

Budget 2017 must Support those Worst Hit by Demonetisation*

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How to mitigate and reverse the adverse impact of the demonetisation ought to be at the top of the Finance Minister's agenda for the coming Budget. The effects of the ill-considered and even more poorly implemented scheme are still being felt across the country, in the form of reduced economic activity, job losses and reductions in income and consumption. Since remonetisation is still incomplete – and the government has already threatened not to replace the full value of the demonetised currency in a coercive push to digitisation – the impact on economic activity from that one source alone will continue to be adverse. And the immediate negative multiplier effects will generate dynamic tendencies towards reduced economic activity and employment over time, which the government surely cannot afford to ignore.

So what exactly could Mr Jaitley do about it? Obviously, some fiscal stimulus is both necessary and desirable, since something must be done to counter the contractionary forces unleashed by demonetisation. What form could such fiscal expansion take? The most straightforward and sensible way of doing this would be to direct fiscal resources to activities that have seen the greatest decline and to those people who have been hardest hit: in other words, to informal activities and the poor in general.

This should involve a significant increase in social spending, first of all in the health and education and employment schemes that have taken such a hit over the first three years of this government. Very significant increases should be made in the allocation for the Integrated Child Development Scheme (ICDS) that caters to pregnant and lactating mothers and infants, with increases also in the remuneration for *anganwadi* workers and helpers to recognise them as workers and therefore pay them the minimum wages. Much more money for the National Health Mission and to allocations for public clinics and hospitals to enable these to come even slightly closer to the grandiose promise of universal health care promised by the BJP in its election manifesto. Increasing outlays on education at all levels to ensure good quality school education and expansion of public higher education at tertiary level. All these forms of spending have the added benefit that they have strong positive multiplier effects and therefore lead to significant increases in economic activity beyond the initial amount spent.

There has been much talk about the possibility of the government implementing a universal basic income. If it is serious about this – and most importantly does not see this as a substitute for other necessary public provision of food and essential social services – then obviously, this should be welcomed. But the fear is that the government will not provide universal access, and will provide such small amounts that it would effectively be meaningless, and that it would actually seek to undo other essential provision at the same time. This is not acceptable. In India, food provision in particular remains absolutely essential and there are strong gender dimensions to such provision that would mean that

replacing this with a cash transfer could well undermine the nutrition security of women and girls.

Instead of universal basic income that is unlikely to be realised for now, how about starting with providing a universal pension, at half the minimum wage – something that the Pension Parishad has been demanding for years? At present the government continues to provide the pitiful sum of Rs 200 per month to people below the poverty line, refusing even to raise it to Rs 500 as the UPA government had promised to do three years ago. A universal pension (with exclusion of those who receive pension from any other source) at half the minimum wage would have many benefits: it would ensure some income to those who are unable to work; it would recognise the unpaid labour of women (and some men) who have engaged in crucial tasks of social reproduction all their lives; it would provide some income security to poor households in general, who would experience an increase in the total household income; and it would provide some dignity to the elderly, who are currently ill-served by both society and public policy. And once again, it would provide demand for the goods and services of the informal sector, which has been so badly hit by demonetisation.

It is interesting that proposals such as this immediately generate the response: where is the money? Ironically, the people asking this question are the same as those who demand tax concessions for corporations and salaried classes. Indeed, the demand for tax breaks has become particularly vociferous in the wake of demonetisation, even though the brunt of the impact has been felt by the poor. The argument is that this is what is required to lift the economy back on to its previous growth trajectory. The large, medium and small companies now facing inadequate demand need sops to tide them over this difficult patch. Likewise, potential investors, who are being scared off from getting into new projects by the apparent capriciousness of economic policy making in India, need reassurance that the pro-business stance of the current government has not changed. This would also suggest that the government needs – at least superficially – to stick to fiscal deficit targets in the “approved” range.

Add to this mix the fact that the government chose to bring the Budget a full month early, well before it has got reliable estimates of either GDP or revenue receipts in the current year. So, more than in most years, this will be a budgetary stab in the dark. But then there is also no doubt that the Finance Minister knows that his budgetary provision can have some impact on the coming Assembly elections in six states, which points to the urgency of some spending measures that at least appear to benefit the poor.

All this makes the task of presenting this year’s Budget somewhat more difficult than usual. The chances are that the Finance Minister will take the easy way out: inflate expectations of revenues both in this year and the coming year, so as to allow for greater expenditure, and seek to provide at least some spending directed to the poor, but probably not enough to make much of a difference, while also providing some tax sops for business. Given the massive economic

dislocation and distress created by this government, people have a right to expect much more.

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