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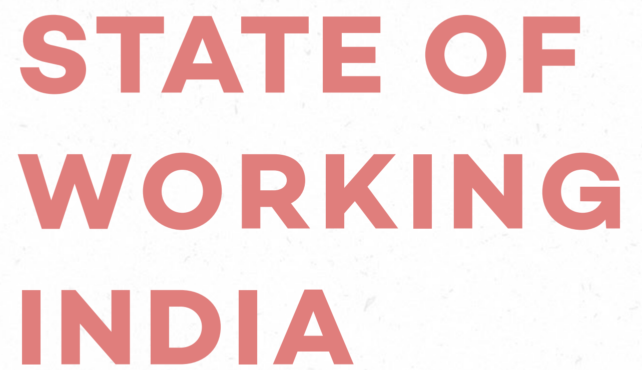

STATE OF WORKING INDIA

2019

Using Fiscal Policy to Alleviate the Job Crisis

Centre for Sustainable Employment

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Azim Premji University was established in 2010, by the Azim Premji Foundation, with a clear social purpose of working towards a just, equitable, humane, and sustainable society. All of the University's programmes, teaching, research, and practice, work towards this purpose.

To contribute to the critical matter of India creating just and sustainable employment, the University has set up the Centre for Sustainable Employment (CSE), which conducts and supports research in areas of work, labour, and employment. The University is attempting to provide empirically grounded, analytical reflections on the state of work and workers in India, as well as to evaluate and propose policies that aim to create sustainable jobs. To this end the University also gives grants to create new knowledge in the above areas. It also hosts a working paper series to which contributions are invited from researchers, policy-makers, civil society actors, and journalists. The University's CSE website is an important part of this agenda. In addition to research papers and policy briefs, it hosts government reports, as well as data and statistics on the Indian labour market.

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Using Fiscal Policy to Alleviate the Job Crisis

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Executive Summary

India consistently ranks high among major economies in economic growth, but its record in employment generation has been underwhelming. As the State of Working India report (2018) shows, each percentage of gross domestic product (GDP) growth has resulted in fewer jobs being created over the past 25 years, barring the 1999-2004 period. While India has made great progress in alleviating extreme poverty, employment generation is critical if we want to move the masses toward middle income. Most of macroeconomic policy and strategy is focused on generating growth, but little attention is paid to employment generation beyond lamentations, especially when there is good evidence of a substantial difference in outcomes when fiscal policy is directed towards employment.[1]

India needs a comprehensive national employment policy, supported by fiscal expansion, driven by policy designs that promote labour-intensity while addressing the vast needs of basic services, ecological sustainability, and preservation of heritage and traditional crafts. However, such a policy will flounder if the bogeyman of fiscal sustainability forever hobbles the fiscal support needed. In particular, the obsession with rating agency decisions is pernicious. As I discuss in Section 2 below, there are major misconceptions about India's fiscal policy, government debt, and fiscal sustainability that are belied by India's own experience since the 1980s. Unquestionably, developing economies face greater constraints than developed economies on the balance of payments (BOP) front. I discuss these challenges in Section 3. However, currently, with the central government primary deficit almost vanishing, there is ample fiscal space to support employment programmes.

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1 / Job Growth and Job Quality, Both Inadequate

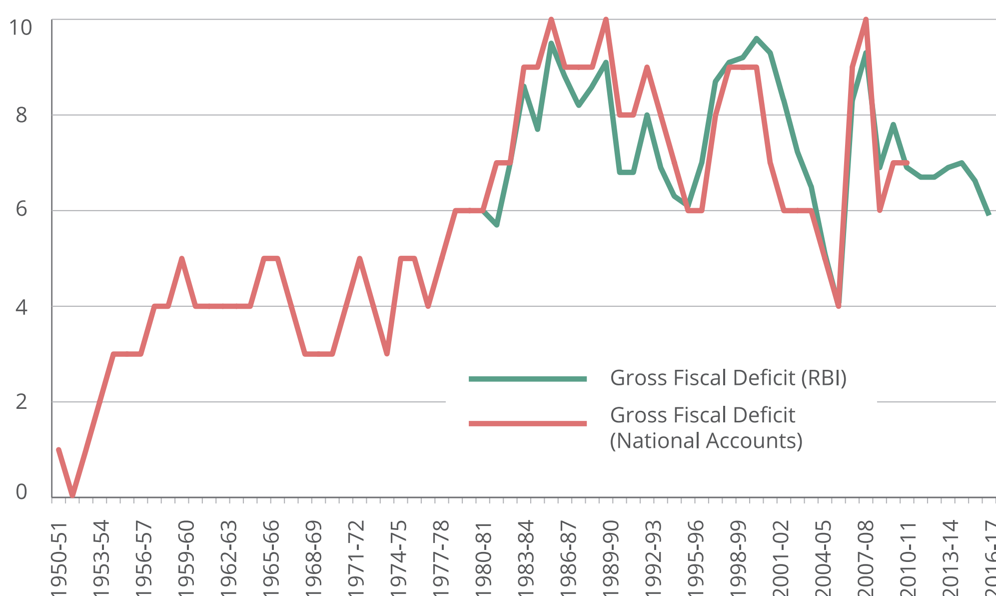
India's employment statistics have generated a great deal of controversy in recent times. The survey with the longest history—Employment Unemployment Survey (EUS) by the National Sample Survey Office (NSSO) was last conducted in 2011-12 and has since been discontinued. The Periodic Labour Force Survey, also conducted by NSSO, was launched in 2017 to provide timely information on the labour market. Unfortunately, the release of the first report has been delayed. While leaked versions showed unemployment rising to a 45-year high in 2017-18, the survey is not strictly comparable to the old EUS. To be clear, the NSSO data are not without problems, but they are the only comprehensive, long time series data on the state of the labour market in India. Surveys carried out by the Centre for Monitoring the Indian Economy (CMIE) also paint a grim picture. On the other hand, employment based on the number of enrollees in Employee Provident Fund Organisation (EPFO) database shows solid job growth in the past two years. However, the EPFO data covers only a small sliver of the workforce and there are questions about the interpretation of the data. The weight of evidence suggests that job growth has been weak, even if we cannot have much confidence in the precise estimates.

More importantly, there has been a worrisome long-term trend toward progressively weaker job growth for a given percentage point of GDP growth. In other words, economic growth is translating into fewer jobs. Last but not least, the vast majority of workers earn below what would be termed living wage (State of Working India 2018). In short, employment growth and job quality have both been inadequate.

2 / The Need for Fiscal Expansion to Support Employment

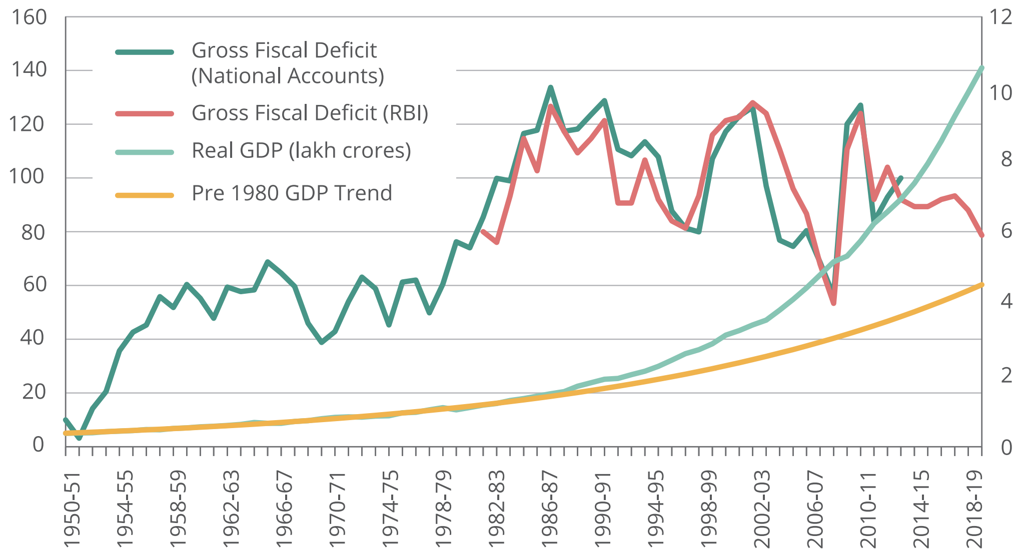
No matter how many employment generation programmes are created and how well they are designed, if inadequately funded, these programmes will fail to create a meaningful increase in employment. However, a large budgetary allocation would face immense pushback from economists and policymakers concerned about fiscal sustainability, inflationary pressures, and BOP risks. The relationship between fiscal deficits and economic growth has become a hotly debated topic in the aftermath of the 2008-09 global financial crisis, with recent studies recognising that fiscal 'austerity'—fiscal contraction—may have hurt growth. Nonetheless, in the Indian context, fiscal deficits are generally viewed negatively and are seen as a threat to financial and economic stability. While some of the concerns are legitimate, history and empirical analysis show that many of the fears are either unfounded or overblown.

Figure 1 : Gross Fiscal Deficit as a Percentage of GDP



Sources and Notes: RBI: Handbook of Statistics on Indian Economy: https://rbi.org.in/Scripts/AnnualPublications.aspx?-head=Handbook%20of%20Statistics%20on%20Indian%20Economy
CSO: http://www.mospi.gov.in/publication/national-accounts-statistics-back-series-2011

Figure 2 : High Deficit Periods Have Also Been Periods of High Growth



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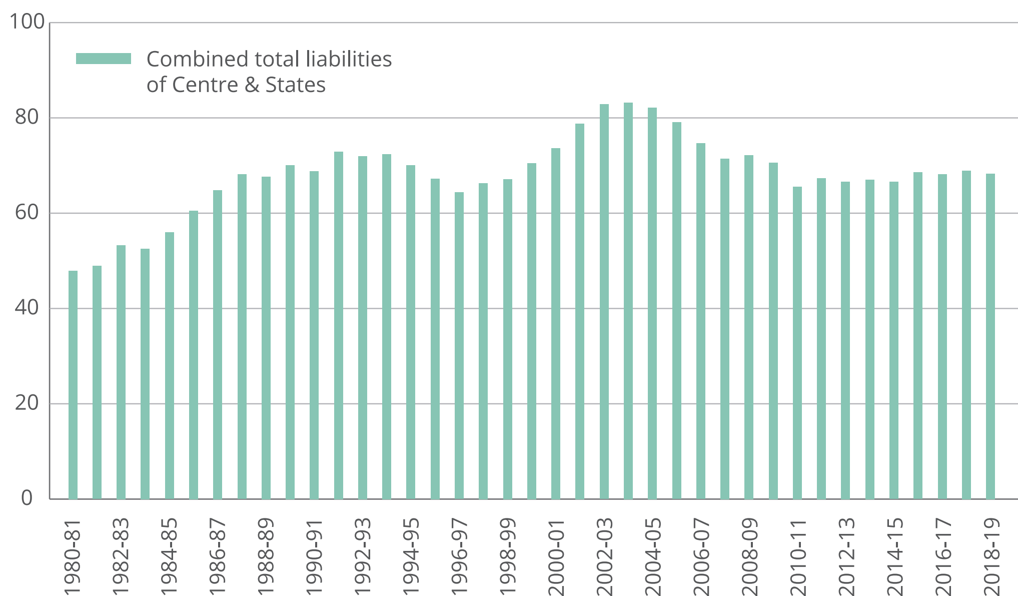
CSO: http://www.mospi.gov.in/publication/national-accounts-statistics-back-series-2011

2.1 / History of Fiscal Deficits and Growth

One of the most striking features of India's post-independence economy is that the socialist governments of pre-1980 were ironically more fiscally prudent than the market-friendly governments since 1980. Up until 1980, the consolidated public sector gross deficit rarely exceeded 5 per cent (Figure 1).[2] Also, until 1980, the revenue account was generally positive, with the capital expenditures accounting for the overall deficit. Thus, borrowing was presumably to fund investment, which is conventionally considered sound. In contrast, since 1980, India has often run large deficits on the revenue account; that is, borrowing to finance current spending, which is a major red flag in conventional wisdom. Moreover, the overall deficit has been generally much larger than the pre-1980 peak. Only in one year, 2007-2008, did it fall below the peak of the pre-1980 range; in every other year since 1980, it has been higher than the peak of the pre-1980 range. Yet, this period has also coincided with the takeoff in India's GDP from the previous Hindu rate of growth (Figure 2).

Figure 3 : Government Debt-to-GDP Ratio



Sources and Notes: Combined Finance and Revenue Accounts of the Union and the State Governments in India and Budget ocuments of the State Governments. See Table 237 : Select Debt Indicators of the Central and State Governments (as per-centage of GDP), Reserve Bank of India

Of course, a mere juxtaposition does not prove causality. However, with the notable exception of Rodrik and Subramanian (2004), there is widespread agreement that the growth acceleration in the 1980s was caused by fiscal expansion. At the same time, most mainstream economists hold the view that the 1980s fiscal expansion led to a surge in debt and was ultimately unsustainable (Srinivasan and Tendulkar 2003), culminating in the 1991 BOP crisis (I tackle the BOP issue in Section 3.1 below). Yet, the empirical evidence does not support the assertion. Fiscal deficits have been structurally higher since 1980, as has been government debt scaled to GDP (Figure 3). The natural question is if deficits and debt were unsustainable in the long-term, how have they remained at high levels for nearly 40 years, which by most definitions would be long-term?

Contrary to the dominant view, there is empirical support that the increase in deficits was a proximate factor in triggering India's take-off. Kevin Nell (2012) has argued that India was demand constrained in the 1952-1979 period and that fiscal expansion brought the economy closer to potential. Using different methods, I show that there is a positive, long-term causal relationship between fiscal deficits and economic growth (Thiruvadanthai 2018). This contradicts the general assumption among mainstream economists that deficits drove growth in the short-term, but were ultimately harmful.

In fact, from a financial Keynesian perspective, there are solid reasons why deficits can have a positive influence. In a market economy, demand is constrained by cash income. However, since one person's demand represents income for someone else in the economy, cash income, in turn, is constrained by demand. This trap can be broken by financial deepening that allows people to borrow and thereby generate demand over and above their cash income. However, in developing countries, financial deepening can be limited by a lack of collateral and the absence of a secondary market for debt instruments. Government deficits can help bridge the gap by providing cash income—when the government runs a deficit, the private sector, by definition, runs a surplus. Moreover, a large stock of government debt means a corresponding large stock of financial savings for the private sector, which can be the foundation for a sustained consumer-demand led economy. A growing body of research shows that financial instability is primarily caused by buildup in private sector debt rather than fiscal profligacy (Jorda et al. 2013). Indeed, there are good arguments on why sovereign debt accelerated the Industrial Revolution in the United Kingdom (Ventura and Voth 2015).

2.2 / Need for Fiscal Expansion

India's present fiscal policy is too tight. The consolidated deficit for 2018-19 is estimated to be 5.9 per cent of GDP, which would be the lowest in the last forty years except for the two boom years of 2006-07 and 2007-08 when economic growth was close to 10 per cent. In fact, as I elaborate below, fiscal policy has been too tight for a few years, given the deleveraging imperatives of the corporate sector, the balance sheet problems of the banking sector, and the backdrop of weak global growth. Thus, fiscal expansion aimed at job creation would also serve to accelerate growth, help the corporate sector repair its balance sheet, and alleviate the non-performing loans in the banking sector.

By 2013, it was clear that the Indian corporate sector was struggling with debt-servicing and that banks were faced with surging non-performing assets (NPA). Capital spending slowed sharply as businesses began to retrench and deleverage. To understand the financial dynamics, it is useful to look at the aggregate flow of funds and sector financial balances. Sector financial balances is a useful framework for understanding the effect of financial flows on balance sheets and the feedback from balance sheets to the real economy. The British economist, Wynne Godley, developed the concept of sector financial balances from the national income and product accounts (Godley and Lavoie 2012). Essentially, the sector financial balance is an accounting identity that relates saving/investment decisions to the net accretion/reduction of financial asset position across the four major sectors of an economy—the private corporate sector, the household sector, the government sector, and the foreign sector. A sector runs a positive financial balance when its savings exceed its investment and vice versa. We can write the sector financial balance in commonly understood terms as follows:

Government Sector Balance + Private Corporate Sector Balance + Household Sector Balance = Current Account Balance

A sector running negative financial balances is either running down its cash balances or running up debt. Usually, cash balances are unimportant over longer periods of time, and negative sector balances are closely related to a build-up in debt in the sector running negative balances. When the corporate sector is trying to reduce its borrowing, by definition, the other domestic sectors have to reduce their net lending or increase their borrowing. In India's case, the adjustment occurred via a reduction in the current account deficit from 2013 to 2016 (that is, reduced borrowing from foreigners), which allowed the corporate sector to sharply reduce its net borrowing from 2012-13 to 2015-16. Since then, the current account deficit has widened again. The government has compounded the problem by cutting the deficit by nearly a percentage point of GDP. The sector financial balance equation shows that a widening current account deficit and a shrinking government deficit together imply a worsening financial balance of the combined corporate and household sector. While household financial savings changed little, corporate sector borrowing picked up. Little wonder that the NPA problem has proved so intractable.

Looking ahead, with the global economy decelerating and global trade volumes contracting, there is not much scope for improvement in exports. Meanwhile, as long as India grows robustly, its imports will tend to rise. Of course, decline in oil prices can mitigate the impact on imports, but further improvements in the current account deficit are unlikely. Under these circumstances, fiscal expansion is necessary to support economic growth while alleviating the financial stresses in the private economy. Fiscal deficits serve two purposes. The first is increasing the demand for goods and services directly purchased by the government or indirectly induced through transfers. Second, it enables the corporate sector to run financial surpluses and rapidly deleverage, thereby strengthening its balance sheet, and eventually positioning it to power the economy.

In fact, another episode from the past may be instructive. From 1998-2002, the corporate sector was dealing with high levels of debt and difficulties in debt-service. As the sector underwent balance sheet repair, the government ran large fiscal deficits through that period, supporting growth. Government debt as a percentage of GDP rose steadily, peaking in 2004 at 83 per cent for the centre and state governments combined and at about 66 per cent for the central government. Currently, the central government debt is about 48 per cent of GDP, the lowest level since 1984-85. The consolidated public sector debt stands at 68 per cent of GDP, which is near the low end of the range of the last 20 years. Thus, there is scope for significant fiscal expansion.

2.3 / Will bigger deficits fuel inflation?

A common fear is that expanding fiscal deficits will kindle inflationary pressures. The big fiscal expansion in the immediate aftermath of the global financial crisis of 2008-09 undoubtedly contributed to the high inflation. Unquestionably, any policy that boosts demand will tend to push up inflation. However, the inflation level is much lower today than it was in 2008-09 and a moderate rise would still keep it well within the Reserve Bank of India's (RBI) target range. Presently, India's Consumer Price Index (CPI) inflation is 2.05 per cent, and Wholesale Price Index (WPI) inflation is running at 2.76 per cent. Core CPI inflation is higher at 5.36 per cent but is still well within the RBI's band. The RBI estimates that a percentage point increase in deficit leads to a 25 basis points increase in WPI inflation (Khundrakpam and Pattanaik 2010). Given the present level of inflation, one should hardly be concerned about the potential increase in inflation caused by larger deficits.

Moreover, the broader economic context suggests that fiscal deficits are unlikely to result in much higher inflation. There are three reasons why inflation is likely to remain subdued. First, oil prices, which have a significant influence on inflation, are subdued. In contrast, in the previous two episodes of rising inflation, oil prices were either rising or historically elevated. In the 1980s, oil prices bottomed in 1986 and increased over the next few years, spiking during the first Gulf War. In the most recent episode of high inflation, oil prices consistently ran above $100/barrel from early 2011 until mid-2014. Second, food prices,

which also have a large influence on overall inflation in India, have been benign. In contrast, both in the late 1980s and earlier in this decade, weak domestic agricultural output, coupled with surging global food prices, caused soaring food inflation. Third, the strength of the feedback from deficits to inflation depends on the context. Running large deficits in the midst of robust private sector activity is likely to result in overheating as supply constraints and bottlenecks become binding. In the 1980s, and from 2010-12, the private sector was expanding rapidly, and increased government spending caused the economy to bump up against supply constraints, stoking inflation. Currently, there is a capacity glut. For example, capacity utilisation in the manufacturing sector is running well below the early 2011 peak. In short, the conditions that promote rising inflation are currently absent.

3 / Managing the Balance of Payments

The biggest challenge to any significant fiscal expansion is the stress on the BOP. India runs a current account deficit, which makes it necessary to attract foreign capital to fund the deficit. While the effect of fiscal deficits on BOP is often exaggerated, it is true that fiscal expansion will spur growth as well as imports and will tend to increase the current account deficit. Indirectly, fiscal expansion is likely to incur the disapproval of rating agencies and—since ratings can significantly influence capital flows—exert pressure on the BOP. What can India do to manage the BOP constraint in a world of sluggish international trade and rising trade tensions is something that policymakers need to think deeply about.

3.1 / The twin deficits myth

Twin deficits—the idea that fiscal deficits cause current account deficits—is a popular myth that underlies much of the misgivings about fiscal activism. In the Indian context, because unsustainable fiscal expansion has been cited as a major cause the 1991 BOP crisis, exploration of the twin deficit hypothesis is all the more important.

One of the persistent myths about India's 1991 BOP crisis is that the event was caused by profligate government deficits and the consequent buildup in government debt. Most recently, this idea was mooted in Economic Strategy for India report (2018) released by a group of eminent economists. The fact is that most of the evidence for linking the 1991 BOP crisis to fiscal deficits takes the form of hand-waving, *post hoc ergo propter hoc* kind of arguments. The econometric evidence is inconclusive. There are many studies that explore the twin deficits link, for example, Anoruo and Ramchander (1998), Parikh and Rao (2006), and Ramu (2017). Anoruo and Ramchander limit their study to short-term dynamics and come to the surprising conclusion that current account deficits cause fiscal deficits rather than the other way around. In contrast, both Ramu as well as Parikh and Rao, find that fiscal deficits cause current account deficits. The contrasting findings reflect flawed assumptions underlying the papers. In particular, all three papers fail to account for structural breaks in time series on current account deficit scaled to GDP. It is well-known that failure to account for structural breaks can lead to erroneous inference about stationarity (Perron 2005), which all three papers indeed do. Correcting for those flaws, I find that there is no statistically significant link between fiscal and current account deficits in the case of India (Thiruvadanthai 2018).

Let us focus on the narrative analysis of the economic developments and whether they support the causal mechanisms of the twin deficit hypothesis. At its heart, the twin deficit hypothesis stems from an accounting identity:

Current Account Deficit (CAD) = Fiscal Deficit (FD) + Domestic Private Sector Deficit (PD)[3]

Since this is an identity--true by definition--if fiscal deficits increase, then CAD must increase if PD remains constant. The second if is a big if. Nonetheless, it is not hard to imagine that expansionary fiscal policy stokes domestic demand, which in turn spur imports and causes the CAD to worsen. That argument is unexceptionable. However, the data do not show that this channel was crucial in causing the 1991 crisis. Imports scaled to GDP did not increase much in the late 1980s. Only when the Iraq War started and oil prices jumped, did imports surge in 1990.

The crisis was triggered by the instability of capital flows. Political uncertainty fueled by unstable governments from 1989 to 1991 caused capital to flow out. Remittances (which are technically part of the current account) slowed, non-resident Indians began to withdraw money, and external commercial borrowings became harder to obtain. One could argue that the worsening government deficits, at least partly caused the crisis in investor confidence. While that may be true, it shows that the government deficit has an influence only because investors are primed to believe that it is important rather than through any direct economic channel.

3.2 / Rating agencies

While the 2008-09 crisis damaged the worldwide credibility of the rating agencies, it did not diminish their influence commensurately. In particular, their ratings continue to hold sway over policymakers in developing countries. The influence of rating agencies is crucial because their framework emphasises fiscal sustainability and government debt-to-GDP ratio. This, in turn, is partly due to the fact that their primary concern is inflation and the resulting impact on returns to financial investors. The rating agencies' framework implicitly informs India's Fiscal Responsibility and Budget Management Act (FRBM) and the N.K. Singh committee's recommendations for targeting a 60 per cent debt-to-GDP ratio. Thus, the specter of downgrade or negative watch by rating agencies is a major impediment to any meaningful fiscal expansion.

In reality, the rating agency framework is flawed and following their prescriptions is likely to be self-defeating. Jayadev (2017) offers a strong critique of the N.K. Singh committee report's debt targets. Following the Reinhart-Rogoff (Cassidy 2013) fiasco, the empirical utility of debt targets has been widely questioned. As I have argued in the previous section, India has managed high debt levels for nearly three decades without apparently any impact on economic growth.

It is also worth noting that in 2004, on the eve of India's greatest decade of economic growth, public sector debt scaled to GDP was at a record level. More importantly, when the private sector is struggling with debt and the global economic conditions are not conducive for growing exports, trying to tighten fiscal policy is counterproductive. It will weaken economic growth, aggravate the debt problems in the private sector, and increase banking sector problems. These, in turn, will cause revenues to weaken and add to the burden on the exchequer through the need to recapitalise banks. These dynamics played out in Europe in the last decade. Even in India, despite keeping a tight leash on deficits, the overall debt-to-GDP ratio has declined only modestly in the last few years mainly because growth has been moderate. *Robust economic growth is the best way to overcome debt problems.*

Furthermore, empirical research on the drivers of capital inflows into emerging markets also calls into question the validity of fiscal sustainability metrics. The major country-specific factors influencing capital inflows appear to be current account deficit, capital controls or lack thereof, and exchange rates (Cerutti et al. 2015)—debt-to-GDP ratio is conspicuously absent as an important factor. Interestingly, the study finds that when global financial conditions become less conducive, more 'virtuous' countries, as in those with low public debt, are not any less affected. In other words, assuaging rating agencies by curbing the government debt-to-GDP ratio will not help a country when global financial conditions turn adverse. On the other hand, as long as the current account deficit is relatively stable, fiscal expansion, by spurring growth, will tend to attract capital inflows. India has been a sought after destination for international capital largely because it is one of the few countries that offer prospects of robust growth in a world of low growth.

While rating agency decisions are likely to have some impact on capital inflows into India, the way forward is to shift the terms of the debate. Instead of setting fiscal policy based on rating agency guidelines, India's policymakers should take the lead in challenging the framework, robustly arguing India's long-term record of managing debt, external and internal, while fostering strong growth and moderate inflation. At any rate, rating agency decisions may have a short-term impact, but they are unlikely to alter capital flows in the long term. India is one of the few major economies in the world that is still growing robustly and has a long track record of providing solid returns on portfolio and direct investment.

3.3 / The long-term BOP constraint

The biggest challenge India faces in growing robustly, with or without fiscal expansion, is the challenging global economic environment and consequent sluggish growth in exports. Anemic exports combined with strong domestic growth tending to result in higher imports, will cause the trade deficit to widen and exert pressure on the BOP. Rising trade deficits will need to be balanced by higher capital inflows, which will increase the vulnerability to unfavorable developments in global financial conditions. Alternatively, imports have to be lowered. That is, monetary and fiscal policies will have to tighten, bringing down domestic growth. Escalating trade tensions and a rollback of globalisation would only make matters worse. While India needs to find ways to grow its exports more rapidly, it is important to be realistic about the prospects, given the global backdrop. Thus, India's policymakers need to craft a proactive, comprehensive policy to overcome the BOP constraint on growth.

After averaging well over double-digit growth in dollar terms from 1990 through 2012, India's merchandise exports have barely grown in the last five years. In real terms, India's exports of goods and services are growing at a 5 per cent rate. It is not as if India is a laggard. India's export growth, both in the dollar and real terms has largely tracked that of the broader emerging market group. Thus, India's export performance does not reflect India-specific problems but global economic weakness and the plateauing of the benefits of globalisation.

Despite tepid export growth, India has managed to grow its economy robustly in the past five years. The steep decline in oil prices has been a major factor in keeping a lid on import growth. Gold imports too have been weaker. However, India’s other imports have grown strongly, largely the result of increasingly skewed income and wealth (Kumar 2018). Upper-income consumption tends to be much more import-intensive—foreign education and vacations, high-end smartphones, cars, and so forth—and increases the import elasticity of growth. Although fiscal expansion directed at the bottom of the pyramid will dampen the import elasticity of growth, the overall boost to growth will still tend to exert pressure on the BOP.

At this juncture, India needs more comprehensive import substitution policies that seek to manage the BOP situation. Thomas (2019) discusses the continued relevance of industrial policy today for job creation. Industrial policy and import substitution in the Indian context brings back bad memories of planning and shortages. We can learn from the past and not make the same mistakes, but we do not have the option of doing nothing.

4 / Policies for Employment Generation

There is great scope for public policy to vastly enhance job creation and address India’s myriad needs. Broadly, government policies can help:

1) facilitate private sector job creation while addressing the chronic skills shortage,

2) provide financing to startups that are directed at the bottom of the pyramid,

3) expand MGNREGA to address the country’s ecological challenges while finding gainful employment for unskilled workers, and

4) train and deploy workers to conserve heritage structures and thereby promote tourism.

4.1 / Facilitating on-the-job training

India has a huge youth population, which is supposed to deliver the so-called demographic dividend. Yet, India also suffers from a chronic and pervasive skills shortage. A 2014 report from the OECD found that ‘employer surveys indicate skills shortages in ICT, financial services, tourism, retail, and skill-intensive manufacturing: in 2013, 61 per cent of India’s employers reported recruitment difficulties. These shortages, aggravated by a shortage of qualified trainers and the low willingness of employers to pay skills premia, have forced graduates into jobs unrelated to their training.’ (OECD Report 2014).

India has a national skills development programme under the aegis of the National Skills Development Corporation (NSDC), a public-private partnership. However, both the design of the programmes and the funding leave a lot to be desired. Many of the NSDC programmes replicate classroom-type training with

certification issued upon completion. Unsurprisingly, NSDC's performance has been underwhelming, falling short of the targets for skilling as well in the job finding rates post skilling (Report of the Committee for the Rationalization and Optimization of the Sector Skill Councils 2016). Moreover, some of the so-called training institutes have turned out to be engaging in fraudulent practices. While NSDC is an important endeavor, much greater effort is needed to bridge the employability gap.

The key to employment generation is to recognise that on-the-job training provides one of the best and most cost-effective ways of imparting occupational skills and enhancing employability. A growing body of evidence indicates that work-based learning—such as apprenticeships—offers one of the best ways to build skills that are valued in the marketplace (Lerman 2018). Switzerland and Germany both have extensive apprenticeship programmes. In the former, about 70 per cent of the youth take up an apprenticeship and approximately 95 per cent of 25-year olds have acquired their degrees while undergoing an apprenticeship. Of course, it may not be possible to replicate the Swiss and German models in India, given the small size of the formal sector in India in relation to the size of the workforce. However, there are programmes, such as internships that are less extensive but can nevertheless be effective (U.S. Department of Labor 2014). On-the-job-training is a critical mechanism for improving both the supply and demand sides of the labour market. Combining classroom learning with real-world application reinforces each. Moreover, employers are more likely to invest and hire when they can rely on the supply of skilled labour.

However, the challenge for apprenticeships and internships is that employers worldwide have become increasingly reluctant to expend resources on training (Taylor 2015), reflecting competitive pressures in the era of globalisation. Indian businesses too are not immune to such pressures. Hence, substantial government support in terms of subsidising on-the-job training programmes would make it more likely that businesses offer such opportunities. With an industry partnership, the government can promote apprenticeship/internship programmes that help students in colleges and vocational courses to obtain valuable experience and skills.

4.2 / Incubating start-ups aimed at the bottom of the pyramid

The government of India already has a programme called 'Startup India' to incubate new and innovative businesses. However, the startup landscape in India is dominated by applications that are copycats of western models—neither innovative nor necessarily addressed towards the local needs. The problem is that businesses aimed at innovative solutions to local problems are likely to be perceived as risky by venture capitalists as well as budding entrepreneurs. Yet, such innovations are vital both for solving India's unique problems but also fostering labour-intensive development.

In 2015, two young entrepreneurs, struck by the filth of the Ganga River and by the copious amounts of temple flowers being dumped into the river, wondered if the flowers could be recycled. Out of this, the venture Helpusgreen was born. The firm collects used flowers from temples and converts them into artisanal products such as incense sticks and handmade paper products. The entire process is labour intensive, from collecting the flowers to processing them. The startup thus addresses India's environmental challenge with a labour-intensive solution while leveraging technology to reach a broad market.

Given that private capital for such ventures is unlikely to be forthcoming, the government has to play a bigger role. As venture capitalist William Janeway has argued, innovation is either fostered by bubbles, monopolies, or the state (Janeway 2012). In the United States, the government incubated the computer industry for nearly two decades before commercial application gained a foothold. Mariana Mazzucato expounds on a similar theme in her book (Mazzucato 2013), 'The Entrepreneurial State'. If a million Helpusgreens bloomed, India would go a long way in addressing its multifarious problems while creating gainful employment.

Apart from the social impact and other such externalities, solutions aimed at the bottom of the pyramid are more likely to find applications in other developing economies, thereby offering the scalability that would make such ventures eventually attractive to private sector financiers.

4.3 / Expanding MGNREGA

Since its inception in 2006, the MGNREGA programme has been heavily criticised. Yet, studies have shown that the programme has increased employment, directly and indirectly, generated more income for rural households, promoted gender parity, and sustainable development, and created assets (Freud 2015). A study conducted by the Indian Institute of Science found that, 'Implementation of MGNREGA works such as water conservation and harvesting works, drought proofing, irrigation provisioning, and improvement works, and renovation of traditional water bodies have contributed to improved groundwater levels, increased water availability for irrigation, increased area irrigated by ground and surface water sources and finally improved drinking water availability for humans and livestock.' (Indian Institute of Science 2013).

Despite MGNREGA's multifarious benefits, the programme has been hampered by inadequate funding since inception. Moreover, adjusting for inflation, the allocations for MGNREGA have declined over the years. As such, while the act guarantees 100 working days for those seeking work, the average days of work provided has been consistently below 50. This is hardly surprising given that the current allocation to MGNREGA is less than 0.3 per cent of GDP as opposed to the 1.7 per cent that the World Bank estimated the programme would require to be fully funded. MGNREGA can be expanded substantially to create more jobs and address ecological challenges on a war-footing. State of Working India 2019 also proposes an urban employment guarantee programme that tries to address employment and ecology problems in small towns (Basole et al. 2019). Moreover, the spillover effects of a substantially enhanced MGNREGA as well as a job guarantee programme for urban India, are likely to create more jobs indirectly. Although the jobs directly created by MGNREGA are not themselves skilled work, by boosting the rural economy, the programme fosters demand for products and services that can, in turn, create skilled jobs in finance, telecommunication, and information technology services.

4.4 / Preservation of heritage structures and promoting tourism

India has countless heritage sites and the vast majority of them are in a state of disrepair. The proper conservation and maintenance of these sites require far greater manpower than currently devoted to the task. As a result, many historical landmarks and structures are encroached upon, defaced, and languish in anonymity. The restoration and maintenance of these sites can directly provide employment. In addition, these sites can become major tourism destinations, providing indirect employment. For example, the number of visitors to Humayun's Tomb after restoration work has gone up by 1000 per cent.

New York City, with a history of about 300 years, has nearly double the protected heritage buildings of India, a vast country with millennia of history. Documenting and restoring India's heritage sites will require skilled as well as unskilled workers. Currently, the Archaeological Survey of India is woefully undermanned. An internship/apprenticeship programme can draw upon India's large college-going population for the skilled labour, thereby also providing them work experience. Not only are many sites neglected, even the ones that are relatively well-maintained lack an adequate appreciation of the historical significance. Thus, there is scope for not only restoring the sites but also creating awareness about the cultural heritage. Training tour guides can help cultivate awareness about the heritage, bring in tourists, and boost the local communities economically.

5 / Conclusion

While economic growth has allowed India to bring down poverty rates dramatically, especially extreme poverty, growth has not translated into jobs. Given India's burgeoning youth population, there is an urgent need to craft a government policy, adequately supported by the budgetary resources, to promote robust employment generation. Ultimately, the best remedy for alleviating poverty is enough jobs and enough high-quality jobs.

The central government has enough fiscal space to adopt a robust employment generation policy. Even a doubling in the outlay on MGNREGA would hardly be profligate. Moreover, the high potential multiplier of such outlays is likely to result in robust growth and tax revenues, thereby limiting the deficit. While expansionary fiscal consolidation has been debunked by global and Indian experience over the past 10 years, fiscal consolidation via fiscal expansion has a sound basis, especially in the current context.

Endnotes

1. The stark difference between the US and Germany in job losses during the 2008-09 crisis—when large wage subsidies in Germany muted the employment decline—shows that fiscal and public policy has an important role in employment generation (Jacobs 2012).

2. The combined deficits of the central and state governments, departmental enterprises, and public sector corporations; for the National Accounts data, I define deficits as gross investment less gross saving.

3. This identity is a restatement of the sector financial balance identity in section 2.2.

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