

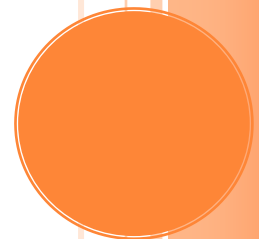


**MACROECONOMIC**  
Analysis & Policy Studies

**Need for a Universal Job Guarantee Program  
During the Covid-19 Crisis (India)**

Student Research Internship Report

Mallidi Poorna Siva Rama Reddy July 2021



## NEED FOR A UNIVERSAL JOB GUARANTEE PROGRAM DURING THE COVID-19 CRISIS (INDIA)

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In recent times, the need for a Universal Job Guarantee (UJG) has procured supporters globally. Also, many economists are suggesting government intervention in ensuring total employment for the people. During the COVID-19 crisis (a crisis that raised problems in both the health department and economy of every nation), new issues developed, raised the supporters of UJG to a new level. Now let us examine the factors which are leading people to support the UJG argument and also examine why MGNREGA isn't enough to tackle the unemployment due to covid-19 crisis in India.



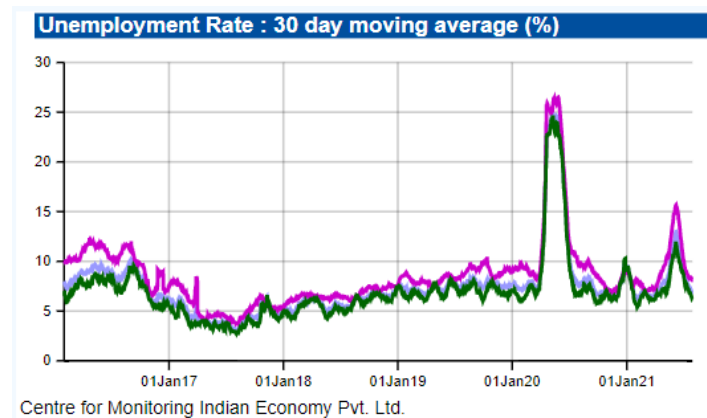
The essential factor that led people around the globe to talk about the UJG scheme is unemployment. During the covid-19 pandemic period, the unemployment rate rose a lot because industries worldwide saw a decline in their production level, and to compensate for that; many people became jobless. In India unemployment rate increased to a maximum of 24 percent in the lockdown announced in April and May

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<sup>1</sup> BS-Economic sciences, as a part of internship at Foundation to Aid Industrial Recovery - Macroeconomic Analysis & Policy Studies (FAIR-MAPS).

I, Mallidi Poorna Siva Rama Reddy, declare that the views expressed in this article are my own and the contents of the article have not been plagiarized by me.

2020 and around 13 percent in the curfew of states in June 2021, which used to be around 8 percent before the covid-19 pandemic. We can also observe that the urban population took a massive hit in the unemployment crisis. (Source: [Click here](#)) But economists in India also argue that these numbers provided by the government are much lesser than the actual reality.



- -> India
- -> Urban India
- -> Rural India

If we can observe the present economic situation, Over the past few decades' economies is turned towards stock markets, which lives on assumptions in assets. And this trend of investment in India registered a massive increase in the pandemic period, where the number of individual investors in the market has increased by a whopping 142 lakh in FY21. Also, the share of individual investors in total turnover on the stock exchange has risen to 45 percent from 39 percent in March 2020 (before the start of Nationwide lockdown). (Source: [click here](#)) Lessening saving paths amidst the low-interest rate regime has led to higher interest by people in the stock market. The problem is that investments in a company gives more capital to the industries, and capital drives productivity. The production enhancing qualities of investment tends to replace workers with machines and robots. This process will lead to machines making machines (long-run process), and unemployment rises.

Now the solution for this problem in the traditional view seems to be to encourage investment spending. To stimulate investment spending, you cannot use fiscal policy. If the government is broken, it will create a budget deficit that pushes up interest rates and decreases investment. So, you can use monetary policy: lower interest rates stimulate investment. But this method of monetary policy doesn't seem compelling because Fed has been running rates at just above zero for a decade, and also Japan is doing the same for 15 years. There is no investment, no shift in total production and demand, low growth rates and few jobs created.

Why though? Keynes said that firms would only produce what they can to sell, and unless they think their sales will be higher, they will not increase their productive capacity by investment. Economists (Keynes followers) always rejected the idea that interest rate policy matters much for investment. They always argued that pumping banks of excess reserves would get banks to lend, and firms to borrow to invest won't work. So, we have a rotten economy with low growth rates and high unemployment that temporarily raise economic growth only to be ruptured by financial crisis and recession. For many people, a financial crisis or recession means unemployment. The recoveries designed by governments worldwide are only able to create very few jobs.

To make things worse job creation rate in India took a massive hit in May 2020 (Nationwide pandemic), though, by January 2021, it came back to the standard job creation rate before the pandemic. (Source: [click here](#)) Analysts suggest that due to curfew restrictions followed by many states in India during the second wave of covid-19, the job creation rate might have retaken a hit (anticipated by the rise in the unemployment rate in June-July 2021). There is also a famous narrative among people that the private sector mainly creates jobs in the low wage sector. So, at best, we have got jobless growth as a typical specification of the economy. A financial crisis or recession is being ended even before all the jobs are recovered. (Source: [click here](#)) And when people become already, and markets begin to improve, the whole thing collapses into a new crisis. More people are losing jobs in each economic downturn, and relatively fewer people can retrieve their jobs in the economy's bull run. MMT economists claimed that we must expect a permanently lower labour participation rate because present economy models of countries worldwide will never produce enough jobs for the newcomers, let alone for those who have been searching for a job for months. Furthermore, the rise in influence of machines in the production procedures, foreign competition to the local industries, privatization of industries under government and decrease in government jobs shows us no hope of a raise in the new job creation rate.

Apart from these in India the prices of primary consumption goods like oil, spices etc., are skyrocketed, almost with an increase of 50 to 70 percent in price. Even though the government provided aid with the free ration scheme, goods like oil, spices and many more are never included in the ration. Added to that, the prices of petrol and diesel also reached an all-time high of rupees 105 in some regions. This made poor sections of the nation much more dependable on their income to run their family. During the pandemic, people who lost their jobs went on using their savings and bringing loans from the landlords and moneylenders at higher interest rates for their consumption needs.

The real problems of today's economy before the pandemic are slow and jobless growth, even though we have an increase in the nation's GDP. After the arrival of the

crisis, the situation of the economy is worsened. The government of India is recovering from the hit delivered by the pandemic, and the government is trying hard not to let the growth rate go towards negative by introducing schemes and programs like Aathmanirbhar Bharath and free ration to the poor.

The possible solution to restore prosperity is to create new jobs and raise pay for people at the bottom level to grow. We do not need to depend on another debt causing a consumption boom, and also, we cannot rely on the investment until and unless industries plan to increase the supply side to meet or create new demand for the goods or services they produce. To make the scheme of job creation possible, we need the government to play a more prominent role. The jobs created need not be intellectuality dependent (Jobs created are education independent – to make everyone who seeks for job eligible). Government ushered growth improves the economic power of the private sector, and it does not depend on the investments or capital as it directly will result in more jobs, a standard minimum income and more sales.

Even though India introduced a similar job guarantee scheme, MGNREGA (Mahatma Gandhi National Rural Employment Guarantee Act), back in 2006; The scheme states that "It aims to enhance the livelihood of and security in rural areas by providing at least 100 days of wage employment in a financial year to every household whose adult members volunteer to do unskilled manual work". (Source: [click here](#)) The scheme only ticks the job guarantee for the people in a rural area to create assets like roads, canals, ponds etc... Still, according to the data we have argued, urban India is the most affected region in this covid-19 crisis. Rural areas are pretty much ok with their unemployment rate because rural areas rely on the income from agricultural products, and given by the report's data by the Indian government, agricultural income took a rise in the covid-19 crisis (Source: [click here](#)). So, implementing a job guarantee scheme that aims for the prosperity of urban India will set back the journey of the Indian economy to a new track that can bring growth with full employment.

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