



DAILY EDITORIAL ANALYSIS

TOPIC

**ELI SCHEME: DEBUNKING THE
MYTH OF JOB CREATION**

www.nextias.com

ELI SCHEME: DEBUNKING THE MYTH OF JOB CREATION

Context

- Recently, the Union Government approved the **Employment Linked Incentive (ELI) Scheme** to support employment generation. However, it raises concerns regarding its design, target population, and its potential to reinforce, rather than reduce, existing labour market inequalities.

Brief About Employment Linked Incentive (ELI) Scheme

- Target:** Creation of over 3.5 crore jobs across sectors, with a special focus on manufacturing.
- Total Outlay:** ₹99,446 crore;
 - It is part of a **broader ₹2 lakh crore package** announced in the **Union Budget 2024–25** to support employment, skilling, and entrepreneurship for **over 4.1 crore youth**.
- It is administered by the **Ministry of Labour & Employment** and **coordinated with EPFO** for tracking and disbursement.
- Objectives of the ELI Scheme:**
 - Boost employment generation across all sectors;
 - Enhance employability of youth;
 - Extend social security coverage;
 - Incentivize formal job creation, especially in manufacturing;

Structure of the ELI Scheme

- Part A: Incentives for First-Time Employees:**
 - Eligibility:** First-time employees registered with EPFO;
 - Benefit:** One month's EPF wage (up to ₹15,000), paid in two installments:
 - 1st installment after 6 months of service;
 - 2nd installment after 12 months and completion of a financial literacy program;
 - Savings Component:** A portion of the incentive will be deposited in a savings instrument, accessible after a fixed period;
 - Target Beneficiaries:** 1.92 crore youth entering the workforce for the first time.
- Part B: Incentives for Employers:**
 - Eligibility:** Employers hiring additional employees with salaries up to ₹1 lakh;
 - Benefit:** Up to ₹3,000 per month per employee for 2 years;
 - Extended Incentives:** For the manufacturing sector, benefits continue for 3rd and 4th years;
 - Condition:** Employment must be sustained for at least 6 months;

Expected Outcome

- Formalization of Workforce:** Encourages EPFO registration and social security coverage;
- Youth Empowerment:** Supports financial literacy and savings habits;
- Sectoral Growth:** Prioritizes manufacturing to stimulate industrial employment

Key Criticisms / Problems in ELI Scheme

- Employer-Centric Approach:** ELI Scheme channels fiscal incentives to employers — particularly in manufacturing — without adequately addressing the skill mismatch between available workers and industry demands.
 - It risks strengthening employer bargaining power and widening wage gaps, especially for low-skilled and informal workers.
- Capital-Labour Asymmetry:** ELI scheme may reinforce existing capital-labour imbalances, prioritising firm-level growth over equitable labour market outcomes, by mimicking capital subsidies.
- Skill Mismatch:** India's labour market problem extends beyond job scarcity to acute employability gaps:
 - Only 8.25%** of graduates work in jobs matching their qualifications.
 - Over 53%** of graduates and **36%** of postgraduates are underemployed.

- ◆ **Only 4.9%** of youth (15–29 years) have formal vocational training.
- **Wage Disparities:**
 - ◆ Just 4.2% of graduates in specialized roles earn ₹4–8 lakh annually.
 - ◆ Nearly 46% in low-skill jobs earn less than ₹1 lakh per year.
- **Exclusion of the Informal Sector:** The scheme favours firms registered with the EPFO, thereby excluding **90% of the workforce employed in the informal sector.**
 - ◆ It sidelines the majority of workers from benefits and risks **deepening the formal-informal divide.**
- **Risk of Disguised Unemployment:** The subsidy design may incentivise enterprises to reclassify existing jobs as 'new' to claim benefits, fostering disguised unemployment and low productivity—particularly in agriculture and informal services.
- **Sectoral Blind Spots:** Manufacturing receives disproportionate focus, despite its declining employment elasticity due to automation and capital intensity.
 - ◆ With **manufacturing contributing less than 13% of total employment**, this bias **neglects the 70% of workers in agriculture and services** — sectors where women, rural youth, and informal workers are concentrated.

Other Major Employment-Linked Schemes in India

- **Pradhan Mantri Rojgar Protsahan Yojana (PMRPY):** To promote formal employment by subsidizing EPF contributions for new hires.
- **National Career Service (NCS):** To provide a digital platform for job seekers and employers, including career counseling and skill development.
- **Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS):** It guarantees 100 days of wage employment per year to rural households.
- **Deendayal Antyodaya Yojana – National Rural Livelihood Mission (DAY-NRLM):** To promote self-employment and entrepreneurship among rural poor through skill development and financial inclusion.
- **Deendayal Upadhyaya Grameen Kaushalya Yojana (DDU-GKY):** To skill rural youth aged 15–35 years and connect them to formal employment.
- **Pradhan Mantri Mudra Yojana (PMMY):** To facilitate self-employment through collateral-free loans up to ₹10 lakh for micro and small enterprises.

Way Forward

- **Strengthen Skills and Education:** Investment in vocational training, education reform, and industry-relevant skilling is essential to bridge the employability gap and improve job quality.
- **Inclusive Policy Design:** Employment incentives must extend to informal sector workers, with mechanisms for social security, formal contracts, and rights protection.
- **Focus on Sustainable Employment:** Policies should shift from short-term job headcounts to long-term strategies that enhance productivity, preserve labour rights, and reduce inequalities.

Conclusion

- The ELI Scheme, while well-intentioned, risks entrenching structural labour market inequalities if it continues to privilege employers and formal sector firms without addressing skill deficits, sectoral realities, and the informal economy's needs.
- A balanced, inclusive, and skill-focused strategy is critical for genuine and sustainable employment generation in India.

Source: TH

Mains Practice Question

- Q. Critically evaluate the Employment Linked Incentive (ELI) Scheme in the context of India's structural unemployment. To what extent does the scheme address the challenges of skill mismatch, informal sector exclusion, and wage disparity?**

