workers	77.0	2,17,672.0	1.3
All total (A+B+C)		23,06,542.2	13.5

* At current wages. For calculating annual wage income the whole year is taken for regular and the self-employment and 280 days for the casual workers.

(casual, regular and self-employed) and current wages. This works out to ₹5,39,853 crore, equivalent to 3.1% of the GDP.

Third, we take the wage income loss of these potential workers on the basis of the wage gap of ₹145 per day from that of ₹375 per day. This works out to ₹2,60,187 crore, equivalent to 1.5% that of the GDP. Note here that of the 56 million persons who should have been in the workforce, 58% are women.

To this, we should add the excess of wage income that would have accrued to those currently engaged in MGNREGS work, had they been given 100 days per year at a minimum wage of ₹375. This works out to ₹2,17,672 crore equivalent to 1.3% of the GDP.

The combined impact would be an additional purchasing power of ₹23,06,542 crore, equivalent to 13.5% of the GDP. Note here the budgetary transfer is confined to only the additional expenditure on MGNREGS to the order to 1.3% of the GDP. The other two are: (i) a minimum wage policy, and (ii) a focus on employment creation, particularly in rural areas. Close to 80% of this additional purchasing power would go to the rural economy, given the higher wage gap from the recommended national minimum wage and the expenditure on MGNREGS.

What we have shown here, as a matter of illustration, is the possibility of boosting aggregate demand—through an employment and minimum wage policy—of those sections of people whose current incomes, despite working, is too low to demand even the basic necessities of life in a country where the richest 1% have more wealth than the 70% of bottom poor. How much of the growth in per capita income of well over 4.5% per annum for the last 30 years trickled down to the working poor in the form of wages?

Ideological Predilections

Given the policy thrust and the ideological predilections of the regime in power, there is hardly any chance that such a route to boosting demand that would have also resulted in some "levelling up" of the working poor would be adopted. It is quite clear to the country and the world at large that the regime's sympathies and support lie elsewhere. It stands tall and proudly proclaims its support for the private corporate sector. The regime first started a process of bringing down the corporate tax from 30% to 25%, and now, a further reduction to 22% on average (that includes a 15% tax for new domestic companies in manufacturing). The latest bonanza was around ₹1.46 lakh crore, an amount that is equivalent to 83% of the funds that the government took from the Reserve Bank of India. This is to raise the animal spirits, so goes the justification. But, no animal spirits were raised in the form of new investments. It is instructive to know that this amount would have been sufficient to provide for 100 days of employment under the MGNREGS for the 7.7 crore workers at the existing wage rate or meet 50% of the wage bill for 100 days with a minimum wage of ₹375.

Then, there is the gift of privatisation with announcements to privatise more and more public sector units that include oil companies, shipping, and aviation and so on. As part of the "cut-and-give" strategy, part of the shares of the Life Insurance Corporation will also be up for grabs. Not satisfied with the privatisation of commercial enterprises, the government is now initiating a process of privatising public services, and hence, the announcement of handing over district government hospitals to private healthcare companies. Of course, there is already a thriving commercial space for public services in education as well as in health. The legendary Indian Railways has also been put on sale for selective services that could see a process of pricing out the poor from the long-standing public transport system. So, the process is a long one and need not stop with just public enterprises of a commercial type. After all, some government services have already been privatised, as in the case of the processing of passport applications. Critics see here the strengthening of, and bonding with, crony capitalism, but some official economists would say that it is just "pro-business" for faster growth. But, then, growth for what? Even the opposition is shy of raising this question, but it needs to be raised again and again until a clear national consensus is arrived at through democratic institutions and processes.

Despite such largesse to the corporate capital, many of them are worried that these are not enough, and that the demand deficiency problem needs to be addressed. The highly unequal distribution of wealth and income itself acts as a barrier to expand aggregate demand and the reluctance to address the issue could prove to be costly, economically, and socially. So, the attention turns to meeting the demands of the middle class, largely, if not only, in urban areas. Therefore, the finance minister spent a lot of time explaining the concessions she has given in the income tax system of those earning between ₹5 and ₹15 lakh per annum. But, it seems to have created more confusion than clarity with the opening up of two systems of tax calculation. One does not know whether the right to choose from exemption-less and exemption-based tax calculation is a one-time entitlement or one that could get repeated every year.

The abolition of dividend distribution tax at the source has also gladdened the middle class. It will now be taxed at the receivers' end. Whether the government will be able to get the expected amount is something that only time will tell.

But, despite the murmurs of the middle class, that segment along with the rich and super rich are doing well in the Indian economy. There is no increase in the marginal tax rate of the rich and super rich. The urban economy, especially those in regular employment, have not only not been affected by job loss, but gained significantly. The phenomenon of educated urban unemployment is a question of waiting, compared to the expulsion from the labour force—discouraged workers—of the labouring poor in rural areas with low levels of education and lack of other enabling endowments.

When concessions and hefty hand-outs are given to the corporate sector, it is called incentives for investment and growth. When small welfare payments are made to the poor, it is called "doles." Corporate capital and their economists talk about investment multiplier, no matter how long it takes to boost demand. They neither see any investment function or desirable consumption function when money is spent to boost wages, rural development, school meals or primary healthcare services. I do feel that there is a problem of understanding here. When money is spent on MGNREGS-type public employment, especially to restore, regenerate and develop land and water management or natural resources, there is a consumption multiplier through the wages. But, there is also an investment multiplier that works with a relatively short lag when productivity is raised from such a development of land and water resources. Sometimes, this lag could be as short as a year, given the short gestation in raising/improving crop cultivation. The same goes for expenditure on pre-school and school-going children and/or healthcare because it is investment in human capabilities that has a longer gestation, but a highly desirable one. For the poor, access to nutritious food and healthcare is also "capital investment" because most of them work as self-employed or casual workers. They would not be able to work when their health is poor or when they do not have the energy to work efficiently.

But, these economic arguments would not cut any ice, given the anti-poor ideological predilections of the regime. Of course, the process was started by earlier regimes but was moderated to some extent by some pro-poor policies and programmes dictated by political exigencies. But, the current regime does not see such compulsions, given its "success" in practising a politics where faith is mixed selectively with what they define to be nationalism.

NOTES

1 The informal sector employed 80% of the total workers in 2017–18 with the remaining 20% in the formal sector. But, 53% of those employed in the formal sector were informal workers (contract, temporary, casual, and so on). This means 90% of all employment is informal employment denoting their insecurity/vulnerability.

2 This is the advanced estimate as reported in the Statistical Appendix to the Economic Survey 2018–19 (page A4).

3 The chairperson, Anoop Satpathy is a fellow from the VV Giri National Labour Institute that is directly administered by the Ministry of Labour and Employment of the Government of India.

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