Job Growth Jugglery

What is the issue?

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- There has merely been an increased formalisation in the economy and employment generation hasn't really improved.
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- Mere shift of informal jobs to the formal sector won't end unemployment.
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Are government's tall claims on job creation substantiated?

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- Based on the increase in registration under pension and Provident Fund schemes, it was claimed that 7 million new jobs have been created.
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- Niti Aayog has also stated that 36 million jobs have perhaps been created by the MUDRA Scheme for boosting self-employment.
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- But these runs counter to the impression that the shocks of demonetisation and implementation of GST resulted in the loss of many jobs.
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- There were also reports workers migrating from urban to rural areas to seek employment under MGNREGS due to lack of jobs.
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- Hence, it needs to be recognized mere spike in formal employment doesn't been that there has been a net increase in jobs.
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- For instance, cab aggregators like Ola and Uber have created formal jobs - but this has put auto drivers out of jobs – which is hence a mere replacement.
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What are the inconsistencies?

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- 7 million new jobs on a base of about 50 million in the formal sector would represent a growth of 14%.
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- But such a steep increase is unlikely in the backdrop of demonetisation and GST – both of which caused considerable teething troubles.
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- If the rate of job creation was true, then the total jobs available would double in 5 years and there would be literally no unemployment.
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- **MUDRA Scheme -** It is estimated that about 12 million people are currently potential job seekers in the unskilled segments of the economy.
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- The huge expansion of jobs under MUDRA Scheme (as claimed) is unlikely as the average size of the loan under this scheme is just Rs 45,000.
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- An average micro unit employs 2 persons and has a capital of Rs 25 lakhs.
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- Hence, MUDRA loans might help to bolster the capital base of businesses but will do little to create new jobs.
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What explains the spike in 'Employee Provident Fund' registrations?

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- Earlier, firms that had more than 20 workers were required to register under 'Employee Provident Fund', but this was recently changed to 20 workers.
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- Since there are many firms in India that employ between 10 and 20 people, there has been a spike in registrations for Provident Fund schemes.
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- Hence, this is just a definitional shift from informal to formal employment and does not represent an increase in total employment.
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- **Incentives -** The government has been encouraging enrolment in the Employee Provident Find since the last three years.
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- It has offered concessions like, "Contribution of 8.33% of Employee Provident Fund (EPF) for new employees by the Government for three years".
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- Other concessions include, “additional deduction to the employers of 30% of the wages paid for new employees under the Income Tax Act”.
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- **Misuse -** The concessions have made it highly profitable to the firms to employ new employees and register them under EPF.
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- As the private sector is increasingly hiring labourers on contract, it is also possible that such labourers are fraudulently being registered for EPF.
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- Since the concessions are for new employees, it is possible that the older employees are being replaced by newer ones and being enrolled.
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- Notably, older employees remain on the EPF rolls even if they don’t have a job currently, which would therefore show a spike in registrations.
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Source: Indian Express

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