

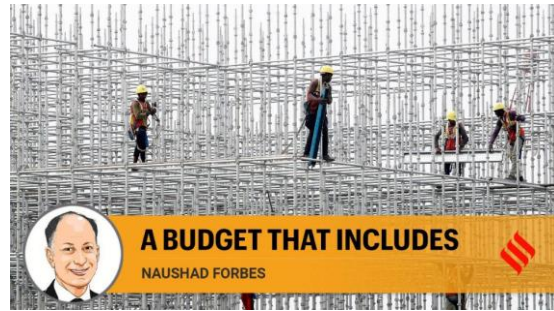


What the budget needs to do

It must deliver on economic inclusion, incentivise job creation, invest in education and skilling

Last two quarters (2nd and 3rd Quarters)

1. The last two quarters have seen a substantive recovery in the Indian economy. As growth has rebounded, so too has every indicator of the formal economy.
2. The corporate profitability of our largest firms has hit a new record this year. So have GST collections, another indicator of the formal economy, with an average monthly collection of Rs 1.2 trillion in the second and third quarters.
3. The budget deficit is expected to be well under what we forecasted last year. All of this is good news.



The glass though is half full

1. As many commentators have pointed out, the informal economy was particularly badly hit by Covid and its associated lockdowns. Small enterprises, retail, hospitality, and construction were all hammered.
2. These were our main source of recent employment growth. Agricultural employment has risen in the last year-and-a-half, while manufacturing and services employment has fallen — this is the opposite of development.
3. Informal urban employment has led to first-time buyers of everything from toothpaste to two-wheelers. This consumption story has driven our economic growth for the last 30 years.
4. Informal service sector jobs may not seem like great jobs to us, but they are greatly prized relative to eking out a marginal existence in agriculture.

Pandemic disaster in Informal sector:

1. Covid and its associated restrictions have been a perfect storm for the informally employed. A study by researchers from Azim Premji University tells us that both earnings and employment fell for those at the bottom of the urban employment pyramid.
2. We need to ensure the most vulnerable against such shocks, but even more, we need to create good job opportunities for the unskilled, equip people at

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all levels to participate more fully in the modern economy, and systemically promote wider policies of inclusion. What can the budget do?

Budget orientation:

- 1. It needs to create good jobs for the unskilled. The way it can do so directly is through accelerating spending on infrastructure. The National Infrastructure Pipeline has identified a good set of projects.*
- 2. Most countries developed by putting millions to work in labour-intensive manufacturing. Millions of the unskilled and less-educated can be employed in good manufacturing jobs where average productivity is 15 times the national average.*
- 3. We do not have huge firms in export-oriented labour-intensive sectors that employ millions in China, Vietnam, and Bangladesh. Foxconn's largest factory in China, making iPhones among other products, reportedly employs 4,00,000 people. It employs over 1 million in the country overall.*
- 4. Compare that 1 million with 15 million employed in all larger manufacturing companies in India. Samsung employs 1,00,000 people in its largest phone assembly plant in Vietnam. These giant factories are missing in India.*

Agarbattis case study:

- 1. Take another example of labour-intensive manufacturing. A company in Vietnam manufactures agarbattis. They learnt by sending 10 workers to a factory near Chennai for training.*
- 2. Today they employ 10,000 people making agarbattis, which they mainly export to India. Even when the technology is Indian and the market in India, mass manufacturing seems to be more efficient 4,000 km away from the country.*
- 3. The economics must be fixed — we need labour reform, so employing people is less expensive and improved logistics to move goods around more cheaply.*

Examples in the neighbourhood: Bangladesh

- 1. We need not look too far to learn how. In 2020, Bangladesh overtook India in per capita GDP. Bangladesh has thrived by putting millions to work in manufacturing.*
- 2. A booming garment sector employs 4.4 million. A large garment factory in Bangladesh employs 30,000-50,000 people — 10 times what you'd find in India.*
- 3. As 80 per cent of those employed in garment factories are women, Bangladesh has twice the female labour force participation ratio of India.*

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4. In 2020, the government passed four labour laws that are a major step forward in helping balance flexibility with protection for labour, formal and informal.
5. These laws have since been left dormant. The budget should announce a time frame for implementation, notification by the Union government and then by the states.

Social sector investment:

Skilling:

1. The budget must also look at investments in education and skilling. In the absence of massive employment in unskilled occupations, we must depend on education and skills.
2. India has among the least skilled workforces in the world. Under 5 per cent of our workforce is formally skilled, compared to 96 per cent in South Korea, 75 per cent in Germany and 52 per cent in the US.
3. That is why the work of the National Skills Development Corporation is so important and must go much further and faster.

Education:

1. Education is even more important, especially primary education. Pratham's education reports make for sobering reading. Their last comprehensive report says that just 44 per cent of children in Class V can read a text meant for Class II. And just 23 per cent of children in Class V can do division.
2. With schools closed for the last year and a half in most states, education outcomes have fallen further.
3. The New Education Policy has a proposal that every second standard child should be able to read and do arithmetic at the second standard level as a foundation for further education. This welcome initiative must receive the greater dedication and focus from both government and industry.
4. School education is a state subject, so the Union budget can at best incentivise states to do the right things, say by linking the flow of additional funds to those that demonstrate improved second standard learning outcomes.
5. Industry can help too. As a part of CSR, many companies work actively with schools. Education is already the largest single area for CSR spending, accounting for one-third of the Rs 9,000 crore spent by the top 100 companies.