



MACROECONOMIC
Analysis & Policy Studies

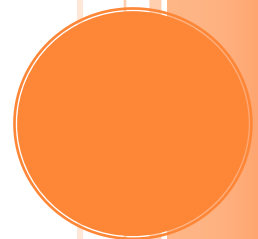
Employment in India under UJG

An MMT perspective

Student Research Internship Report

Jahnvi Agarwal

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Employment in India Under UJG: An MMT Perspective

Jahnvi Agarwal¹

Indian Economy and the COVID Crisis

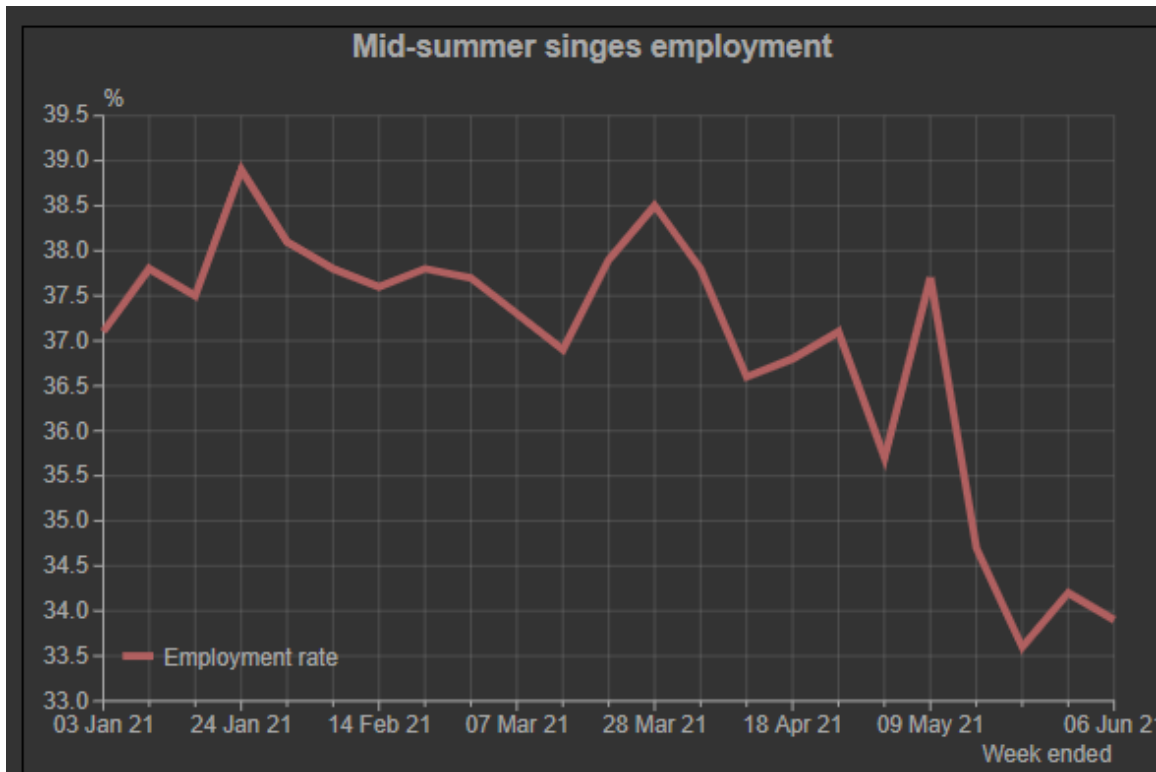
COVID 19 has left the economy in despair. People are poorer than they were two years ago. Recent estimates of unemployment in India have established a new pinnacle. It is being said that the government is well satisfied with the job as the stock market is booming. The government is being perfidious in its approach, again establishing the pattern of the rich getting richer at the cost of the poor being ignored.

With thousands of people rendering unemployed, inequality rising at an increasing rate, the morale of citizens on a continuous low, facing regular but inefficient lockdowns, what finally is the government's plan of action to combat this crisis?

Unemployment is a silent epidemic. As it replicates the behaviour of a virus and has a large amount of social, economic and financial costs attached with it. It is also responsible for a moral failure which in turn hampers the overall productivity of the labor.

The increasing unemployment trend in India has been growing even before the pandemic hit the country. According to the National Sample Survey, the unemployment level was a forty-five year high in 2017 – 18 to almost 6.1%. Rural unemployment plummeted to 8.29% and urban employment reached 8.84% in October 2019. The unemployment rate in April 2020 went up at nearly 24% which might be because of workforce disruption as well as a decrease in the demand for labor due to a nationwide lockdown. However, these numbers are only getting worse as the pandemic is overpowering the nation the unemployment is reaching 13% as of June 2021, as estimated by CMIE.

¹ Jahnvi Agarwal, a third-year student (B.SC Economics) at NMIMS University. This article is my submission as a part of the research internship at Foundation to Aid Industrial Recovery (FAIR), Macroeconomic Analysis & Policy Studies (MAPS). I, Jahnvi Agarwal, declare that this is my own work and has not been plagiarized.



Source: Centre for Monitoring Indian Economy

As the graph denotes, Indian labor market is at its worst since the lockdown of April – May 2020. The unemployment rate in May 2021 was 11.9% which continued to rise and reached 13% on June 6, 2021. The employment rate which is an important indicator of the labor market conditions also fell from 35.3% in May 2021 to 34.6% in June 2021. According to CMIE, there was a loss of 15.3 million jobs from April 2021 to May 2021. Employment is falling since then which denotes that the loss of jobs in June 2021 has been much more significant. A low labor participation rate and continuously increasing unemployment has resulted in a fall in the absolute employment rate. This drastic fall in employment is also emphasized by the ongoing pandemic. Therefore, making unemployment the next biggest challenge for India after COVID 19 crisis.

Unemployment is caused by the state's inadequacy and behavior of profit-seeking firms. Mainstream economics says that approximately 5% of unemployment is full employment. This pool of involuntary unemployment is important to maintain the inflation rates. Hence, NAIRU (% of the population in involuntary unemployment which is set as a policy benchmark) is treated as a necessary evil.

UNIVERSAL JOB GUARANTEE

In contrast to it, the Universal Job guarantee advocates 0% unemployment (with some amount of frictional unemployment). A UJG is an economic policy that is a centrally funded job program for anybody who wants to work at a community job with a socially inclusive wage. UJG philosophy is based on anyone who wants a job, should have a job.

It is different from allocating money to the public without engaging in any kind of activities. Under, UJG a person has to engage in some type of work; it is not restricted to manual labour only. It focuses on community employment like social welfare services, skills enhancement programs, food production, environmental management, education, creation of art/music/cinema etc.

A socially inclusive wage is different from a minimum wage. These wages allow a person to fully involve herself to participate in social activities that cost money while also fulfilling the long-term basic needs, e.g., if you want to have a cup of *chai* with your parents outside, you will not have to ask them to pay the bill for you. Your wage allows you to pay the bill.

How will the government afford UJG?

India has monetary sovereignty. It issues its currency. It also collects taxes and issues debt in the Indian rupee. Therefore, there is no financial constraint or dearth of money. The only constraint on monetary sovereignty is the real resources and output. The Modern Money Theory argues that India can employ all the unemployed resources without increasing taxes or borrowing from the private sector.

Hence, the state has the power to act as the employer of last resort. The theory of the Philips curve states that there is a trade-off between unemployment and inflation. In orthodox macroeconomics, inflation is seen as a more dangerous scenario than unemployment. Naturally, to stabilize inflation, the government maintains a pool of unemployed people.

The government introduce a contractionary fiscal policy to prevent the economy from overheating, hence controlling inflation but designing unemployment (also known as NAIRU). MMT argues that instead of creating a pool of unemployed people, the government can create a buffer stock of employed people.

Under UJG, a wage floor price will be established. Therefore, the government will be paying people for their productive activities. No one is consuming without producing, hence an increase in the price level is unlikely to happen. The private sector can employ the people back by offering better pay or job conditions.

By the implementation of this process, the economy will not only achieve full employment but also have a stabilized prize level. The Philips curve at this point will be parallel to the x-axis.

Why Universal Job Guarantee?

Besides this UJG also acts as an automatic countercyclical stabilizer for the business cycle. When the private sector is robust, it can hire more labour from the UJG program by offering them better job opportunities. This will contract the UJG and also decrease government expenditure.

UJG will expand or contract according to the position of business cycles, it does not let individuals suffer the consequences of unemployment.

There is a specific behaviour portrayed by the private firms, that they do not seem to employ people who have remained unemployed for a longer period, it might be associated with the depreciating skill set. The private sector does not consider hiring from the pool of unemployed resources. This leads to a reduction in the aggregate supply of labour and an increase in the demand by firms as a result the wage rates also increase.

Under UJG, people can enhance their skills or learn new skills. Therefore, promoting human capital enhancement and also increasing their chances to be employed again once the boom strikes.

A nationwide Job guarantee also has numerous positive social externalities. Employed people do not engage in crimes, increase the quality of child upbringing, lesser population growth, community development, if people chose to engage in environmentally friendly activities such as reforestation, then there will be environmental benefits, Reduction in inequalities as UJG provides benefits to the lower strata faster than the upper class, maximum productivity.

These benefits will not only help India to combat the Covid crisis and build a productive labour force with job security but also will increase the chances to attain the Sustainable Development Goals.

Research done by Pavlina R Tcherneva for the USA has estimated that UJG will only take 1.3 % to 2.4% of GDP for its funding and will increase the real GDP by \$313 billion to \$560 billion a year and also jobs in the private sector by at least 4 million.

India has a job guarantee program for rural workers, MGNREGA, which provides 100 days of guaranteed employment for rural workers. Due to MGNREGA, the wage gap between rural men and women has decreased. Many public assets such as roads, wells, parks have also been created.

However, it is limited in terms of days and area. There is no equivalent program for urban work. Many reports have claimed that the urban informal sector workers were the worst hit due to the loss of jobs.

In 2020, the rural economy also witnessed a slowdown as migrant remittances decreased. Due to this, the government has provided additional funds of 40,000 crore to MGNREGA. The number of workers under MGNREGA is witnessing a steady increase for instance 32.2 million households got work in June- July 2020 and in September it was increased to 36.6 million.

Even after additional funds and a continuous increase in employment opportunities, there is still a considerable demand for employment left that is yet to meet.

After analyzing these facts, it is well established that India needs a job guarantee program more than ever as the crisis has swamped both educated and uneducated jobless. We

already have learned lessons from the operation and design of MGNREGA, therefore implementation should not be an issue. There is not much difference between MGNREGA and UJG as the core and objective remain the same, UJG is just amplified more.

UJG has many benefits and little costs attached. The only real cost is resources such as food, material etc. This policy has the potential to increase productivity and welfare rather than just private profits.

A nationwide Job Guarantee Program has a basic ideology that anyone who is looking for a job with a decent wage can have.

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