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WELCOME MEASURE

Relevant for: Developmental Issues | Topic: Government policies & interventions for development in various Sectors and issues arising out of their design & implementation incl. Housing

In a welcome move, the Union government has announced a significant reduction in the contribution by workers and employers towards the employees' state insurance (ESI) scheme. From July 1, the overall contribution to ESI is slated to decline from 6.5 per cent to 4 per cent, with employers' contribution falling from 4.75 per cent to 3.25 per cent, and that of employees from 1.75 per cent to 0.75 per cent. This decision, which lowers the cost of hiring for employers, should be seen in conjunction with recent initiatives such as the Pradhan Mantri Rojgar Protsahan Yojna (PMRPY) that aim to boost the creation of formal jobs by lowering the costs associated with formalisation.

The ESI Act provides for medical care and cash benefits in case of contingencies to employees drawing a salary up to Rs 21,000 per month. It is one of the pillars of the social security architecture in the country. But, its current cost structure is prohibitive. A look at its accounts shows that the current levels of contribution far exceed the benefits disbursed by it — in fact, only around half of the contributions are paid out as benefits. For instance, in 2016-17, while total contributions stood at Rs 16,852 crore (including interest income of Rs 3,069 crore), total expenditure incurred for medical benefits was only a fraction at Rs 6,409 crore. This growing divergence between collections and disbursement has led to a substantial build up of its reserves. At the end of March 2018, its corpus stood at Rs 73,303 crore, up Rs 13,920 crore from last year. Between 2012 and 2017, it earned Rs 19,993 crore as interest income alone on this corpus. But this rise in income hasn't translated to greater benefits. As the standing committee on labour noted in a report last year, people continue to be deprived of the benefits of the ESI scheme "due to lack of coverage of ESIC scheme, poor functioning of hospitals, etc". This suggests that contributions can be substantially lowered, while maintaining benefits at current levels.

Prohibitive mandatory contributions such as the provident fund/employee state insurance tend to act as deterrents to formalisation. As the experience of PMRPY has shown, lowering these costs tends to have a positive impact on formalisation. In fact, much of the recent rise in the EPFO subscriber base is on account of PMRPY. Lowering costs further, or offering employees the choice of who handles their contributions, could accelerate the process further.

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