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INDIA NEEDS A BUDGET FOR ITS YOUNG

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‘In the absence of a significant climb in public spending to enhance human capabilities, there will be no hope for a generation of young Indians’ | Photo Credit: NAGARA GOPAL

The world is indeed looking up to the Indian economy as a ‘bright star’, as the Finance Minister noted in the Budget speech on February 1. In 2020, India accounted for 20.6% of the worldwide population of 15 to 29 year olds. Which means that in the years ahead, one out of every five workers deployed globally could be an Indian. No doubt, the rest of the world foresees a fortune in India’s young population. But are our policymakers doing enough to realise the possibilities that are unfolding?

The key proposals in this year’s Union budget are the following. On the one hand, there will be a considerable increase in capital expenditures, for the building of physical infrastructure, mainly in transport, energy and defence. The figures under this head are expected to be higher by 3.2 trillion (or lakh crore) in 2023-24 compared to the corresponding level in 2022-23 (revised estimates). While the growth of the tax revenues is going to be modest, the government is nevertheless committed to reducing the fiscal deficit — the shortfall in government’s receipts relative to its expenditures — to 5.9% of GDP. That could have been achieved only by reducing the spending on some other sectors.

The axe has fallen on subsidies and social sector expenditures. Compared to its previous year, in 2023-24, the Union government’s expenditure on food subsidy will fall by 0.9 trillion (or 90,000 crore), on fertilizer subsidy by 0.5 trillion, and on the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) by 0.3 trillion. The marginal increases in the allocations on health, education, agriculture and the Anganwadi scheme are unlikely to make an impact, after taking into account the effect of inflation.

A jump in capital spending by the government, as proposed in the Budget, is a much-needed step to reinvigorate the Indian economy. Investment (for buying new machines and building roads and factories) as a proportion of income or GDP indicates the rate at which a country’s productive capabilities are growing. In India, this proportion rose steadily during the mid-2000s and peaked at 42% in 2007, which was even better than China’s record at that point in time. High rates of investment translated into extremely fast rates of economic progress in the country, which lasted until the early 2010s.

The disruptions and the uncertainty caused due to the global financial crisis in 2007-08 had been a turning point. China responded to the crisis by increasing domestic investment, a large part of which coming from its public sector. On the other hand, in India, the government restrained its expenditures, worrying about the rising fiscal deficits. As public expenditures nosedived, private investors lost confidence as well. Investment as a proportion of GDP was on a steady downward slide, falling to 33.8% in 2013-14 and 27.3% in 2020-21. If the proposed investments by the government come through, and they indeed crowd in private investments as the Finance Minister has predicted, that can set the stage for a revival of the Indian economy.

In contrast to capital expenditures, subsidies and social sector spending are considered ‘wasteful’ and, therefore, it is believed, a cut on their outlays will not hurt economic growth. Quite the contrary, a reduction in social expenditures not only worsens the existing social inequalities but can also dampen the prospects for long-term growth. Only 9.8% (in 2020-21) of India’s workers are in regular jobs that provide some form of social security. Therefore, measures such as MGNREGA and free provision of food have been a clutch at straw for millions of poor Indians, hit as they have been by the COVID-19 pandemic and joblessness.

Public expenditures on the social sectors constitute an investment for the future — more so for a country with a predominantly young population. The income a destitute mother receives for work through MGNREGA may ensure that her children do not have to go to school with empty stomachs. Underinvestment in education and health will undercut India’s chances in a global economy that is increasingly dominated by knowledge. In 2022, only 2.6% of the nearly 1.9 million candidates who wrote the National Eligibility cum Entrance Test (NEET) in India for admission to undergraduate medical courses managed to secure a seat for MBBS in a government college. Every year, millions of young women and men in the country are denied the opportunity for affordable basic and higher education. At the same time, there is frustration among the educated that there are too few decent jobs for many of them. Government expenditure on health and education can provide a boost to both the supply and the demand fronts in a knowledge-driven economy: more new jobs as teachers and doctors, especially for women, and a greater supply of younger professionals and skilled workers.

Inflated fears about the fiscal deficit and government debt will only be counterproductive in a country possessing vast reserves of untapped human and other resources as India does. Only a small portion of India’s public debt is owed to external agencies (amounting to 4.2% of GDP in 2022), which does not pose a threat of the kind that external debt had created in Greece or is creating in Sri Lanka now. India’s government debt is held largely by domestic financial institutions, including public sector banks, insurance companies and provident funds. In other words, this is a debt the government owes to the people of this country, whose savings the financial institutions have mobilised.

If the government is borrowing to build resources that help generate new jobs and incomes, it is in fact setting off a virtuous cycle. Higher incomes and higher levels of development will also lead to the creation of fresh savings, which will help pay off the debts. Many middle-class Indian families take loans for their children’s education partly because they recognise that an educated child will open the door for upward mobility of the entire family. Would it not be so much better if the state borrows instead, to feed and educate all its young citizens? In this way, the children belonging to asset-poor and socially disadvantaged households too will get a chance to pick up the qualifications required to enter the new economy. No one will dispute that India will need a vast army of scientists, engineers and nurses to fulfil its global ambitions.

For a generation of young Indians, this is, without a doubt, a ‘make or break moment’. In the absence of a significant climb in public spending to enhance human capabilities, there will be no hope for them. They will soon grow older, but could still be poor, less skilled and, quite possibly, discontented too. The proportion of the population in India aged 30 years and above will rise to

58.6% in 2040, up from 37.5% only in 2000. On the other hand, with a boost in government expenditures to provide food security, health and education, millions of India's youngsters could indeed aspire to grow into bright stars that illuminate the world.

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