Business Standard

India needs jobs, not dole

India cannot afford to allow its policy to be constrained by failed dogmas about government deficits and debt, writes Srinivas Thiruvadanthai

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Last Updated at April 3, 2019 02:40 IST

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Universal basic income (UBI) has increasingly gained popularity in policy circles globally and it has now entered the political debate in India, with the Congress Party promising to implement some form of UBI. Coming at a time when India has made huge strides in drastically reducing extreme poverty, the championing of UBI, in a way, signals that the state is throwing in the towel on jobs. It is an implicit acknowledgement by policy-makers that the state cannot foster an economy that creates enough jobs to provide a livelihood for the vast majority of the people. Yet, the travesty is that employment generation receives a lot of platitudes and not much more. Yes, scores of new programmes are created but the funding support is modest at best. In contrast, large budgetary allocations for UBI are considered sine qua non. The 2019 State of Working India Report, published by the Centre for Sustainable Employment at Azim Premji University, proposes a job guarantee scheme for urban India and the associated fiscal support. Ultimately, welfare cannot be a substitute for robust employment generation. Entitlements breed resentment, jobs beget self-respect.

Macroeconomic policy is heavily focused on economic growth, with the implicit assumption that growth will take care of all ills, including the lack of employment opportunities. However, recent global developments and India's own experience suggest that assuming a strong link between economic growth and jobs is unwarranted. For example, the contrasting experiences of United States and Japan—in the United States, the employment-to-population ratio is still depressed, whereas in Japan, whose economy has supposedly stagnated, the ratio is at a record high — suggests that growth and jobs do not necessarily go hand in hand. In India, the 2018 State of Working India Report showed that the acceleration of GDP since the 1980s has been accompanied by a slowdown in job growth. Employment generation cannot be left to the mysterious workings of the market. India needs to tackle job creation on a war footing in order to meet the aspirations of its burgeoning young population and reap the demographic dividend.

Most importantly, all job creation programmes will come to naught if they are not sufficiently funded. However, any meaningful budgetary allocation would face disapproval from economists and policy-makers concerned about fiscal sustainability, inflationary pressures, and balance-of-payments (BOP) risks. Even though conventional theories about budget deficits and government debt are being increasingly questioned in the United States and much of the developed world, in the Indian context, fiscal deficits are almost universally regarded negatively and viewed as a threat to financial and economic stability. Although some of the concerns are legitimate, history and empirical analysis show that many of the fears are either unfounded or overblown.

India's fiscal policy debates are framed by the Fiscal Responsibility and Budget Management (FRBM), 2003, and the subsequent 2016 review committee under N K Singh, even if the actual budgets routinely deviate from the targets. The framework, which is influenced by the Maastricht Treaty rules governing the eurozone, belies not only global developments over the past decade but also India's own history. India has been running large deficits since the early 1980s. There is a widespread belief that the 1991 BOP crisis was caused by the run up in debt. However, this belief does not stand up to closer scrutiny. Moreover, in the post-1991 crisis era, central government debt, scaled to GDP, has been far higher than the FRBM target of 40 per cent and the deficit target has been met only a couple of times. Yet, nothing dreadful has happened. In fact, these years have been the best in India's post-independence era — growth has been high, poverty has come down sharply, inflation has been relatively moderate, and there have been no severe BOP pressures. If deficits and debt levels much higher than the FRBM targets have been sustained for so long, then perhaps we need to question the FRBM's notion of unsustainability.

Another factor that looms large in the minds of policy-makers is the specter of downgrades by rating agencies, especially given India's persistent current account deficit and the need to attract capital inflows to fund the deficit. To be sure, rating agencies have a significant influence on capital flows. But their influence tends to be overstated. The greatest threat to capital flows arises during periods of global financial turmoil, when solid ratings provide little cover. Specifically, markets do not appear to discriminate based on the government debt-to-GDP ratio. So, instead of letting rating agencies circumscribe fiscal policy, our policy-makers should take the lead in shifting the Overton window on the fiscal policy debate.

India does face a challenge on the BOP front, largely due to the parlous state of the global economy and the plateauing of the benefits of globalisation. Tackling the BOP problem requires crafting a comprehensive set of policies. However, India cannot afford to allow its policy to be constrained by failed dogmas about government deficits and debt.

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First Published: Wed, April 03 2019. 00:25 IST

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