Investing in Human Capital

Why in news?

Sometime in April 2023, it is estimated that India's 1.43 billion people will exceed China's population. This milestone is bittersweet.

Why is this milestone bittersweet?

- Sweet because we have more than doubled the horrible 31-year life expectancy the British left us with in 1947, without brutal freedom-destroying state interventions like China's one-child policy.
- Bitter because mass prosperity for massive populations is hard.

For what strong case is made?

- India's large remittances from a small population overseas reinforce that our mass prosperity strategy should be human capital and formal jobs.
- A strong case for human capital-driven productivity is our **software employment** - 0.8% of workers generate 8% of GDP.
- This case is reinforced by remittances from our overseas population of less than 2% of our resident population crossing $100 billion last year.
- **Remittance level** - A World Bank report suggests that there is a significant qualitative shift during the previous 5 years,
    1. from low-skilled, informal employment in Gulf countries (share of Saudi Arabia, the UAE, Kuwait, Oman, and Qatar dropped from 54% to 28%)
    2. to high-skilled formal jobs in high-income countries (share of the US, UK, and Singapore increased from 26% to 36%).
- In 2022, the US replaced the UAE as the single biggest source country with 23% of remittances.
- India's rich forex remittance harvest, which is 25% higher than FDI and 25% less than software exports, is the fruit from the tree of human capital and formal jobs.

What could the government do?

> *Global experience suggests where governments spend money (pensions, interest, salaries, education, healthcare, etc) and how this spending is financed (taxes or debt) matters more than how much is spent.*

- The Union budget in February 2023 will renew the reform agenda.
- The Finance Bill must target productivity and continuity by legislating human capital and formal job reforms previously proposed.

- It should reduce the implementation path for the National Education Policy 2020 from 15 years to 5 years.
- It should abolish separate licensing requirements for online degrees and freely allow all accredited universities to launch online learning.
- It should accelerate growing our 0.5 million apprentices to 10 million by allowing all universities to launch degree apprentice courses under tripartite contracts with employers under the Apprentices Act.
- It should notify the four labour codes for all central-list industries while appointing a tripartite committee to converge them into one labour code by the next budget.
- It should continue Ease of Doing Business (EODB) reforms by designating every enterprise's PAN number as its Universal Enterprise Number.
- It should explode manufacturing employment by abolishing the Factories Act and require all employers to comply under each state's Shops and Establishment Act (like Infosys, TCS, and IBM India do).
- It should create a non-profit corporation (like NPCI in payments) that will operate an API-driven National Employer Compliance Grid.
- This non-profit must enable central ministries and state governments to rationalise, digitise and decriminalise their employer compliances.
- The government should reduce the gap between the money numbers in employment letters and money received in hand by
    1. making employees' PF contributions optional and
    2. raising employer PF contributions from the current 12% to 13%.
- It should notify a previous budget announcement to create employee choice in their contributions to health insurance (ESIC or insurance companies) and pensions (EPFO or NPS).
- It should link all employer subsidies and tax incentives to high-wage employment creation (difficult-to-fudge & easy-to-measure effectiveness metric for this public spending is employer provident fund payment).

What is the comparison?

- India and China's per capita GDP was equal in 1991. But now, China's is 5 times higher.
- Unlike when China started serious reform in 1978, India today faces a more unfavourable global context of growth, manufacturing, and exports.
- Also, China's reforms were faster and crisper without the fixed costs of democracy. But this deficit led to their unchallenged policies of Cultural Revolution, one-child norm, and zero-Covid.
- India's cantankerous democracy is a strength.
- Experience and evidence now firmly suggest the odds of mass prosperity in India rise from possible to probable by anchoring our strategy in human capital and formal jobs rather than fiscal or monetary policy.

Reference

[Indian Express | With India crossing China's population next year, how we can create mass prosperity]