

## GST job credits: a fiscal measure to incentivize job creation

There is considerable speculation in the public domain that the government may be contemplating fiscal stimuli to push the economy towards a higher growth trajectory.

Fiscal relaxation can be done in two ways—the government can either spend more than it earns, or can forgo revenue and hope that consumption increases.

The corpus of economic analysis dedicated to the study of the multiplier effect of increased public spending is huge, and there are enough cases that are available for emulation.

However, in the Indian instance, significant supply side constraints exist, which may mean that the true multiplier benefits of the loosening of the purse strings by the government may not accrue to the economy.

While the multiplier works well in theory, in reality it is impractical to assume that the government's initiatives will deliver the goods without causing real wage increases in sectors with supply-side constraints. This may then lead to the situation of stagnant growth on one hand, and inflationary pressure due to higher wages and supply constraints on the other.

Hence, attempts to correct the situation in the next few months only by spending more may end up creating an inflationary situation and may aggravate current travails.

One novel way by which the government could have its cake and eat it too, would be to offer a job credit scheme for generating jobs at the entry level of wage earners.

With such a scheme, the cumulative amount of minimum wages paid out by any enterprise could be included in the list of items for which GST input credits are given. This will definitely incentivize employment retention, and may even incentivize employment generation.

Illustrative examples are mentioned below to show how this could work:

Small shopkeepers/traders/factory/service provider anywhere in India. This type of enterprise is the greatest consistent generator of mass employment in India and also the one most at risk due to working capital and trade cycle pressures. The Sixth Economic Census released by the ministry of statistics and programme implementation (MOSPI) places the number of such establishments that employ between 1-5 workers at 55.86 million, out of a total of 58.49 million establishments. Whatever is paid by such an establishment as the minimum wage, should be eligible for a GST Job Credit

Any employer of a large number of unskilled labour. Assume a construction company employs 2,000 unskilled labourers on site. The GST credit should be available to the extent of the wage payout to these 2,000 workers. Outsourced labour too should be brought into the ambit of such a credit.

The key positive spin-offs of a GST job credit scheme could be:

This measure may lead to more enthusiastic compliance with the minimum wage structure

This measure has a high possibility to incentivize enterprises to maximize hiring at the minimum wage among the small and unorganized enterprises that seem to be the main drivers of employment for the unskilled in our country

The consequent improvements to profitability and cash flow will have a disproportionate impact on morale, particularly among small business-owners

In large enterprises, such a measure may slow the current tendency to use automation in place of people

This credit scheme will incentivize the small enterprises to join the fiscal mainstream

This a simple transfer mechanism. Rather than pursue the sequence of tax collection, public spending and then the wait for the multiplier effect, the government achieves a similar effect through the employer-employee transaction

Even advanced economies have used this type of job protection schemes to work themselves out of a tight corner. Singapore's efforts during the tough years of 2008 and 2009 offer us valuable lessons and can be understood through the then Singapore [Finance Minister's Speech in 2009](#). Section C—the job credit scheme—is particularly interesting

The pre-requisites for such a scheme are the same as what the Economic Survey 2016-17 states as pre-requisites for the Universal Basic Income scheme- namely adoption of JAM (Jan Dhan-Aadhaar-Mobile) and Centre-state negotiations. On those two fronts:

The minimum wage credits can be linked via the JAM mechanism so that those claiming the set-off are able to provide proof that such payments have actually been made. The Job Credits can be approved based on the data received on payments made

The GST council—which is a leading forum for central-state relationships currently—should be able to take such a decision.

While there will be revenue loss, the GST job credit scheme merits a serious effort to determine the cost and benefits, and needs to enter the mainstream narrative on policy options to boost employment growth.

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