Labour, Livelihoods, and Employment in the 2021–22 Union Budget

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Coming in the midst of the immense damage inflicted on the Indian economy by the COVID-19 pandemic, the 2021–22 Union Budget needed to perform the unenviable task of compensating households for massive livelihood losses as well as stimulating economic growth while maintaining some fiscal discipline. As it turned out, the government chose to focus on the second and third goals and largely ignored the first.

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Before delving into the budget's provisions on labour, it is useful to take stock of what we know of the pandemic's impact on employment and incomes. Here I draw on our own survey (the Azim Premji University COVID-19 Livelihoods Survey) as well as other purposive COVID-19 impact surveys,[1] in addition to our work based on nationally representative data from the Consumer Pyramids Surveys of the Centre for Monitoring Indian Economy (CMIE).[2]

Many surveys investigating the COVID-19 impact on vulnerable workers, including ours, have shown that around 60%–80% of workers (self-employed, casual as well as salaried workers without job security) lost employment during the lockdown in April and May 2020. The CMIE data show that the lockdown affected around 43% of the national workforce. Even as late as December 2020, both CMIE data and our survey showed that 20% of those who lost work during the lockdown were unemployed (Abraham and Basole 2021; Nath et al 2021). Women and younger workers were much more likely to lose their jobs and less likely to recover (Abraham et al 2021). There was also an increase in informality during this period, with previously salaried workers returning to the labour market as self-employed or casual workers (Abraham and Basole 2021).

As a result, the CMIE data show a collapse in earnings during the first six months of the pandemic (March 2020 to August 2020), with an average household having 17% lower income in nominal terms relative to the same months in 2019. In absolute terms, this amounts to an entire month of lost earnings. The situation at the bottom of the income distribution is much worse with average household incomes being practically zero in the two lockdown months. Overall, the bottom 10% of households lost full three months of income in the six-month period from March to August (Lahoti et al 2021).

The consequences of such losses on nutrition, health, and education, and build-up of debt are not yet fully understood. But several surveys have pointed to persistent food insecurity. For example, in our survey, as of November 2020, a worrying 20% of households reported no improvement in food intake since the lockdown. The Hunger Watch survey conducted by the Right to Food Campaign survey (4,000 households in 11 states) had one in three respondents reporting members having to skip meals "sometimes" or "often" (Sinha and Narayanan 2020). One-fifth of the respondents in our survey also reported having to sell or pawn an asset to finance consumption. The bottom 25% of households (with a median income of ₹4,000 per month pre-COVID-19) reported debts amounting to three times this amount. Finally, a January 2021 survey on educational outcomes by Azim Premji University also shows significant learning deficits developing during the pandemic. In a sample of 16,000 children in 1,137 public schools across five states, the vast majority of children showed loss of language or mathematical abilities acquired previously.

Size of the Fiscal Stimulus So Far

In 2020, the Pradhan Mantri Garib Kalyan Yojana as well as the Atmanirbhar Bharat packages together constituted the government's fiscal and monetary response to the crisis. COVID-19 impact surveys (referred to earlier) show that the public distribution system (PDS) and the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), 2005 and to a lesser extent the Jan Dhan and National Social Assistance Programme (NSAP) payments provided a vital safety net to vulnerable households. These together with some Employees' Provident Fund Organisation (EPFO)-based subsidies, constituted the main additional fiscal provisions. The rest of the fiscal support measures, such as those based on Pradhan

Mantri Kisan Samman Nidhi (PM-KISAN), PM Garib Kalyan Rojgar Abhiyan, and Building and Other Construction Workers funds mainly front-loaded or redirected already allocated resources. The remainder of the COVID-19 relief response mainly consisted of monetary measures, such as the Emergency Credit Line Guarantee Scheme (ECLGS) for micro, medium and small enterprises (MSMEs) and the Reserve Bank of India's monetary measures. The estimated size of all the measures combined is around ₹30 lakh crore or 15% of GDP (Lokeshwarri 2020).

But the direct additional fiscal component is only a tenth of this number. The budget documents reveal the actual extent of fiscal support delivered by the union government last year. The headline jump in fiscal deficit-to-GDP ratio was from around 4.5% to around 9.5%, with the deficit going up in absolute terms from ₹9.33 lakh crore in 2019–20 to ₹18.5 lakh crore in 2020–21. This increase was as much due to a fall in revenue resulting from a sharp contraction of economic activity (₹4.6 lakh crore) as a rise in expenditure over budget estimates (₹4.1 lakh crore). A significant part of this additional expenditure is due to a clean-up exercise of bringing previously off-book spending into the budget. For example, payments to the Food Corporation of India (FCI) under the National Food Security Act (NFSA) went up from around ₹78,000 crore originally budgeted for 2020–21 to ₹3,44,000 crore in the revised estimates, an increase of nearly ₹2.7 lakh crore. While this is a welcome move in the interest of transparent accounting, all of it does not denote additional spending on food subsidy. The estimated expenditure on the Pradhan Mantri Garib Kalyan Anna Yojana (free PDS grains till November) was only ₹1.5 lakh crore. Thus, the actual fiscal stimulus last year, that is, additional spending over that originally budgeted for 2020–21 is likely to be around ₹3 lakh crore or 1.5% of GDP. This is much lower than commonly believed and also lower than what other comparable developing countries have undertaken.[3]

Further, only ₹33,000 crore of additional spending is proposed for 2021–22 over the revised estimates of 2020–21, that is, total expenditure proposed for next year is almost same as the actual expenditure this year. If we take this together with the fact that there has been a large increase in some kinds of capital expenditure (discussed later), we see that this increase will come at the expense of other types of capital expenditure as well as non-capital expenditure, keeping aggregate spending roughly the same. Of course, a shift away from current to capital expenditure, is generally desirable because it means that the government is investing in the economy instead of only paying salaries or other recurring expenditures. But in these extraordinary times, when a lot more needs to be done to compensate families for lost incomes and reduce their debt, this shift does leave a massive livelihood crisis unaddressed.

Analysis of Budget Provisions

Failure to address the continuing livelihood crisis: Some expectations from the budget, with regard to livelihood and welfare fronts, were continued support at an increased level for MGNREGA (maintaining the allocation atleast ₹1 lakh crore), restoration of expanded food subsidies (which expired in November 2020) for at least a few months more, another round of cash transfers, and possibly the introduction of a new urban employment guarantee programme. These would have had two important effects—directly, they would have helped in compensating those who have lost several months of work and earnings, and indirectly, they would have increased demand in an inclusive way. However, these expectations were not fulfilled. The budget acknowledged the challenge of reviving growth but largely failed to address the immediate challenge of increased inequality and reduced welfare during the pandemic.

The budget documents show that the cost of the cash transfers to Jan Dhan accounts during the lockdown came to around ₹31,000 crore. There are no provisions made for additional transfers this year. India also falls well short of the global average on the size of the individual transfer undertaken. The World Bank reports that, on average, cash transfers have amounted to 32% of monthly GDP per capita, varying between 26% in upper middle-income countries to 86% in low-income countries (Basole and Coutinho 2020; Gentilini et al 2020). India's transfer of ₹1,500 amounted to 12% of GDP per capita. Similarly, the NSAP (old-age, disability, and widow pensions), which disbursed ₹42,000 crore during the pandemic, has been brought back to its original budget of ₹9,000 crore.

Rural India was able to absorb the shock of lockdown better than urban India primarily due to safety nets such as the MGNREGA and a larger PDS coverage. The budget made no provisions for a continuation of expanded PDS. The One Nation, One Ration Card scheme, which increases interstate portability of PDS benefits, is not adequate to either address the immediate crisis of food insecurity or the longer-term issue of exclusion errors (Khera and Somanchi 2020). The allocation for PDS has increased substantially from 75,000 crore in 2019–20 to over 2 lakh crore for the coming year. But, as noted earlier, this is not a result of expanding food rations. Rather, it is because the government has finally brought payments made to the FCI on to its books instead of keeping it off to show lower fiscal deficit numbers. This is a good thing from the point of view of transparent accounting, but it does not address the food security crisis.

Both on-the-ground surveys and the MGNREGA MIS reveal that the programme played a crucial role as a safety net in the immediate aftermath of the lockdown. For example, in June 2020, 3.22 crore households were provided employment, a 50% increase as compared to June 2019. In recognition of the value of the programme, the Parliamentary Standing Committee of Labour has noted that currently "there is no better scheme than the MGNREGS to provide sustainable livelihood to the unskilled workers, including the inter-state migrant labours" (*Telegraph* 2021). The committee also recommended an expansion in the list of permissible works. Recent work has also shown that during the pandemic, the MGNREGA was able to increase women's employment in rural areas by 8.6 percentage points, preventing loss of livelihoods. It also appears that where the programme runs well, it also drew women previously out of the labour force (Afridi et al 2021). Acknowledging this role and the fact the funding even in normal times has been inadequate considering the demand for work, it was hoped that the budget would provide a much-needed fillip to the programme.

However, that has not happened. The allocation for MGNREGA is ₹73,000 crore—34% less than the revised estimates of ₹1,11,500 crore for 2020–21. Further, it is only 2% more than what was actually spent in 2019–20, a normal year (₹71,600 crore). That is, spending in real terms has gone down from what it was in a normal pre-COVID-19 year, even when the effects on COVID-19 on the labour market are likely to persist for some months to come. Further, there is evidence to show that even the additional allocation of ₹40,000 crore last year was insufficient to meet the increased demand. For example, our survey showed that 45% of MGNREGA job card holders could not get work despite wanting work. Further, of those who got work, almost all (98%) reported that they would have liked to work more days. The Gaon Connection survey similarly noted a large unmet demand for work as of September 2020 (Mishra 2020). Taking into account the unmet need, People's Action for Employment Guarantee, a body of civil society activists and researchers, has demanded the allocation for this financial year be raised to at least ₹1,75,000 crore and the permissible days of work from 100 to 150 per household per year (Newsclick Report 2021).

Finally, most other smaller social protection schemes for unorganised sector workers, such as Shram Yogi Man Dhan, Kisan Man Dhan and even the flagship PM-KISAN have seen a reduction in allocation for the coming financial year (the latter from 75,000 crore for 2020–21 to 65,000 crore).

For formal sector workers, the new Atmanirbhar Bharat Rozgar Yojana, a provident fund based wage subsidy scheme, has been allocated a budget of ₹3,130 crore (up from ₹1,000 crore spent in 2020 when the scheme was launched). However, there is a concomitant cut in the Pradhan Mantri Rozgar Protsahan Yojana (also a provident fund-linked employment wage subsidy scheme) from ₹2,550 crore in financial year 2020–21 to ₹900 crore in the coming year. So, the net spending on these wage subsidy schemes has not gone up much.

Despite a few small changes, overall, the preceding paragraphs paints a picture of a return to business-as-usual, or perhaps even a contraction on the welfare spending front. Given the ongoing livelihoods crisis revealed in most surveys, this is a premature shift. It also risks two long-term negative consequences: first, detrimental human capital outcomes (learning deficits, health problems, nutritional deficiencies), and second continued depressed demand conditions due to damaged household balance sheets.

The boost to capital expenditure: The principal approach to the employment question in the budget is to increase capital expenditure in order to spur growth. The major announcement was the 34.5% increase in capital expenditure (going up to ₹5.54 lakh crore). As a part of this, the speech highlighted an enhanced outlay of around 1,18,000 lakh crore for the Ministry of Road Transport and Highways, the bulk of which (1,08,230 crore) is for capital expenditure. Of this, a large part is devoted to NHAI (an increase of ₹15,000 crore from ₹42,500 crore to ₹57,350 crore) and other road works (from ₹27,500 crore to ₹37,000 crore). There is also a significant increase under the head of Capital Outlay on Roads and Bridges from ₹75,000 crore to ₹98,600 crore.

The need for adequate water infrastructure was also emphasised in the speech, with the Finance Minister noting that the Jal Jeevan Mission (Urban) will be launched, aiming at universal water supply in all 4,378 urban local bodies (ULBs) to be implemented over five years, with an outlay of ₹2,87,000 crore. The budget documents also reveal a large increase in Jal Jeevan Mission (Rural) allocation from ₹11,000 crore to nearly ₹50,000 crore. And a huge increase in the allocation for the Department of Drinking Water and Sanitation from ₹1,811 crore to ₹19,000 crore. State government grants under this ministry have also vastly increased from ₹17,000 crore to ₹34,000 crore.

As noted earlier, a shift away from current to capital expenditures is usually desirable because it improves the economy's productive capacity and generates employment directly as well as indirectly. But going beyond this general statement, two important caveats are needed. First, the type of capital expenditure matters greatly for how many jobs are created and which section of society benefits most from it. Second, while in an accounting sense all expenditure on wages or salaries is current expenditure, not all such expenditures are the same when it comes to improving productivity capacity and strengthening livelihoods. I take each of these in turn.

Building and improving infrastructure at the local level can create more direct public employment and also benefit micro and small enterprises, in turn generating a larger amount of private employment. This is because smaller construction and building projects (such as local roads, waterworks, commercial buildings) tend to be more labour intensive. Further, they are much more directly linked to the productivity of local businesses. Comparatively, larger infrastructure projects such as metro rail, airports, technology parks and highways tend to be more capital intensive. They create less direct jobs and also benefit mainly large businesses and upper income deciles. Of course, supply chains that incorporate small businesses do rely on such large infrastructure (including for exports), so the argument is not that highways or airports and ports are irrelevant to the economy. It is rather a question of balance in spending.

That we have neglected the quality of local infrastructure for too long is clear from a 2019 study by the IDFC institute, which shows that small enterprises are severely constrained by the quality of local infrastructure.[4] Bad roads leading to higher transaction costs in the form of congestion, wear-and-tear of vehicles, and loss of goods, lack of reliable water supply and sanitation services, and frequent interruptions in power supply were cited by the vast majority of surveyed businesses as significant problems. The report also estimates that improvements in infrastructure would enable cost savings of somewhere between ₹30 lakh and ₹60 lakh per firm and allow them to expand their workforce by 30% or more (the exact numbers depend on firm size and sector).

Thus, capital expenditure on improving local assets has the potential to vastly improve productivity and employment in small firms. So, it is good to note that the budget (and the budget speech in particular) does emphasise the need to develop road, water, sanitation, and power infrastructure. But an analysis of the allocations throws up a few concerning points. For example, over the past few years, the need for good local infrastructure has been recognised in programmes such as the Pradhan Mantri Gram Sadak Yojana. Hence, it is disappointing to see that the increased capital outlay has not found its way into the Gram Sadak budget which is unchanged from last year. Similarly, the rural electrification scheme, DDU Gram Jyoti Yojana, has seen a cut in allocation from ₹4,500 crore to ₹3,600 crore. Even the flagship urban programmes such as Atal Mission for Rejuvenation and Urban Transformation (AMRUT) and the Smart Cities Mission have not gained much with allocations for both programmes remaining roughly unchanged at ₹7,300 crore and ₹6,000 crore, respectively. And the Central Public Works Department (CPWD) under the Ministry of Housing and Urban Affairs has also seen a small cut from ₹3,033 crore to ₹2,977 crore.

Local infrastructure generation is usually the responsibility of states and local governments. Hence, devolution of funds is critical to the development of such infrastructure. In this regard, the state grants under the Ministry of Road Transport and Highways amount to only ₹6,500 crore and are largely unchanged from the previous year. As is the grants for states component in the Ministry of Housing and Urban Affairs. Even more worryingly, the grants for states under the Ministry of Rural Development have been reduced marginally from ₹46,500 crore to ₹45,650 crore. Overall, it seems that the budget tilts in favour of capital spending that will benefit larger businesses and upper deciles compared to underserved areas, rural regions and small businesses.

Livelihoods, employment and infrastructure: Lastly, it is worth noting some connections between livelihoods, employment and infrastructure. While capital expenditure is generally seen as being more desirable than spending on salaries for improving productivity and growth, it is worth stating what may be obvious: public expenditure on labour is crucial to creating assets and delivering vital services (transport, sanitation, water, electricity, education, health), which act as inputs into the building of both physical and human capital. These are current expenditures. But without them, capital expenditures are useless. One has only to recall inadequately staffed hospitals and schools to mind, to see the importance of this point.

Finally, generating such employment via public spending also tightens the labour market, especially for uneducated workers, thereby improving the bargaining power and raising wages at the bottom of the labour market. Thus, a well-run MGNREGA programme, for example, acts as a safety net, raises rural wages and also creates valuable local infrastructure in the form of roads, ponds, canals, etc. This in turn can have multiplier effects on productivity at the local level.

A similar programme in urban areas can alleviate the bottlenecks to firm productivity discussed in the IDFC Institute report. In 2019, we proposed an urban employment programme to improve the quality of urban infrastructure and services, rejuvenate urban commons and increase the financial and human capacity of ULBs.[5] During the pandemic, some state governments such as Jharkhand, Odisha and Himachal Pradesh have introduced small-scale urban employment programmes. Kerala has had a small functioning urban employment programme since a few years. But these are severely constrained in financial terms. A change in mindset is needed to recognise that MGNREGA and its urban equivalents are not "doles." Rather they are investments in improving local infrastructure that can have multiplier effects on MSMEs and private employment.

Conclusions

We are living through a once-in-a-century crisis with crisis that has inflicted severe pain. There is an urgent need to ensure that the pain is distributed according to capacity to bear it. So far it has been borne by those who are least in a position to bear it. Moving forward requires balancing three strong constraints: welfare, growth, and fiscal position. The immediate task is to repair household balance sheets and revive growth. This requires public spending because the private sector either cannot invest due to insolvency problems (mostly in the MSME sector) or does not want to invest due to already existing excess capacity and weak demand. Good quality public spending will revive demand, create employment and generate the tax revenue necessary to keep the deficit under control. On the other hand, focusing on keeping the deficit under control risks keeping demand low and prolonging the pandemic-induced recession.

NOTES

1 "COVID-19: Analysis of Impact and Relief Measures," Centre for Sustainable Employment, azimpremjiuniversity.edu.in.

2 "Assessing the Impact of the Pandemic and Designing the Policy Approach," Centre for Sustainable Employment, azimpremjiuniversity.edu.in.

3 See Basole and Coutinho (2020) and the complete list of social programmes undertaken across the world here: Gentilini et al (2020).

4 "Infrastructure Priorities for Job Creation in India," IDFC Institute, Mumbai, 2019, https://www.idfcinstitute.org/site/assets/files/15212/idfc_institute_infrastructure-jobs_report_2019.pdf.

5 https://cse.azimpremjiuniversity.edu.in/wp-content/uploads/2019/04/SWI2019_Urban_Job_Guarantee.pdf. A recent article also argues that to finance an urban employment guarantee programme that provides 20 million urban casual workers 100 days of work at a wage rate of ₹300 per day would cost the union government around ₹1 lakh crore. See Basole et al (2020).

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