BOOSTING DEMAND

8th Pay Commission comes at a crucial time

The government has announced the formation of the 8th Pay Commission to review the pay scales of its employees. With the economy at a critical juncture, a hike in their salaries will help boost consumption and put the economy into a higher growth trajectory, explains ***Lekha Chakraborty***

A helping hand to drive economic recovery

THIS IS A crucial announcement by the government, meant to convey the message that India will not get into "fiscal austerity mode" by staggering the salaries and pensions amidst the global fiscal crisis and mounting global debt burden. This is a bold move to boost consumption amidst mounting global inflation and sluggish economic growth. After the global financial crisis, India could withstand the aftermath mainly due to the announcement of Pay Commission (PC) hikes and the employment guarantee schemes then. The revisions in salaries and pensions are much awaited to increase disposable income in the hands of the people. Private investment has been shy (though India has been consistent about capex spending), primarily due to uncertainties about consumer demand in the post-pandemic period.

Intended beneficiaries

THESE ARE CENTRAL government employees including civil servants — including those working in various ministries, departments, and public sector undertakings; pensioners, and family pensioners. The PC aims to review and recommend changes to their salary structure, allowances, and other benefits. It is estimated that there are around 4.7 million central government employees and 6.5 million pensioners. Of this, 1.4 million employees and 1.9 million belong to the defence forces.

Isn't DA or annual increments enough?

ECONOMIC GROWTH HAS cyclical and structural components. The counter-cyclical short-term fiscal measures do not result in economic growth recovery and boost demand. A PC should be pitched as a structural reform. At this juncture, India requires structural reforms for sustained economic growth recovery and boosting demand, beyond the dearness allowance (DA) and annual increments for ad hoc inflation adjustments. This structural reform is imminent, despite the fiscal space constraints, to bring in growth with equity. On the other hand, fiscal austerity measures will impact the Indian growth story.

4.7 mn

CENTRAL GOVERNMENT EMPLOYEES AND 6.5 MILLION PENSIONERS

THE UNIFIED PENSION SCHEME WILL ADD TO THE CHALLENGES FOR THE 8TH PAY COMMISSION

₹2.43 Lcr

PENSION BILL AS PER BUDGET 2024 WITH SALARIES COSTING ANOTHER ₹1.62 LAKH CR

Govt vs CPSE remuneration

THE BASIC COMPENSATION package for government employees comprises basic pay, DA, house rent allowance (HRA), transport allowance (TA), pension and other allowances. Central Public Sector Enterprises (CPSE) staff enjoy a more comprehensive one, including basic pay, DA, HRA, performance-related pay, perks like company vehicle and accommodation, and retirement benefits such as gratuity and pension.

What about state govt employees?

STATE GOVERNMENTS OFTEN follow the Central Pay Commission's (CPC) recommendations. While states like Maharashtra and Gujarat adopt the CPC's recommendations with minor changes, others like Tamil Nadu and Kerala may make significant changes or even establish their own PCs. This is because states want to maintain fiscal autonomy & make decisions integrating state-specific concerns.

Unified Pension Scheme's impact

THE UNIFIED PENSION Scheme's (UPS) aim to merge various pension schemes, including the National Pension System (NPS), will require significant changes to the existing pension framework. The 8th PC will need to consider the implications of the UPS on the overall compensation structure. It will thus need to balance the government's fiscal space with the aspirations of employees, making its recommendations even more challenging.

Pay and pension expenditure trends

AFTER THE 7TH PC and One Rank One Pension for defence forces in 2016-17, the revenue expenditure increased significantly. States' expenditure on pensions have risen from 0.6% of GDP in the early 1990s to 1.7% of GDP in 2022-23. In Budget 23-24, pension payments were estimated to be ₹2.34 lakh crore, accounting for 0.8% of the estimated GDP. The Centre's total expenditure is expected to rise by 7.5% in 2023-24, reaching ₹45.03 lakh crore.

Share of wage bill in revenue expenditure

BUDGET 2024 FIGURES revealed that pension constituted ₹2.43 lakh crore (5.04%) and salaries ₹1.62 lakh crore (3.36%) of the total budget. The interest payment is ₹11.63 lakh crore (24.12%). The latest RBI report on State finances showed that expenditure on salaries and wages of States is 3.1% of GDP as per 2024-25 (BE). The RBI report stated that "as a part of transparency measures, a few States have legislated the disclosure of estimated pension liabilities for the next ten years worked out on an actuarial basis to assess their likely pension burden, mode of financing and impact on deficit indicators". It revealed that the pension expenditure as a percentage of total revenue expenditure is 11.9% in 2024-25 (BE) for all States and UTs together.

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