

# After targeting rural and urban poor, a 2024 signal: The Middle Class Matters

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WHAT'S THE big political economy message from Nirmala Sitharaman's latest Budget? The answer probably lies in five words: The Middle Class Finally Matters.

By freeing individuals with annual income up to Rs 7 lakh from paying any tax – and re-

ducing the burden to Rs 1.5 lakh (from Rs 1,87,500 now) for even those drawing Rs 15 lakh or Rs 1.25 lakh/month – the Narendra Modi government has delivered

some relief for a class that has long felt ignored.

The Modi government's big initiatives during its almost nine years in power have been largely aimed at the very poor, the farming community

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## ● The Middle Class Finally Matters

and corporates. As cynics would say, the first and second have the votes, while the last bring in the notes.

The economic plank on which the BJP-led National Democratic Alliance swept back to power in May 2019 rested largely on the strength of its flagship schemes: houses for the rural and urban poor (Pradhan Mantri Awaas Yojana); toilets (Swachh Bharat Abhiyan); free domestic LPG and electricity connections (Ujjwala and Saubhagya); and open bank accounts for all to enable direct benefit transfers (Jan-Dhan). For farmers, there was the Rs 6,000-per-year income support PM-Kisan scheme, operational from December 2018 and benefiting over 11 crore landholding agricultural families.

The poor were also protected from the worst of the post-Covid economic shocks through the Pradhan Mantri Garib Kalyan Anna Yojana, offering ration cardholders 5 kg of additional grain per person per month free of cost. The total quantity of rice and wheat channeled through the public distribution system rose from a mere 62.32 million tonnes (mt) in 2019-20 (April-March) to 92.88 mt in 2020-21 and a record 105.61 mt in 2021-22. During April-December 2022, the offtake totaled 71.17 mt. Even with the discontinuation of the scheme from January, ration-holders will obtain their basic 5-kg monthly quota free, as against Rs 2-3/kg earlier.

Besides free ration, the poor were provided relief through MGNREGA. The total person-days of employment generated under the scheme, originally introduced by the UPA government, rose from 265.13 crore in 2019-20 to an all-time-high of 389.15 crore in 2020-21, 363.56 crore in 2021-22 and 246.54 crore so far in the current fiscal.

Corporates, on the other hand, benefited with a slashing of the basic tax rate on company profits from 30% to 22%. The lower tax, announced in September 2019, came on top of demonetisation and GST – which arguably helped organised corporate firms gain market share in many industries at the expenses of informal and micro, small and medium

enterprises.

All through this, the middle class – especially the salaried sections – got nothing much. Those working in sectors such as information technology and e-commerce, which actually boomed during the pandemic, probably had little to complain till recently.

Between March 31, 2020 and September 30, 2022, the combined employee headcount at India's top five IT companies (Tata Consultancy Services, Infosys, Wipro, HCL Technologies and Tech Mahindra) rose from 11.55 lakh to 16.04 lakh. The latter figure was more than the 12.5 lakh and 14.1 lakh on the rolls of the Indian Railways and the three defense services, respectively.

In addition to these were the several thousand jobs that were created in the numerous digital start-ups sprouting during this period, on the back of cheap global funding.

As those funds have dried up, amid monetary policy tightening by central banks and looming recessions in the US and Europe, the same companies are now resorting to layoffs. This is happening not just in Google, Amazon, Meta, Microsoft and Salesforce or Swiggy, Ola, OYO and ShareChat. Even among the big five IT majors, three have reported reductions in their headcount during the October-December 2022 quarter – Tech Mahindra (down 6,844), TCS (2,197) and Wipro (435) – and the other two marginal increases: HCL (2,945) and Infosys (1,627).

A hiring freeze, if not retrenchments, in storied firms has perhaps shaken middle class aspirations. This, going by past experience, has the potential to affect the political landscape. That the middle class can shape the narrative even without having the numbers was borne out during the India Against Corruption movement when the UPA was in power. Sitharaman's budget, more than anything else, has made an effort at listening to "our hard-working middle class". The personal income tax reliefs, costing Rs 37,000 crore in revenue foregone, may be the first step to pre-empt any Opposition move to fill in a void.