

ANNEXURE No. 8

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Extract from the Report of the Task Force on Employment Opportunities and**CHAPTER 8***Summary of Recommendations*

The strategy for employment generation recommended by the Task Force is based on intervention in five major areas:

- Accelerating the rate of growth of GDP, with a particular emphasis on sectors likely to ensure the spread of income to the low income segments of the labour force.
- Pursuing appropriate sectoral policies in individual sectors which are particularly important for employment generation. These sector level policies must be broadly consistent with the overall objective of accelerating GDP growth.
- Implementing focused special programmes for creating additional employment of enhancing income generation from existing activities aimed at helping vulnerable groups that may not be sufficiently benefited by the more general growth promoting policies.
- Pursuing suitable policies for education and skill development, which would upgrade the quality of the labour force and make it capable of supporting a growth process which generates high quality jobs.
- Ensuring that the policy and legal environment governing the labour market encourages labour absorption, especially in the organized sector.

The individual recommendations for action in each of these areas presented in Chapters 3 to 7 are summarised below:

1. Policies for Accelerating Growth

2. Continuation of economic growth at an average of about 6.5% will not yield a significant improvement in the employment situation, especially the extent of open unemployment. The expected annual addition to the labour force is about 8.7 million per year over the next ten years. We need to accelerate GDP growth to a range between 8% and 9% to achieve our objective of generating enough additional employment to provide productive employment opportunities for the expansion and to ensure a sufficient tightening of labour markets in general to improve the quality of existing employment.

Increasing Aggregate Investment

3. To accelerate GDP growth to 8% and more requires a combination of a substantial increase in the rate of investment and an increase in efficiency of capital use (i.e., a reduction in ICORs). The rate of investment will have to be raised by at least 4.5 percentage points of GDP. This has to be financed by some combination of an increase in domestic savings and an increase in the foreign resource inflow.

4. Expanded levels of foreign direct investment could yield an additional 1.5 percentage points of GDP. The remaining 3 percentage points of GDP would have come from increased domestic savings. Since public sector savings have deteriorated by this amount over the 1990s an increase in public sector savings of this order must be attempted.

5. The proposed improvement in public savings will require concerted efforts at reducing the revenue deficit in both the Centre and the States. This will require action on improving tax revenue realisation, reducing subsidies and raising user charges, trimming the government bureaucracy and eliminating losses in public sector enterprises by closing down loss making public sector enterprises or handling them over to the private sector. These are difficult decisions but we cannot expect the increase required in public savings if action is not taken.

6. The fiscal measures described above can be expected to have a negative effect on private savings as a percentage of GDP because they will reduce private disposable income but private consumption may not fall by the same amount. Private savings are therefore likely to be lower than they otherwise would be. Special efforts will therefore be needed to ensure that the private savings rate is maintained as a percentage of GDP, which implies an increase in private savings as a percentage of disposable income. It is particularly important to encourage long term contractual savings by the household sector. Reforms in the insurance sector are particularly important for this purpose.

Increasing Efficiency

7. The proposed acceleration in GDP growth cannot be achieved by the increase in investment envisaged above unless efficiency in all sectors is simultaneously increased. The most effective instrument to ensure efficiency is competition, which in today's world must be both domestic and international.

8. The reforms implemented since 1991 have created an environment where competition is much free. However the process is still incomplete and needs to be extended to many sectors where controls are still extensive e.g. sugar, pharmaceuticals, dairying, coal mining etc.

9. The progress made thus far in opening the economy to international competition is commendable but it remains incomplete because of relatively high import tariffs. The process must be carried to its logical conclusion to achieve the stated target of lowering our import tariffs to the levels prevailing in East Asia over a three year period. The phased plan for tariff reduction promised in the Budget Speech should be released for discussion by September 2001.

Infrastructure Development

10. The state of our infrastructure is a critical constraint on our ability to achieve faster GDP growth. Our rural areas lack basic economic and social infrastructure for agricultural and other rural development e.g. a well functioning system for irrigation and water management and conservation, rural roads to provide basic connectivity, a reliable extension service to disseminate best agricultural practices, and adequate and reliable supply of electric power. Most of the infrastructure development in rural areas will have to come from the public sector and is therefore critically dependent on improvements in the fiscal position, especially of the States.

11. Infrastructure for the rest of the economy including power, roads, ports, railways and telecommunication also needs massive improvement to support 8% growth. It is possible to attract private investment in some of these areas. Given the severe resource constraints in the public sector, it is essential to evolve policies which will encourage public-private partnership in these areas. However the difficulty in devising the right policy framework for attracting private investment should not be underestimated.

Finance and Banking

12. The development of a strong financial sector, encompassing both commercial banking and the capital markets, is a critical pre-condition for achieving rapid growth. The cost of credit from the banking system is still quite high with real interest rates varying between 6% and 10%. Much of this is not due to the inefficiency of intermediation but because of the high rates which banks have to pay for mobilizing deposits. This reflects the pressure on domestic interest rates arising from the high fiscal deficit and reduction in the fiscal deficit is therefore essential to move to lower interest rates.

13. There is also considerable room for improving the efficiency of the banking system. Competition among all categories of banks, including public sector banks, Indian private sector banks and foreign banks will lead to an improvement in the quality of banking sector services and this competition needs to be encouraged by following suitably liberal bank licensing policies which will allow qualified private banks (Indian and foreign) to expand their presence.

14. The banking system does not effectively service the needs of the informal sector and yet this sector is expected to provide much of the expansion in employment expected over the next ten years. Banking practices and procedures need to be reviewed to enable banks to adopt a more pro-active approach to lending for economically viable activities in the informal sector. The cooperative credit structure can play a major role in extending credit to the informal sector. This structure has become very weak in most States and there is an urgent need to strengthen the cooperative credit system. This may require legislative changes, which would free cooperatives from what at present is pervasive government control.

15. An important mechanism through which banks can meet the credit of the informal sector is by financing self-help groups (SHGs), which provide micro-credit for informal sector activities. Significant progress has been made in this area in recent years and the effort needs to be extended.

2. Sectoral Policies for Employment Promotion

Agriculture and Allied Activities

16. There is an urgent need to increase public investment in agriculture especially in irrigation and water management. The ability to do so is severely constrained by resource availability at the state level. Part of the solution lies in bringing about a general improvement in the resources position of the States. However, this can be supplemented by restructuring the existing allocation of resources to agriculture by reducing subsidies and increasing user charges, (e.g. in power, irrigation and fertiliser) and devoting the resources thus mobilised to increasing public investment in this sector.

17. There is an urgent need to extend the benefit of decontrol to agriculture.

- The Essential Commodities Act should be repealed.
- Restrictions on marketing of agricultural produce through Agricultural Produce Marketing Committee (APMC) should be removed as they act as an impediment to development of a national market.
- Forward trading should be allowed in agricultural products.

18. Present laws regarding leasing of land should be liberalised to allow marginal land owners to lease out land to others to create operationally viable holdings. Degraded and wasteland, after detailed delimitation, can be taken out of the purview of tenancy laws and agro-companies allowed to buy, develop, cultivate and sell this land.

19. Agricultural exports are typically labour intensive, and their potential has not been adequately exploited in the past. Steps are needed to increase agricultural exports to support the diversification of agriculture, which is an important element in achieving faster agricultural growth in future. Export controls on agricultural products should be abolished and other instruments used to achieve domestic price objectives which are sought to be achieved through export controls.

Food Processing

20. Development of this sector is an ideal way to diversify the rural economy and expand high quality employment in non-agricultural sector. The generalised improvements in infrastructure such as assured electric power in rural areas, better road connectivity etc., discussed earlier will help this sector. In addition, the following sector specific policy initiatives are required.

- (i) The active involvement of larger industrial units, including MNCs and cooperatives where possible is essential. This is because successful food processing requires establishment of a chain from marketing at the one end to farming at the other. Major national and international food processing companies should be approached to ascertain the nature of the problems which limit their activities at present.
- (ii) There is a multiplicity of regulations related to food processing which needs to be integrated into a single Food Act and a single Food Regulatory Authority.
- (iii) An urgent review of the Prevention of Food Adulteration Act is required as its administration is extremely restrictive to the growth of this sector.
- (iv) Government should focus on R&D, information dissemination and development of rural industrial estates like food parks.

Small Scale Industry

21. SSI is an important source of employment as well as an important incubator for entrepreneurship. However, the objective of healthy development of this sector at this stage requires a shift in policy from protection to promotion. Some of the general policy measures needed for faster growth especially improvement in infrastructure, banking services or labour law reforms are crucial for the development of the small scale sector. In addition, the following policy support measures are especially important:

- (i) The benefits currently given to Small Scale Industries should be extended to small scale enterprises in non-industrial sector, including those in services.

- (ii) Government should provide resources aimed at upgrading infrastructure for industry clusters where there is sufficient agglomeration of SSI units. A Centrally sponsored scheme for this purpose could be considered.
- (iii) State Governments must take concerted steps in consultation with industry representatives, to reduce the burden of inspector raj on small scale enterprises.

22. The policy of reservation for SSI production only cannot be sustained in the face of the new import regime and the proposed lowering of tariffs. It is, therefore, necessary to implement a phased process of dereservation which can be completed over the next four years. A scheme for such a phased dereservation is outlined in para 4.33 of the Report.

Employment in Services Sector

23. Almost 70% of the total employment opportunities generated over the next ten years is likely to be in the services sector. Some of the sector policy issues which constrain growth of services in critical sectors where growth could lead to faster growth in employment and improvement in the quality of employment are mentioned below in brief.

Travel and Tourism

24. India's potential for both domestic and international tourism is greatly under-utilised. Expansion in international tourism could contribute a substantial expansion in high quality employment opportunities in the years ahead. The following policy initiatives are especially important from the point of view of developing tourism:

- (i) Hotel room capacity in major Indian tourist centres (especially of the mid-price variety) is not adequate to support an expanded flow of tourists. Local authorities must take steps to earmark available land for hotel construction and expedite grant of necessary permissions for setting up of good quality hotels with reasonable price.
- (ii) Existing policy on bilateral air agreements needs to be urgently reviewed to ensure sufficient expansion in airline seat capacity to India. This capacity should not be limited by Air India's inability to utilise its bilateral rights.
- (iii) Combined effects of luxury tax and expenditure tax on hotels makes Indian hotels unduly expensive. These taxes need to be moderated.
- (iv) Visa regime needs to be liberalised to allow tourists to obtain a tourist visa on arrival at the airport, as is the practice in many important tourist destinations.

Information Technology

25. Information Technology holds out very promising prospects for creation of high quality employment for skilled workers in software development and in a wide range of IT enabled services. The current slowdown in the IT sector is a negative short term development, but it should not weigh too heavily in evaluating medium term prospects. Government policy must give high priority to ensure that the environment facing this sector remains conducive to growth. High quality telecommunications and domestic and international connectivity with adequate band width is critical.

26. The government should continuously monitor developments in this sector and especially our performance against those of our emerging competitors internationally, to identify constraints in our competitiveness and the need for policy modifications if any.

Housing and Real Estate Development and Construction

27. Real Estate development, because of the construction activity it involves, is one of the most labour using sectors and can generate a large number of work opportunities. However, laws governing land development and rent control have pushed the market underground and restricted growth of this sector. The repeal of the urban land ceiling Act is a welcome step. However, State Governments must also follow the action of Central Government to free the land market. The Rent Control Act constitutes another major disincentive to construction of property for rent. Repeal of this Act is likely to unleash a construction boom.

28. The basic legislative steps mentioned above, would have to be accompanied by other policy reforms such as:

- (i) Ending the monopoly of urban development authorities like DDA over city land.
- (ii) Freedom of conversion of rural land into urban usage.
- (iii) Laws to facilitate private development of townships and Estates.
- (iv) Reduction in Stamp duty on transfer of property.
- (v) In the construction sector, present bias against large construction firms should be removed.

Road Transport

29. The road transport sector, at present, is dominated by small operators. This is a sector where considerable economies of scale exist. Emergence of modern and large transport companies will not only improve the efficiency of the sector but also provide better working conditions to the workers in this sector and in associated road side activities like repair services and hotels etc.

30. Development of high quality roads and establishment of mechanised truck terminals are necessary to make this possible. Also, the system of granting licenses and permits by State governments and the tax system to which road transport is subjected to needs to be reviewed as these militate against the development of an organised trucking industry.

Distributive Trade

31. Retail trade in India is characterised by small establishments and modernising retail trade involving large department stores is often considered detrimental to the employment objective. This may not be necessarily true the switch to modern retailing will certainly improve the quality of employment in the sector. It will also help to develop effective supply chains linking producers with potential consumers and provide quick feedback to producers on consumer tastes. This can bring many potential producers into the market without having to worry about marketing their output.

32. Distorted rental markets, ban on FDI in this sector and certain other regulations such as Essential Commodities Act have held back the development of modern retailing. Legislative changes in these areas recommended in the Reprot will help remove these barriers.

Education and Health Services

33. There is considerable scope for expansion of employment in provision of these services. Though much of the expansion is expected to come from public sector, there is also room to consider a combination of public and private sector. The experience of Kerala clearly demonstrates the role private sector can play in improving the reach of educational facilities. State Governments should encourage the role of private sector by replacing controls with a modern regulatory system that provides right atmosphere for private participation.

New Emerging Services

34. In addition to service sector activities discussed above, a host of new activities are likely to gain significance in future which will provide new opportunities for employment. An illustrative list of such services is given in the Appendix to chapter 4.

3. The Role of Special Employment Programmes

35. Special employment programmes play an important role in providing supplementary employment to vulnerable sections of the population, especially in the seasonal lean period in rural areas. This helps in mitigating extreme poverty, and also to keep rural to urban migration under check. We, therefore, recommend that these schemes should continue, but their limitations as revealed in numerous evaluation should also be appreciated.

36. The functioning of the self-employment component in the restructured SGSY programme needs to be re-oriented as much as possible towards programmes supporting self-help groups with the assistance of NGOs with a good track record. Until there is clear evidence that the traditional IRDP type assistance produces results, it may not be desirable to expand the resources devoted to these types of schemes.

37. In view of the likely expansion in educated new entrants in the labour force in future, and the fact that self-employment has to play a major role in providing employment opportunities for this group, an expansion of PMRY scheme is desirable. However the provision of subsidy in such schemes is much less important than is generally made out. What is essential is that credit should be available to finance viable projects and that there should be effective means of training and providing advice on technology and marketing.

38. The KVIC programme needs to be restructured. The khadi programmes suffers from some basic infirmities; costs are high and the product at the lower end of the quality range is not able to compete with mill-produced fabric available in the market. The village industries component however appears to have better prospects.

39. The recently launched REGP programme of KVIC, which is operated through the commercial banks, benefits from better financial supervision, and the production units are managed by entrepreneurs, as distinct from social workers. It therefore promises to offer a higher level of earnings per worker than in the erstwhile form of the KVIC programme. However, an objective evaluation of performance will be possible only after 2 to 3 years.

40. Wage employment programmes should be focussed as much as possible on maximizing the development impact on rural areas through the creation of durable assets in the area of economic and social infrastructure. The restructuring of JGSY to give primacy to the creation of durable assets is therefore a step in the right direction. There is an urgent need to invest in such infrastructure, as the existing deficiencies in infrastructure especially in rural areas are glaring, and given the scarcity of resources it is desirable to use available resources for such investment even if the direct employment created is slightly lower. We would also recommend that in view of the fact that EAS has been universalized to all districts, there is merit in merging the EAS and the JGSY into a single employment programme in which funds devolve to panchayats.

41. Our ability to expand the total volume of resources devoted to special employment programmes in the years ahead will be limited because resources are severely constrained and there are several other demands on the system. Besides, a large expansion of the size of these programmes is difficult to justify given the mixed experience thus far. We would recommend that an independent assessment of the impact of these programmes as recently restructured should be commissioned by the Planning Commission before there is any increase in total resource allocation. Pending such a review, the total resources devoted to these programmes should be held constant at current levels though resources could be shifted from programmes perceived to be less effective to those perceived to be non effective on the basis of current monitoring and evaluations.

4. Labour Force Skills and Training

42. The system of specialised higher technical education needs to be strengthened if our technical manpower is to avail of the opportunities in the international labour market. IITs have demonstrated the capability of our manpower, if screened properly and then trained. IITs should be established in the each state. A role of private sector should be provided. Restrictions in the existing policy on charging of fees should be removed.

43. The present system of vocational training is inadequate to meet the skill requirements of rapid growth. A broad based effort is needed to reform the system. The existing ITI system will need to be restructured and additional resources provided to improve its output. Industry should be involved to a much greater extent in the management of ITIs and for this purpose selected ITIs chosen for joint management with industry should be converted into autonomous bodies receiving government funds with a management structure in which industry representative can be formally inducted on the governing boards and the institutions are also given sufficient autonomy to become effectively board managed.

44. It is necessary to review the present policy whereby training in Government ITIs has traditionally been provided free. It may be desirable to allow ITIs to charge fees, at least for the more specialised courses. A case can also be made for considering a small levy on companies to be contributed to a skill development fund which could be used to fund ITIs. The coverage of the levy, its amount and guidelines for the use of the fund would have to be worked out. To make industry perceive the benefits of the fund, 2/3rd of the collection in each district should be used to fund ITIs in the district. Industry associations should also have a voice in deciding allocations.

45. A Centrally sponsored scheme or an aid institution like the UGC should be set up for the ITI's. Barring certain exceptions, the ITI's have a physical environment,

which is much inferior to the engineering college, diploma awarding polytechnics and the medical colleges. For the latter, there are UGC type schemes for up-gradation of buildings and equipments and even to run special training courses. Some parallel mechanism is needed for ITIs.

46. The problem of lack of demand for vocational training relative to higher level education, could be mitigated if graduates of ITIs and other vocational training institutions are eligible for entry into polytechnics and +2 level medical and engineering courses. Entry criteria and course curriculum should be redesigned for this purpose.

47. Development of entrepreneurship skills among the new self employed required "Mentors". Under the CIIs entrepreneurship development project viz., Bhartiya Yua Shakti Trust, the loan recovery rate is 94%, indicating strong economic viability. Such experiments need to be replicated on a much larger scale.

48. All enterprise, irrespective of size and status, small industries and tiny enterprises should be brought under the purview of Apprentices Act. However the payment of stipend to apprentices taken in by small establishments should be voluntary, and not mandatory, under the Apprentices Act. The law should also been amended to remove any obligation to provide employment to apprentices or even to give them preference.

49. The Department of Technical Education should be restructured to focus on vocational education and vocational training. A parallel institution is needed in State Governments to focus on vocational education in schools. At State Government level, Vocational Education, Vocational Training and Technical Education should be the responsibility of a single Department.

50. Private sector involvement in training has been discouraged because of highly subsidized training services provided by the public sector. There is also an undesirable nexus between public owned training delivery institutions and placement for jobs in public sector, excessive regulation in extending recognition to the institutions. This should change.

51. The Central Government should completely withdraw from delivery of vocational training services. It should foster autonomous professional bodies that give recognition to training institutes by declaring them as eligible training providers. The Government's role should be one of monitoring the institutions that set up standards of training, and evaluating and assigning rating to the private training establishments.

5. Reform of Labour Laws

52. India's labour laws have evolved in a manner which has greatly reduced the flexibility available to employers to adjust the labour force in the light of changing economic circumstances. In a globalised world, persisting with labour laws that are much more rigid than those prevailing in other countries only makes us uncompetitive not only in export markets but also in domestic markets. Some changes in the laws are therefore necessary if we want to see rapid growth.

53. The most important change needed is to abolish the requirement of prior permission of government for retrenchment, lay-offs or closure by deleting Chapter VB from the Industrial Disputes Act. This would restore the position to that prevailing prior to 1976. As a balancing measure, to improve protection of labour, the retrenchment

compensation should be increased from 1/2 months pay per year of service to one months pay per year of service. This was recommended in 1992 by the Inter-Ministerial Working Group on Industrial Restructing and subsequently also by the Committee on Industrial Sickness (1993).

54. The following other changes are also recommended:

- The provisions regarding dismissal after due process need to be streamlined. Section 11A of the Industrial Disputes Act which allows labour courts, Industrial Tribunals to interpose the state in matters that are best left to established internal processes.
- A system of short term employment contracts should be introduced under which workers hired on contract basis can be terminated at the end of the contract period without scope for dispute. In order to avoid legal challenge to this arrangement on the grounds of equal treatment with permanent labour doing the same job, provisions can be made for paying such labour a premium over the normal wage.
- The Industrial Disputes Act should be amended to make a reasonable notice mandatory in all cases. It would also be desirable to introduce the system of "strike ballot" whereby a strike can be called only if it is supported by a qualifying majority of the workers.
- At present there is no time limit for filing disputes under the Industrial Disputes Act. This encourages piling up of old disputes leading to delays in courts. A time limit of 3 years should be stipulated within which a dispute could be referred for adjudication.
- The Contract Labour (Regulation and Abolition) Act needs to be suitably amended to allow all peripheral activities to be freely outsourced from specialised firms, even if its means employees of the specailised firms provide the services on the premises of the outsourcing units.