

DO SUBSIDIES AND SAFETY NETS TAKE FOCUS AWAY FROM GENERATING JOBS?

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September 08, 2023 12:15 am | Updated 12:15 am IST

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A woman in a Nagepur in Varanasi lights up her LPG stove received under the Ujjwala scheme. File | Photo Credit: The Hindu

Despite India posting impressive economic growth numbers, employment has not seen a commensurate increase. With five States going to the polls at the end of the year, political parties have been announcing several promises, largely to address concerns of price rise of essentials. Are these promises a distraction from providing solutions to what appears to be a systemic concern – jobless growth? **Praveen Chakravarthy** and **M. Suresh Babu** discuss the question in a conversation moderated by **Kunal Shankar**. Edited excerpts:

The Congress appears to be using the ‘five promises’ template that it did in Karnataka in the upcoming Assembly elections as well. They range from cheaper gas cylinders to farm loan waivers. Some might say these are populist measures that do not address the larger systemic issue of unemployment in largely rural States such as Chhattisgarh and Madhya Pradesh. What do you think?

M. Suresh Babu: Unemployment is India’s single biggest problem. This is especially the case for the educated youth. Coming to electoral promises, I think it is a mixed bag. In Chhattisgarh, for example, some promises serve a tiny population, such as the Old Pension Scheme (OPS), and are therefore not desirable. But others, such as cheaper gas cylinders, are reasonable. Conventionally, policymakers and economists characterise growth as a big tide which lifts all boats. But unfortunately, this is not the case. There is a section of the population that is left out of this growth and we need to include them. And for that, we need to resort to so-called populist measures. But some of the other measures are political in nature.

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Praveen Chakravarthy: We must understand the larger context of political economy and society that we live in. I will try and explain this using an analogy. We all seem to agree that there is a disease, and the disease is unemployment. The ‘surgeons’ or the experts who judge economies do not have a solution for this disease. So, in the absence of a remedy, we can attempt to only alleviate the pain with palliatives. Electoral promises are painkillers, and we need them if we don’t have more structural solutions for the disease. The fact is, this is where the

profession of economics has failed societies at large. This is not just an India-specific problem; there is jobless growth now in almost every country. The economist Mariana Mazzucato also spoke about this obsession with growth when it is not translating into gains for the average person. The productivity obsession since the neoliberal consensus has benefited a very small share of the population. In this situation, what do you expect political leaders to do when they face the public every five years? If there is a solution that can generate jobs and incomes and prosperity for the median person, political parties will be the first to jump on to it, but there is none.

Agriculture continues to be India's largest employer; yet, farm loan waivers is the 'palliative care' offered, without addressing non-remunerative prices for produce and severe supply chain vulnerabilities exacerbated by climate change.

M. Suresh Babu: We need a pragmatic approach towards price stabilisation of agriculture produce. Recently, we saw the price rise of tomato and yet the farmer is not guaranteed of a minimum steady price. It is here that we should seriously think about technological interventions in terms of converting output into higher value-added products. This is a long-term solution.

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In other words, attempting supply chain resilience?

M. Suresh Babu: Exactly.

But Praveen, when we have realised such supply chain vulnerabilities, such as the lack of storage facilities that are weatherproof or a farmers' network to value add, say, by making purees when there is excess tomato produce, poll promises simply mention 1,500 a month for women in distress, as is the case in Chhattisgarh. This addresses the lack of purchasing power, but when the issue is a supply crunch leading to inflation, how does this help?

Praveen Chakravarthy: These tensions are inherent in an economy, right? When there is joblessness, when income growth is stagnant, when there is decline in purchasing power for the bottom half of the population, to say 'don't indulge in safety nets and support for them because it will trigger inflation for everybody else' is being a bit unfair. We understand that a balance must be struck.

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But I must say, I do agree that certain promises are unwarranted. Suresh talked about the OPS. We must view this through the lens of inequality. Bringing back the OPS would exacerbate inequality. Madhya Pradesh spends close to 13% of its overall expenses on OPS, but it benefits less than 2% of the people who were in government jobs. So, it is a transfer from the poor to the rich. So, while the OPS might be criticised for its fiscal profligacy, it must be criticised for its inherent inequality, right? This is where I can tell you that there is simply no empirical evidence to suggest that bringing back OPS scheme will help a party win an election.

Let me come to whether these subsidies are indeed a drain on the exchequer, and if we are missing unrecognised correlated benefits. Haryana strictly adhered to the Fiscal Responsibility and Budget Management Act (FRBM), 2003, of a 3% fiscal deficit mandate. The FRBM was enacted to address what was then a mounting concern, of some States' unsustainable fiscal debt. But Haryana's unemployment rate is among the highest in the country. Is there a correlation that we are missing here?

M. Suresh Babu: Haryana is a very interesting case. If you look at State finances and their expenditure patterns, there is no robust correlation between so-called populist policies and fiscal distress. It is not the populist measures that are really impacting expenditure, but there is a problem in terms of tackling it in the long run because the revenue mobilisation efforts of some of these States are rather limited. It is in this context that we must see some of these populist expenditures. A recent 'Data Point' in *The Hindu* said that 25% of those who availed of the Ujjwala Scheme, which subsidises LPG cylinders, did not seek a refill or sought just one. This is important in the context of putting 1,500 every month in the hands of women. So, some of these targeted sections must be considered when we talk about this so-called populism.

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Here I would slightly differ from Praveen's view on GDP and economic growth. You see, ultimately GDP growth is important because if you look at India's growth scenario over the years, we find that it is precisely in the years when we have had high GDP growth that we saw poverty reduction as well. What we must focus on now is growth with employment. Developing economies are undergoing two transitions that must be kept in mind. One is a structural transition that is trapping them in the middle-income category due to their inability to really push industrialisation. Second, we find that there is a huge energy transition that is taking place with major implications on employment.

Praveen Chakravarty: If you put money in the hands of people, it triggers consumption, which helps the larger economy. What we are debating here is the most efficient use of fiscal expenditure. Like I said, governments and political parties are forced to resort to palliative care in the absence of another solution. I accept that GDP growth broadly did work in the first 10-12 years post liberalisation. My argument is it has stopped working since. So long as the rich keep getting richer, your per capita will keep growing, but that doesn't mean poverty reduction.

I agree with Suresh's arguments about structural changes. I'll give you an example. We suddenly have this obsession with semiconductor manufacturing. A new project was announced with Micron with 70% of the project cost being borne by the government. This is taxpayer money, but it will only create 5,000 jobs in the next 10 years. We used to think of traditional manufacturing as yielding jobs — car-making, steel-making, semiconductor chip production — but these don't create jobs anymore for a variety of reasons, largely due to mechanisation. So, instead of putting money in semiconductor production, what if we also put it mining for energy transition? What is the most fundamental requirement for this transition? It is mines and minerals — lithium, sodium, potassium. We have mined less than 5% of our vast resources, and mining creates local jobs. It creates jobs for the oppressed castes. So, why are we not putting that money into mining?

Praveen Chakravarty is a political economist & Chairman of the Data Analytics department of the Congress party; M Suresh Babu is Professor, Department of Humanities and Social Sciences, Indian Institute of Technology Madras

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