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5 February 2019 at 12:24

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**ECONOMY**

# Modi's huge handouts could win votes but won't end poverty

Government must create jobs, not just offer cash: renowned  
Indian economist

**CHAITANYA KALBAG, Contributing writer**  
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Narendra Modi's government has announced huge handouts to India's poor in the latest budget ahead of general elections due by May. Here, a woman peels sugarcanes on a railway track to sell it to sugarcane juice vendors at a slum area in Kolkata, India. © Reuters

NEW DELHI -- Narendra Modi's government unveiled an ambitious budget last week with huge handouts for India's poor, a move that could certainly win him votes in the upcoming elections but will do little to alleviate poverty in the long term, analysts said.

Modi's government vowed to build physical as well as social infrastructure for a \$10 trillion economy by 2030 in an extravagant, populist interim budget for the fiscal year starting April 1, announced last Friday. Under this plan, every Indian family will have a roof over its head and live in a "healthy, clean and wholesome" environment by that time.

"This would mean nearly quadrupling the size of India's economy in just over a decade," one senior economist said, pointing out that nominal gross domestic product is projected to hit \$2.6 trillion in fiscal 2019. "This can only



happen if output skyrockets or inflation goes through the roof." The government's goal requires GDP to expand by strong double digits annually.

Yet, GDP growth is forecast at 7.2% this year. While India is seen as the fastest growing economy in the world until 2021, it is still home to the second-largest number of the very poor. Nine of the world's 10 most polluted cities are also in India.

On Friday, Finance Minister Piyush Goyal announced huge chunks of new expenditure, including \$10.7 billion for direct cash transfers to 120 million small farmers, as well as tax rebates for the lower middle class, and a pension plan for an estimated 100 million unorganized workers. Allocation for food subsidies grew to \$26.3 billion from \$24.5 billion in the last fiscal year.

An outgoing government does not typically splurge on pre-election largesse, but Goyal said the farm dole would be backdated to last December with a \$2.85 billion payout in the current fiscal year ending March. "This is not a vote-on-account," said leader of opposition party Indian National Congress and former finance minister P. Chidambaram. "This is an account for votes."

This handout is on top of a 10% reservation in government jobs and college places for upper-caste poor announced in January. Some analysts said Modi is clearly rushing to secure a second term in the April-May general elections, as he woos farmers squeezed by low crop prices and debt, a middle class badly affected by the 2016 demonetization of high-value bank notes, and most of all the poor.

"The poor have the first right on the resources of the nation," Goyal told parliament, while also reporting success in offering free cooking-gas connections for poor households, an ambitious campaign to build millions of toilets to eradicate the practice of open defecation, a free health insurance program for the poor launched last autumn, and an aggressive expansion of rural road construction.

The leak last week of a National Sample Survey Office report that said unemployment had risen to 6.1% in 2018, the highest in 45 years, added to opposition allegations that the Modi government has overseen the growth of joblessness. The government said in defense that the NSSO report was a draft.

But figures released by the private Centre for Monitoring Indian Economy, which surveyed a larger sample of 172,365 households, showed that the unemployment rate was actually even worse -- at 7.1% this week. Two members of the National Statistical Commission resigned, alleging that the government had withheld the NSSO report.

CMIE CEO Mahesh Vyas wrote last month that 11 million jobs were lost in 2018, and the size of the labor force had shrunk to 397 million by end-2018.

Goyal said in his budget speech that the concept of employment was changing all over the world, and that job generation was not confined to government services or factories. "With job seekers becoming job creators, India has become the world's second largest startup hub," Goyal said.

Economist Nilakantha Rath, who co-authored a landmark 1971 study that measured poverty for the first time in post-independence India, told the Nikkei Asian Review: "Merely reserving jobs for the poor and transferring cash directly to them will not end poverty. The new economic approach is to give people money and expect them to spend it as they wish, the [Milton] Friedman school of economics."

Measuring poverty in India has been complicated and controversial. Rath and co-author V.M. Dandekar defined poverty as the inability of a household to afford two square meals a day, and set a threshold of 2,250 kilocalories per person per day as measurement. A government-appointed committee in 2009 set India's poverty line at 33 rupees (\$0.46) a day versus the World Bank's \$1.90 per day.



A 2011-2012 survey by the NSSO counted 269.8 million poor, or 21.9% of the population. That figure was down dramatically from 430 million in 2004 and 383 million in 2009. The World Bank estimated that in 2018 Nigeria overtook India as the country with the largest number of poor people.

Still, the World Bank noted: "India's large population of 1.3 billion results in a high number of extreme poor. To achieve the global poverty goal, progress in poverty reduction needs to continue in India." The United Nations has set a goal of eliminating poverty by 2030.

Rath said the Indian government's priority must be to create jobs. "People don't like holding begging bowls," he said. "They want to work for a living. Ideally, the government ought to take the responsibility of providing good social infrastructure like health care and education.

"Today inequality is largely because of differences in land and capital ownership, not differences in earning capacity. People who are struggling to be entrepreneurs must have capital."

Rath said in a country of India's size with large numbers of poor, the state should tax assets, not income. He said every village had some uncultivable land, which could be leased to young entrepreneurs to set up small manufacturing and food-processing units that could conceivably employ millions.

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