Need for a universal EGS

Prabhat Patnaik

Confining the Employment Guarantee Scheme to particular areas on the ground that they have "implementation capacity" while leaving out other areas like Bihar because they allegedly lack this capacity would mean cutting out the really poor.

WHILE I welcome Professor T.N. Srinivasan's support, no matter how qualified, for the Employment Guarantee Scheme (*The Hindu*, Jan. 3), I find his arguments rather baffling. He claims that while a closed economy may be afflicted by a lack of aggregate demand, an open economy cannot be so afflicted, because there would always be world demand for exportable goods "provided we are internationally-competitive." This presumes that a country can export as much as it likes at the going world prices, that is, there cannot be any lack of aggregate demand in the world economy as a whole.

Now, if this were the case there would never be any world depressions; nor would there be the large unemployment, together with unutilised capacity, that we find in the OECD in general, and in continental Europe in particular. (The fact that continental Europe is "uncompetitive" *vis-à-vis* China or East Asia is irrelevant, since even in a *Keynesian* world of deficient demand, not all units are equally "competitive" and face identical demand constraints.)

Moreover, the logic of his argument is faulty. Since we cannot export to the moon or Mars, the world as a whole is necessarily a closed economy. If lack of demand can afflict a closed *national* economy, it should also

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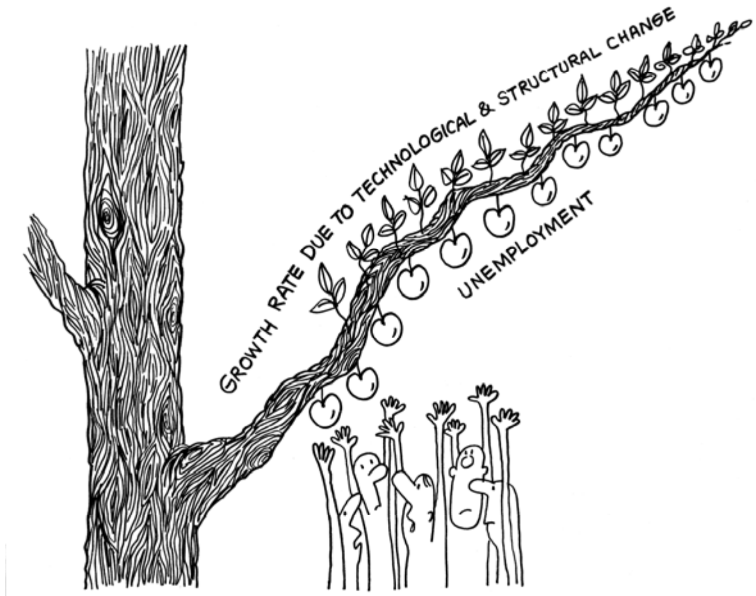
http://www.hinduonnet.com/thehindu/thscrip/print.pl?file=2005010503241000.htm&date=2005/01/05/&prd=th& [C.ELDOC.
afflict *the world economy as a whole*. If Say's Law which denies the possibility of demand deficiency is invalid for an *isolated country*, it should be equally invalid for an *isolated world*.

If the immediate constraint on employment is not inadequate demand, then what is it? The only two possible answers are: first, the real wage is "too high" which keeps labour demand low; and second, the labour demand is "too low" for independent reasons, that is the low level of capital stock in the economy, and is not too sensitive to the real wage. Judging by his emphasis on growth, Professor Srinivasan obviously puts greater weight on the latter. But the argument that a high growth rate necessarily leads to high growth in labour demand is invalid.



The growth rate of labour demand is the difference between the growth rate of aggregate output and that of labour productivity, and if this difference is less than the growth rate of the work-force, then the unemployment rate *increases*, *no matter how high the growth rate*. If growth, no matter how high, is accompanied by rapid technological and structural change, resulting in a high rate of labour productivity growth, it may not reduce the unemployment rate at all. Since the current "reforms" entail reduced control over the pace of technological and structural change, the unemployment rate has not been lowered despite the supposedly high growth, whence the term "jobless growth."

The problem of unemployment, and the related problem of poverty, has become accentuated, in rural India in particular, precisely since the introduction of the "reforms." Poverty in India is defined with respect to a calorie "norm," 2400 calories per capita per day in rural areas. Whether one likes this definition or not, this has been the basis for identifying rural poverty. On this criterion, 75 per cent of the rural population in India today is "poor", compared with 56 per cent in 1973-74. (Utsa Patnaik, "The Republic of Hunger", *Social Scientist*, Sept.-Oct. 2004.) To wait for a high growth rate to ameliorate poverty and unemployment therefore is like "waiting for Godot".

The argument for an Employment Guarantee Scheme arises precisely for this reason. Instead of having a chimera dangled before them, the poor have to be provided immediate relief. But such a scheme necessarily has to be universal, not confined to those officially defined as "poor", not confined to particular districts, and not confined to areas that are officially credited with possessing "implementation capacities" (to use Professor Srinivasan's words).

The case for a universal EGS, which, to be meaningful, must cover the country *within a specified time-period*, arises not only from a "rights-based approach," which has much to commend it, even though, for some unspecified reason, Professor Srinivasan appears to pooh-pooh it; it arises also from the fact that the official poverty figure is a gross underestimate, derived not from direct inspection of current consumption data but from a price-adjusted thirty-year-old poverty line which entails a substantial lowering of the consumption level. Any targeting leaves out of its ambit the bulk of the really poor.

Macro-estimates of poverty, no matter what adjustments one makes to the "contaminated" data of the 55th round of the NSS, are not worth much: the poverty-line is defined by the Planning Commission for 1999-2000 as a per capita daily expenditure of Rs.10.8 (the current figure is less than Rs.12) which is ludicrously paltry! As for actually *identifying* the poor, matters are even worse: according to Madhura Swaminathan (*Weakening Welfare*, Leftword, 2000, p.97), in 1999 in Dharavi, the largest slum cluster in Asia, there were precisely 151 BPL cardholders! The only meaningful Employment Guarantee Scheme therefore would be one that is not targeted, but is universal and demand-driven.

Using the "*Bihar alibi"* for denying universality, which has been a favourite ploy of successive governments for parsimony towards the poor, would be a travesty. Confining the Scheme to particular areas on the ground that they have "implementation capacity," while leaving out other areas like Bihar because they allegedly lack this capacity, would mean cutting out the really poor, since areas allegedly lacking such capacity are precisely where the really poor are concentrated. The so-called lack of "implementation capacity" is the obverse of the pervasive poverty of the people which prevents their empowerment.
The only way to make a difference to their lives is to legislate a universal Employment Guarantee Act, with penal clauses for violation by the local authorities when finance has been made available from the Centre (with the institutionalisation of a chain of *ombudsmen*), which, no matter how abused in the beginning,

would start a chain-reaction of empowering the people, and thereby contribute to so-called "good governance."

Financing a universal EGS is far from being a daunting task. The annual expenditure on such a Scheme is unlikely to exceed Rs.25,000 crore at present, or 1 per cent of GDP. Many have argued that raising this amount through taxation is no big deal. But, what is more, complete tax-financing of such a Scheme is neither necessary nor even advisable. Tax revenue entails a loss of employment elsewhere (through negative multiplier effects), so that a tax-financed employment-generation programme, even while it creates employment in one sphere, destroys employment, to an extent, in another.

A largely borrowing-financed EGS is actually preferable, since, to meet any employment target, less would have to be mobilised in the absence of negative multiplier effects, and, as Professor Amit Bhaduri rightly pointed out earlier (*The Hindu*, Dec. 27), the existence of unutilised capacity in the feeder industries, and of excess foodgrain stocks, would ensure that there are no inflationary pressures. Rough calculations of multiplier values made by me (in an article forthcoming in the *Economic and Political Weekly*) suggest that Rs. 18,000 crore of borrowing and Rs.6,300 crore of tax revenue would constitute the most appropriate combination for financing the EGS, provided about 18 million tonnes of excess foodgrain stocks are available with the FCI. (The tax revenue demand is about the same as P. Chidambaram had hoped to raise through his 0.15 per cent tax on stock-market transactions, but which he largely abandoned under pressure from stock-brokers.)

In the light of this, any linking of the EGS with a curtailment of subsidies seems totally unwarranted, as indeed does the whole emphasis that the Government is placing on cutting subsidies. A subsidy is but a negative tax, and it is bewildering why those who cry hoarse over subsidies never talk of raising tax revenue, especially when the country's tax-GDP ratio, already among the lowest in the world, has gone down drastically since the introduction of "reforms." (If the 1990-91 central tax-GDP ratio obtained today, then the Centre would be raising an additional revenue of Rs.30,000 crore annually at today's GDP.) True, subsidies "distort" prices, but these are not "competitive prices" anyway; and if price-"distortions" are to be avoided, then those wanting subsidy cuts should also be demanding increases in direct taxation, which paradoxically they never do.

Professor Srinivasan not only sees, without any justification, growth-stimulation as the panacea for removing unemployment but advocates the same old neo-liberal measures as the means of growth-stimulation. If after a decade and a half of "reforms", during which wealth and income inequalities in the economy have increased significantly as the Government has sought to improve the "investment climate," the investment-GDP ratio is no higher than in 1990-91, then clearly one cannot blandly advocate "more of the same". To say that the investment ratio has not increased because of poor "investment climate" is a tautology; to say that the "investment climate" would improve through more "neo-liberal reforms" is a *non sequitur*. Perhaps if the idea of a demand-constraint was taken more seriously, Professor Srinivasan would find a clue to why the investment ratio has stagnated. At any rate it is morally duplicitous to say that if transfers to the rich have not achieved the desired objective then more transfers are necessary, while if transfers to the poor are *feared* not to achieve the desired objective (the "Bihar alibi"), then such transfers should be avoided.

About the author

Prabhat Patnaik is Professor, Centre for Economic Studies and Planning, Jawaharlal Nehru University.