



## EDITORIAL: INDIAN EXPRESS

**GENERAL STUDIES 3: ECONOMY**  
**TOPIC: LABOUR ISSUES**

**DATE: 16.12.2024**

### INDIA'S WAGE CHALLENGE HAS SHIFTED FROM CHRONIC TO IMMEDIATE — HERE'S WHAT TO DO

*Reversing our gaze by moving from a bird to a worm's eye policy view of the daily life of employers suggests private, productive, formal non-farm jobs that pay higher wages need digitising, decriminalising and rationalising regulatory cholesterol.*

#### Reversing the Gaze: Ironies of Economic Policy

- Amar Singh's 44-year diary, *Reversing the Gaze*, reflects the irony of an Indian serving in the British Army, revealing honest and personal insights.
- A similar irony exists in India's economic policy: despite a 100-fold increase in government spending (from Rs 1 lakh crore in 1991 to Rs 100 lakh crore now), farm employment has not declined significantly.
- India's wage challenges have shifted from **chronic (long-term issues)** to **acute (immediate problems)**.
- A closer, "worm's eye" view of employers' daily struggles reveals that solving the wage problem requires improving private, productive, formal non-farm jobs.
- These jobs need three critical interventions: **digitising**, **decriminalising**, and **rationalising regulatory cholesterol** to allow businesses to thrive.

#### Global Wage Challenges and Context

- Wage stagnation is not unique to India; global changes in the nature of work contribute significantly:
  - **Manufacturing** now creates fewer jobs per rupee of investment due to automation and technology.
  - **Trade Backlash:** Rising tariffs and protectionist policies across nations have hurt export-driven jobs.
  - **Slowing Global Growth:** Aging populations and rising debt in developed economies have weakened long-term growth prospects.
- Redistribution policies face backlash in rich nations due to growing distrust in unelected power concentrated in:
  - **Universities, journalism, and central banks.**



- For example, the US Fed's balance sheet grew from \$1 trillion to \$9 trillion through quantitative easing, a policy many believe should not have been invented.
- Political examples include:
  - Argentinian President Javier Milei's declaration: "*My contempt for the state is infinite.*"
  - US President-elect Donald Trump's unrealistic promise to cut \$2 trillion from federal spending.
- **China's Approach:** The recent Party Plenum emphasizes protecting private enterprises by reducing arbitrary actions, selective enforcement, and frequent inspections.
  - A delegate metaphorically described this reform as *ding xin wan* or "chill pills," highlighting the need for a more relaxed and supportive regulatory environment.

## Understanding India's Wage Challenges: The Science Lens

- Economist Karthik Muralidharan, in *Accelerating India's Development*, emphasizes the need to understand wage challenges through the science lens:
  - **State:** Wages depend on geography. Karnataka and UP have the same GDP, but Karnataka achieves it with a population five times smaller.
  - **City:** If all Indians lived in Bangalore, India's GDP would surpass China's.
  - **Sector:** If India's workforce shifted entirely to the software sector, per capita GDP would exceed England's.
  - **Firm:** If all Indian firms matched TCS's productivity, India's per capita GDP would rival Germany's.
  - **Skills:** Minor skill enhancements significantly impact wages, e.g., a security guard trained as an office receptionist can double their earnings.
- The key focus areas for addressing these challenges include:
  - Promoting **urbanisation** to increase economic density.
  - Expanding **factories** to boost industrial employment.
  - Enhancing **financialisation** to improve access to credit.
  - Driving **formalisation** to reduce informal employment.
  - Investing in **human capital** to upskill the workforce.

## Engineering Solutions to Structural Constraints

- India's wage issues require pragmatic, engineering-based solutions that consider structural realities:



- **Agriculture:** Much of agricultural work is self-exploitation, not genuine self-employment. Farmers often earn far below subsistence levels.
- **Migration:** It is far easier to move people to jobs in urban areas than to bring jobs to poor and remote states.
- **Urban Infrastructure:** The average speed of cars in Bangalore is just 8 km/h, which is equivalent to walking speed, highlighting infrastructure bottlenecks.
- **Software Jobs:** Although the IT sector is booming, its workforce remains small (0.9% of the total labour force). Even if it doubles, it will remain a minor contributor to overall employment.
- **Skilling:** The focus should shift from “repairing” existing skills to **preparing** and **upgrading** workers for modern jobs.
- Nobel Prize winner Daniel Kahneman’s insights apply here: the instinct to “step on the accelerator” (i.e., push for growth) often fails because we don’t release the “brake” (regulatory hurdles).

## Tackling Regulatory Cholesterol: Rationalisation, Digitisation, Decriminalisation

- **Rationalisation:** Reforming India’s civil service is essential. Currently, India’s 25 million civil servants have transformed from being a “steel frame” to a “steel cage”, stifling business growth with restrictive regulations.
- **Digitisation:** Strengthening India’s **Digital Public Infrastructure (DPI)** is key:
  - Establish a **National Open Compliance Grid (NOCG)** to simplify compliance for employers through paperless, presence-less, and cashless processes.
  - Recent steps like the **Unique Enterprise Number (PAN 2.0)** and **Enterprise Digilocker** are strong foundations for this grid.
- **Decriminalisation:**
  - Jan Vishwas 1.0, aimed at reducing employer jail provisions, removed only 50 central government provisions due to flawed implementation.
  - Jan Vishwas 2.0 must adhere to **five clear criteria** for jail provisions:
    1. Only for physical harm to individuals.
    2. Only for intentional fraud against stakeholders (employees, shareholders, government).
    3. Only for societal externalities so large they cannot be compensated.
    4. Avoid vague general clauses that define crimes too broadly.
    5. Eliminate penalties for procedural infractions, delays, or minor errors.



- These reforms can eliminate nearly **half of the 5,000+ central government jail provisions** and set a precedent for state-level reforms (20,000+ provisions).

## Positive Outcomes of Reform

- Reducing regulatory cholesterol will:
  - Improve **teamwork** between the government, private sector, and civil society to foster economic growth.
  - Enable **policy risk-taking**, such as labour law reforms and handing over agriculture pricing decisions to state governments.
  - Encourage **long-term planning**, shifting from a series of short-term fixes (25 yearly plans) to a genuine 25-year vision.

## Aligning Execution with Ideas

- The Greek historian Thucydides warned that societies suffer when there's a gap between thinkers and doers—"fools fight while cowards think."
- Real reforms align **ideas** (policy vision) with **execution** (on-ground implementation).

## Conclusion: A Practical Worm's Eye View

- India's wage challenges demand practical, micro-level policy changes focused on improving employers' daily realities.
- By simplifying regulations and supporting entrepreneurship, India can increase the number of productive, formal businesses.
- Echoing poet Faraz's words: "*Rather than lamenting the darkness of the night, it is better to light a candle for your share.*"
- Entrepreneurs and policymakers alike must take proactive steps toward solving systemic challenges instead of merely criticizing the status quo.

**Source:** <https://indianexpress.com/article/opinion/columns/indias-wage-challenge-has-shifted-from-chronic-to-immediate-heres-what-to-do-9726736/>

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