

A NEW SOCIAL CONTRACT

Relevant for: Indian Economy | Topic: Issues Related to Poverty, Inclusion, Employment & Sustainable Development

A well-known saying attributed to the Chinese sage Confucius is “may you live in interesting times”. What is less well known is that Confucius meant this as a curse — interesting times remove time for reflection and make us think about our baser instincts. We live in far too interesting a time: An unprecedented and worsening health crisis, and the knock-on effect of the worst economic performance in our independent history. So let us rise above Confucius and reflect on where we must be as a country when India turns 75 in 2022.

The Prime Minister, while addressing the Confederation of Indian Industry (CII) annual meeting this year, urged those present to think big and partner with the government in putting India on the path to growth. This is an important call. There is much that we can achieve if government and industry work towards the same objective, and in a spirit of mutual trust.

Employment is one such area. Over 85 per cent of employment in India is in the informal sector. An unplanned national lockdown halted economic activity and wiped out livelihoods, especially of informal workers. The Centre for Monitoring the Indian Economy (CMIE) estimates that between mid-March and mid-April, 120 million people lost their jobs, with unemployment rising to an all-time high of 27 per cent. Left with nothing, we saw reverse migration on an unprecedented scale — some 10 million people abandoned cities to return to their native villages. For a while, our media was full of discussion of the need to address some of our most chronic social problems.

In the last two months, things have improved. CMIE reports that unemployment is now down to around 9 per cent, and as economic activity has restarted in cities, labour has begun returning from villages. As things have returned to normal, the priority for addressing our most chronic social problems has reduced. We must not waste this crisis. There are three problems we must address: Labour regulation, living conditions for migrant labour in cities, and the strength of our rural economy.

Labour regulation must start with a clear-eyed recognition of facts: We have stringent labour laws to protect workers, but this covers only the formal sector — under 15 per cent of employment. This “labour aristocracy” has almost complete protection, and employers have almost no flexibility. The 85 per cent of our workforce who are informally employed, meanwhile, have almost no protection, and employers have almost complete flexibility. We need to address both ends of the labour spectrum to get the balance right between flexibility and protection for all labour. Everyone must have a minimum level of protection, and every employer a minimum level of flexibility. This calls for a new social contract to define a well-calibrated social security system. This huge project demands good faith and strong leadership by industry, labour and government. It will take years to get it right, but if we don’t fix our employment system now when this issue has achieved such prominence, we will always regret the missed opportunity.

Living conditions in our cities is the second challenge. For too long, we have been content to drive by slums where some of the people who clean our homes, deliver our goods, and repair our equipment live in squalor. How do we set in force a massive private home-building programme? It probably needs much more liberal land-use regulations — our cities have among the least generous floor-space indices (FSI) in the world. New York, Hong Kong, and Tokyo have an FSI five times Mumbai’s. If five times as many people can live in the same area, it would drastically reduce rents for quality housing in our cities. Again, this is a multi-year project,

and it involves state and city governments partnering with private developers. India is unique in having 70 per cent of our population still residing in rural areas. Seventy-three years after Independence, this is a statement of failed development. We must encourage the migration of people to higher productivity occupations in our cities. And we must ensure that clean, affordable and accessible housing is available for all in our cities. A massive project, again, with the scale that can get an economic recovery underway post-COVID.

Reverse migration is also an opportunity to collaborate in spreading the geography of development. We have long had policies aimed at getting firms to invest in less-developed districts and the current government has an ambitious goal of doubling farmer's incomes. But the gap between the richest (urban) and poorest (rural) districts in the country still keeps growing. We need a three-pronged approach: First, as Ashok Gulati has often argued, the easiest way to grow farmer incomes is by having them grow more value-added crops. Fruits and vegetables have great export potential, and exports must be consistently encouraged and not switched on and off as domestic prices change. And the cultivation of palm plantations has the potential for huge import substitution, but, as Gulati points out, we need corporate farming as the gestation period of seven years for the first crop is too much for the average farmer to handle. The Atmanirbhar agricultural reforms, which permit contract farming, and open up agricultural markets, are major medium-term reforms. Implemented right, they can transform agricultural markets. Second, we need to encourage agro-processing near the source. Fostering entrepreneurship in rural and semi-urban areas would combine nicely with local processing. And third, we need to invest even more massively in rural connectivity. Many years ago, the great sociologist Alex Inkeles was asked if there was only one thing that could be done to foster development, what would it be. His answer was to build roads which connect producers to markets, heads to knowledge, and people to each other. Today, we would add digital connectivity to road connectivity to level the playing field for all regardless of where they live.

This must be our programme of work: To fundamentally reform our labour markets, to attract people to our cities where we ensure healthy living conditions, and to create economic opportunities in rural India. The task is huge, and only collaboration between all levels of government (Union, state, and city) and our dynamic private sector can hope to make substantial progress. Let's use our unprecedented health and economic crisis to truly build a new social contract as our commitment to India@75.

The writer is former President CII, Chairman India@75 Foundation and co-Chairman of Forbes Marshall

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