'Towards a Payroll Reporting in India' Report

What is the issue?

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- A report titled “Towards a Payroll Reporting in India” was released recently, to have a better payroll reporting system in India.
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- The overt claims made by the study on the country's job creation scenario call for a relook.
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What was the report on?

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- The study was authored by SBI group Chief Economic Advisor and a professor with the Indian Institute of Management, Bangalore.
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- It calculated the number of jobs in enterprises from the membership of:
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i. Employees' Provident Fund Organisation (EPFO)
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ii. Employees' State Insurance Corporation
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iii. General Provident Fund
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iv. National Pension System (NPS)
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- This is notably the first study to estimate job creation using these kinds of data sets.
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What are the key findings?

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- **Job Creation** - As per EPFO data, 55 lakh new jobs would be created in 2017-18.
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- It has found that around 600,000 jobs were being created a month in formal sector in FY18.
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- The study found that there were around 90 million employed people in the formal sector as of March 2017.
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- The top 10 sectors of the economy contribute about 75% of total employment in the formal sector in India.
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- **Labour Force** - The study estimated that around 15 million are added to the labour force every year.
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- It says by 2040 or so, it is expected that India's demographic dividend will be conclusively over.
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- Evidently, the total fertility rate is already down to 2.2 children for every woman and expected to reach the replacement fertility rate of 2.1 by 2025. (Refer Quick Fact below for explanation)
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What are the suggestions made?

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- The study suggests the government to undertake a trend analysis of EPFO data across 190 industries and across geographies.
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- This is to reorient the country's skill development programmes towards such industries.
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- Also, a detailed analysis of labour on contract under the contract labour Act

should be done to estimate the total number of people on contract.
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- The other suggestions include:
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- Mandating professional bodies, hospitals, nursing homes, etc to submit details of new joinees every 3 months to the local government offices
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- Making every GST filer to provide total number of permanent employees and total number of contract employees
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- Giving some tax deduction (per person) for domestic help, if the employing households register the details with tax authorities
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- Continuing with NPS subscriber extra tax deductions and providing new incentives to encourage people to join NPS
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What are the flaws in the study?

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- **EPFO data** - The study took into account the 18-25-year-old who registered with the EPFO to arrive at the 55 lakh new jobs number.
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- This however does not automatically mean net new jobs.
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- Also, EPFO only registers employees from the formal sector for provident fund benefits.
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- Moreover, EPFO does not make deletions if a person loses his/her job and only makes additions on new registrations.
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- This highlights that the EPFO data reflects the gross jobs picture and not the supposed to be net new jobs in the economy.
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- **DeMo/GST** - The Indian economy underwent large-scale formalisation forced by the twin forces of demonetisation and GST.
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- The fund crunch doe to demonetisation and tax credits claimable only by registered business entities under GST were the reasons.
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- It coerced many small and medium businesses to transition at least a part of their workforce from informal to formal employment.

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- This formalisation led to a massive drive in EPFO registrations.
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- However, it is to be noted that an informal job that turns formal with an EPFO registration does not mean it is a new job.
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- The costs of formalisation may have resulted in many firms cutting costs or even shutting down, actually leading to some job loss.
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- However, the EPFO-based study fails to capture these costs of forced formalisation and projects only the new formal employees.
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- In all, the selective projections of 'EPFO' data for the selective period of 'FY-2017 and FY-2018', bearing many effects of the structural changes in the economy, seem to be misleading.
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- India’s jobs situation is a grim challenge that must be acknowledged by understanding the true picture, for formulating appropriate policies.
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Source: Business Standard, the Hindu

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Quick Fact

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Fertility Rate and Demographic dividend

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- FR is the average number of children per woman if she lives to the end of her child-bearing years.
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- The replacement fertility rate is the birth rate at which the population level remains constant, taking into account the mortality rate and other factors.
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- With fewer births each year, a country's young dependent population grows smaller in relation to working-age population.
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- This offers opportunities for rapid economic growth with more earning people and fewer dependent people to support for.
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- However, a fall in fertility below replacement levels signals moving towards the closure of demographic dividend phase.
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- In India, for another 25-plus years falling death rates will compensate for falling birth rates.
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- However, as per the study, by 2040 or so, it is expected that India's demographic dividend will be conclusively over.
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