Budget 2024: Overall, a Limited and Tokenistic Fiscal Approach

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As the first full Union Budget of Modi 3.0 was presented by Finance Minister Nirmala Sitharaman on Tuesday, 23 July, it is essential to review the government's handling of previously raised concerns (on inflation, widening debt, and employment creation), discussed by the authors here.

Building ahead from an honest review of the status quo, offered by the CEA in the Economic Survey, the Budget does attempt to implicitly acknowledge some of these critical challenges. In its macro-fiscal strategy, it aims to signal greater prioritisation of farmers, the poor, women, and the youth, focusing on employment, skilling, MSMEs, and the middle class.

> However, given the apathetic indifference meted to these groups over the last 10 years, the current budget's reconciliatory approach, although a much-desired change in course, offers a limited, tokenistic fiscal approach.

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On Employment

While looking at the trends in Real GDP and growth rates from recent years, Real GDP has steadily increased from Rs 125 lakh crore in 2020-21 to over Rs 155 lakh crore projected for 2023-24. However, the Budget did cite concerns over escalating geopolitical conflicts, leading to disruptions in supply chains, increased commodity prices, and renewed inflationary pressures, potentially hindering efforts to ease monetary policy.

Growth in GDP and Real GDP over the years.

(Source: Budget 2024 -25)

A significant highlight is the prime minister's employment package, comprising three major schemes.

> Scheme A offers a one-month wage for new formal sector entrants, paid in three instalments up to Rs 15,000, benefiting 210 lakh youth. Scheme B incentivises job creation in manufacturing by supporting EPFO (Employees' Provident Fund Organisation) contributions for four years, benefiting 30 lakh youth. Scheme C reimburses employers' EPFO contributions up to Rs 3,000 per month for two years for new hires, expected to generate 50 lakh jobs. Apart from that, a provision of Rs 1.48 lakh have been made for employment, education and skilling.

Additionally, the budget outlines a comprehensive plan for the enhancement of vocational training facilities. A total of 1,000 Industrial Training Institutes (ITIs) will undergo significant upgrades, adopting a hub-and-spoke model designed to improve training outcomes. This initiative will be complemented by a revamped internship scheme, ensuring that students gain practical, hands-on experience in their respective fields.

These measures are part of a broader strategy to align vocational education with industry needs, equipping the future workforce with the skills necessary for emerging job markets.

> While the schemes are a step in the right direction, concerns remain over their implementation.

Scheme A’s one-month wage subsidy, capped at Rs 15,000 over three instalments, may not encourage sustainable employment. Scheme B’s EPFO incentives might primarily benefit larger firms, sidelining smaller businesses. Scheme C’s reimbursement, limited to Rs 3,000 per month for two years, may not cover actual hiring costs, potentially limiting its job creation impact. Furthermore, the quality of jobs continues to remain a pressing issue. The effectiveness of these measures hinges on addressing these critical issues.

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Increased Capex

While addressing the increased capex and focus on infrastructure, as expected, Sitharaman announced a significant rise in capital expenditure, allocating Rs 11,11,111 crore, which accounts for 3.4 percent of GDP.

This substantial rise in capex is intended to boost infrastructure investment and drive economic growth. However, this ambitious move comes amid concerns about its effectiveness in stimulating overall economic development, especially given the lackluster response from private sector investments in recent years.

> One of the primary challenges is that while public investment in infrastructure can lay the groundwork for long-term growth, it alone cannot sustain the economy. Private investment, a critical driver of economic activity, has not kept pace with the government's capital expenditure. Despite efforts to create a more business-friendly environment, including reforms and incentives, private sector confidence remains tepid. However, this budget has introduced more reforms to boost investments and simplify the FDI landscape in India.

Moreover, the increased focus on capital expenditure has led to a significant reduction in revenue expenditure. Only Rs 56,501 crore has been allocated to social welfare, which is starkly lower compared to the allocations for defence (Rs 4,54,773 crore), rural development (Rs 2,65,808 crore), agriculture (Rs 1,51,851 crore), and home affairs (Rs 1,50,983 crore). This imbalance raises questions about the sustainability of inclusive growth, as revenue expenditure typically covers essential services and social welfare programmes that directly impact the population's quality of life.

> The disparity between capital and revenue expenditure also underscores the government's strategy of prioritising long-term infrastructure projects over immediate social needs.

While infrastructure development is crucial, neglecting social welfare can exacerbate inequalities and limit the benefits of economic growth to a broader population segment. The reduction in revenue expenditure could mean less funding for healthcare, education, and social safety nets, which are vital for a balanced and equitable economic recovery.

Furthermore, the lack of substantial private investment highlights underlying structural issues that need addressing. These include the need for better regulatory frameworks, improved ease of doing business, and more robust mechanisms to ensure policy stability and predictability. Without addressing these foundational issues, the increased public investment in infrastructure may not translate into the desired economic multiplier effect.

Inflation

Additionally, one of the most notable omissions in this year's budget has been any mention of inflation, a glaring oversight given its impact on the Indian economy. The persistent rise in food prices has been a significant challenge for the Narendra Modi government, contributing to a loss of support among middle-class, low-income, and poor voters in key states such as Uttar Pradesh and Rajasthan.

Inflation over the years.

(Source: Budget 2024 25)

While the overall inflation has come down, food inflation, a major driver of overall inflation in India, has surged dramatically.

> The Consumer Food Price Index (CFPI) for May 2024 soared to 8.69 percent, a stark increase from 2.96 percent in May 2023. This sharp rise has been primarily fueled by skyrocketing prices for staple vegetables like tomatoes, onions, and potatoes. Extreme weather conditions, including heatwaves and floods, have exacerbated supply disruptions, further straining household budgets and adding to the government's political challenges.

The absence of any policies targeting inflation in the budget has raised significant concerns about the government's strategy for addressing this pressing issue. With food inflation remaining a critical challenge and impacting voter sentiment, the lack of a clear plan to tackle rising prices leaves many wondering how the government intends to manage this economic strain effectively.

Overall, the Union Budget 2024-25 reflects the government's continued focus on addressing some key structural economic challenges and fostering better distributive ends for created growth.

With Real GDP showing a steady increase from Rs 125 lakh crore in 2020-21 to a projected Rs 155 lakh crore in 2023-24, the budget aims to build on this positive momentum. However, the budget also acknowledges the risks posed by escalating geopolitical conflicts and renewed inflationary pressures, which could disrupt supply chains and hinder economic stability over time.

> India has managed its macro fundamentals better than most emerging economies, but the road ahead, given the recessionary spiral most economies are gripped by, is a tricky one. Despite significant initiatives like the PM's employment package and the enhancement of vocational training facilities, concerns remain about the implementation and effectiveness of these measures.

The allocation of Rs 11,11,111 crore for capital expenditure underscores the government's commitment to infrastructure development, yet questions persist about whether this will spur the necessary private investment. Moreover, the notable omission of policies addressing inflation, particularly food inflation, raises doubts about the government's strategy to manage this critical issue.

Tokenistic Welfarism

A few of us have argued since 2016 that the gross fixed capital formation levels anchored by private investment hasn't increased under Modi government-despite all it has tried to do on the supply-side. Our concern is more with the nature of disputed welfare strategy the government has repeatedly followed at the risk of eroding, almost dismantling the existing social/economic safety net for the vulnerable, without ensuring any substantive investments in human capital formation.

The reason for this latter issue (the inability to provide a higher-mobility fiscal plan) is directly related to an 'entitlement-centered' view of economic welfare that the government seems to practice, driven by a political (more narrowly an electoral) rationale. From the 80 million people receiving 'free ration' to seasonal cash-transfers provided to low-income women households, the government has prioritised entitlement over empowerment to its citizenry.

> This is where the average Indian citizen has become *atmanirbhar* by either circumstance or apathetic indifference by its government, not by choice or empowerment.

One key indicator to explain this the nature of widening social, economic, and political inequality of 'access' that is plaguing states, rural areas, *pan* India. In almost all critical developmental measures, from measuring access to basic healthcare, education, social security, credit, legal recourse, the macro-realities of widening access inequality have made the average citizen worse off (at least in states where the BJP has remained in power). The Opposition-ruled states too have faced their own set of challenges, triggered by a severe politicization of fiscal devolution that has worsened the scales of asymmetric federalism (see a detailed report here).

Entitlement-centered welfarism has a symbolic, tokenism of 'assigned resources' (from housing to nutrition to jobs) attached to it. It makes a citizen feel that the government is 'handling' sops to them rather than investing in building an ecosystem -through a more enterprising, pro-market set of competitive interventions, that allows citizens to do/achieve/pursue what (s)he finds reason to value.

> This tokenistic approach to welfare through seasonal, temporal entitlements driven for electoral gains has further made a few of us (those like this author) question the credibility and legitimacy of the state under Modi, which seeks to envision a 'developed' India as part of its *Viksit Bharat 2047* plan.

In summary, while the Union Budget 2024-25 attempts to present a plan for macro-growth and fiscal stability, its success will depend on the effective implementation of its policies and addressing the underlying economic challenges, particularly inflation, to ensure sustainable progress and economic resilience.

*(**Deepanshu Mohan** is a Professor of Economics, Dean, IDEAS, Office of Inter-Disciplinary Studies, and Director of Centre for New Economics Studies (CNES), OP Jindal Global University. He is a Visiting Professor at the London School of Economics, and a 2024 Fall Academic Visitor to the Faculty of Asian and Middle Eastern Studies, University of Oxford. This is an opinion piece and the views expressed above are the author's own. **The Quint** neither endorses nor is responsible for them.)*

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