

Economic Focus: India's Poor Law

Economist.com, from The Economist print edition January 27, 2005

Topics: Marginal Cost and Marginal Benefit, Chapter 1, section 3, "Choosing at the Margin"; Tradeoffs, January 21 lecture: III. Economic Way of Thinking: A. Tradeoffs; Self-Interest vs. Social Interest, January 21 lecture: II. Two Big Economic Questions: B. When is the pursuit of self-interest in the social interest?

The Indian government may seek to promote social interest by providing jobs to the unemployed, but doing so presents problems. One concern is that citizens may become overly dependent on government employment and choose it over private sector work. Offering low-paying, difficult jobs is meant to reduce this dependency. Still, corrupt officials might steal workers' money, and the work done might not be particularly meaningful. Another problem is that the government wants to guarantee employment, pay workers minimum wage, and not increase the budget deficit, but since the deficit is significant, at most two of these ends can be achieved. Yet, beneficially, the employment program provides safety for the poor and encourages economic risk taking.

One economic issue related to this article is that of marginal cost versus marginal benefit, presented in chapter 1, page 10 under "Choosing at the Margin." Workers will only take advantage of government employment if the marginal benefit of doing so is greater than or equal to marginal cost. Because the government offers low pay for difficult work, marginal cost of participation is greater than marginal benefit for many skilled workers who can earn more money doing easier or more efficient private work. Thus, the government limits the number of people accepting its work.

A tradeoff, discussed in lecture January 21: III. Economic Way of Thinking, is seen in that the government has three desires for its program, but can fulfill at most two. To implement its program efficiently, the government must determine the best tradeoff among these goals.

A final economic insight regards self-interest versus social interest, discussed in lecture January 21: II. Two Big Economic Questions. The Indian government wants to promote the social interest through its employment plan. But to do so, it may need to disregard its self-interest by overlooking concerns about its budget deficit. If the deficit is not cut, however, the government may be unable to fund this and other programs. For this government, acting in self-interest by reducing the deficit might help the social interest more than immediate employment programs.

Word Count: 342 according to Microsoft Works