



EDITORIAL: INDIAN EXPRESS

GENERAL STUDIES 3: ECONOMY

DATE: 25.02.2025

TOPIC: EMPLOYMENT

Three flick-of-a-pen reforms chief ministers can make to put India on the path to prosperity

Reforming State-Level Employment Compliance in India

1. Importance of Reducing Compliance Burden

- State governments in India are urged to reduce the regulatory burden on employers.
- Simplification through **decriminalisation, digitisation, and rationalisation** can boost economic growth and job creation.
- These reforms are essential for attracting investments, fostering entrepreneurship, and improving high-wage employment opportunities.

2. The Role of Location in Wage Determination

How Geography Impacts Wages

- Historical evidence suggests **wages are determined more by location than by individual capability**.
- The country, state, city, and sector in which a person works greatly influence their economic prosperity.
- Higher wages are often linked to urban areas with industrial and service sector dominance.

Challenges Faced by Chief Ministers (CMs)

- **Long-term capacity building:** Investments in education, healthcare, and institutions take years to yield results.
- **Short-term solutions:** Legislative reforms that simplify compliance and reduce uncertainty can deliver **faster economic impact**.
- **Reducing bureaucratic inefficiencies** will create an investment-friendly ecosystem and accelerate employment generation.

3. Decriminalisation: Reducing the Fear of Punitive Regulations

Burden of Criminal Provisions on Employers

- India has **26,134 employer-related jail provisions**, creating fear and discouraging business growth.



- The **Jan Vishwas Bill** attempted to decriminalise employer-related offences but had **limited success**.
 - Removed only **110 out of 5,239 provisions** due to bureaucratic resistance.
 - Did not address key issues distinguishing **fraud, incompetence, and procedural errors**.

Framework for Rational Decriminalisation

CMs can implement a ‘reversing the gaze’ approach by retaining criminal provisions only in cases of:

1. **Physical harm to individuals** (e.g., workplace safety violations causing injury).
2. **Intentional fraud** against employees, shareholders, or government bodies.
3. **Severe societal harm** (e.g., threats to national security or environmental disasters).

Eliminating Unnecessary Criminal Provisions

- Criminal penalties should be **removed for procedural lapses** like delays in filing reports or documentation errors.
- If applied retroactively, these principles could **eliminate nearly 40% of employer-related criminal provisions**.
- Some states have taken **progressive steps**:
 - **Madhya Pradesh & Tamil Nadu** have initiated decriminalisation measures.
 - **Gujarat, Karnataka, and Odisha** are considering similar reforms.

4. Digitisation: Leveraging India’s Digital Public Infrastructure (DPI)

Why Digitisation is Crucial

- **65% of India’s 69,233 employer compliances** can be simplified through digital transformation.
- India’s **DPI (Digital Public Infrastructure)** has already revolutionised **vaccine certification, digital payments, and tax filings**.
- Expanding DPI principles into **employer compliance** can reduce bureaucratic delays and inefficiencies.

Key Digital Initiatives

1. **PAN 2.0 & EntityLocker**



- Aims to create **tamper-proof repositories** for employer-related documents.
- Ensures secure and transparent record-keeping, reducing redundant compliance requirements.

2. State Employer Compliance Grids (SECGs)

- Proposed as **state-level digital platforms** for employer compliance management.
- Would **enable paperless, presence-less, and cashless** processes for filing returns, licenses, and permissions.
- Helps in **real-time compliance tracking** by integrating scattered data sources.
- **Gujarat, Maharashtra, and Andhra Pradesh** are considering SECGs.
- These systems can be **operational within 180 days**, significantly reducing compliance burdens.

5. Rationalisation: Simplifying Bureaucratic Structures

The Problem of Bureaucratic Overreach

- India's **civil service, originally envisioned as a 'steel frame,' has become a 'steel cage'** due to excessive regulations.
- **Example:** Uttar Pradesh has **72 government departments**, leading to **overlapping regulations and inefficiencies**.
- Comparatively, **Japan, the UK, and the US** operate with **far fewer government departments** while maintaining efficiency.

Need for Governance Streamlining

- **Current issues:**
 - Complex regulatory environments where actions are **prohibited unless explicitly permitted**.
 - Employers are often **presumed guilty until proven innocent**, discouraging investment.
- **Solution:**
 - Reduce excessive government departments.
 - Simplify compliance procedures to create an **entrepreneur-friendly ecosystem**.



- Promote accountability and growth through **leaner bureaucratic structures**.

6. Localised Labour Market Reforms and Economic Growth

Why Labour Market Reforms Should be State-Specific

- Economic systems depend heavily on **social and political contexts**.
- **PM Modi has emphasized** that **state governments play a bigger role than the Centre in shaping labour markets**.
- Local conditions impact **business environments, job creation, and industrial growth**.

Challenges of India's Labour Market

India faces a unique problem of "**employed poverty**," where jobs exist but wages remain low. This is due to:

1. **Over-reliance on agriculture:** Too many workers in low-productivity farming jobs.
2. **Excessive self-employment:** Many individuals turn to low-paying self-employment due to lack of formal job opportunities.
3. **Scarcity of mid-sized cities and megacities:** Urbanisation has not kept pace with economic needs.
4. **Inadequate factory-based employment:** Large-scale industrial jobs that offer high wages are limited.
5. **Lack of high-paying non-farm employment:** There are **few mid-sized enterprises** that can absorb workers into well-paying jobs.

Need for State-Specific Strategies

- **Different states have different employment challenges:** Solutions in Maharashtra or Gujarat may not work for Bihar or Odisha.
- **Labour laws should be flexible to accommodate state-specific economic structures.**
- **Encouraging factory-based employment, industrial hubs, and service sector expansion** can help **reduce employed poverty**.

7. Conclusion: Prioritising Removal of Barriers Over Aggressive Interventions

- Nobel laureate **Daniel Kahneman's insight applies to employment reforms:**
 - "We instinctively step on the accelerator to go faster, but get better results by taking our foot off the brake."



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- Instead of **new interventions**, governments should focus on **removing obstacles that hinder economic activity**.
- **Three key areas for immediate action:**
 1. **Decriminalisation:** Remove unnecessary criminal penalties that discourage businesses.
 2. **Digitisation:** Leverage technology to simplify compliance and reduce paperwork.
 3. **Rationalisation:** Streamline bureaucracy to encourage economic growth.
- These reforms will create an environment that supports **high-wage employment, reduces employer burdens, and accelerates economic growth** in India.

Source: <https://indianexpress.com/article/opinion/columns/three-flick-of-a-pen-reforms-chief-ministers-can-make-to-put-india-on-the-path-to-prosperity-9854485/>

