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— BY —  
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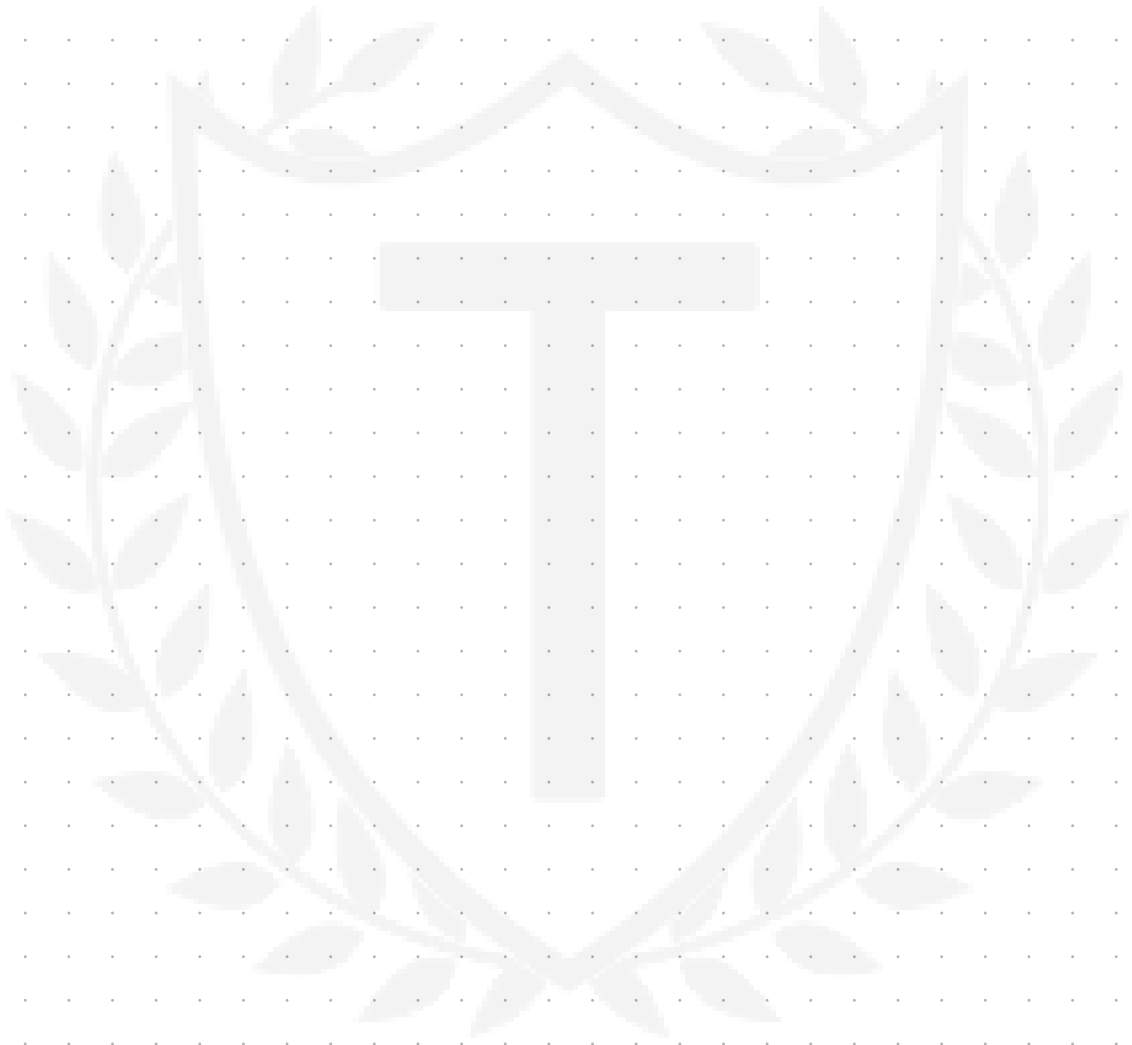


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## News Covered (20/07/2025)

1. Living in denial about unemployment
2. Karnataka Bill on reserving jobs for locals
3. Elevating India's capital goods for a global electronics revolution



# Living in denial about unemployment

Recently, citing a Reserve Bank of India (RBI) report that said that 8 crore jobs have been created in the last 3-4 years, Prime Minister Narendra Modi accused the Opposition of creating false narratives about unemployment. He also said that a lot of infrastructure projects are coming up, which will create more jobs. This was not only an attempt to counter the narrative of high unemployment which has been bothering the ruling party, but also a response to a flurry of reports from financial institutions, such as Citigroup, in July, which pointed to inadequacy of employment generation in India.



**Arun Kumar**

retired professor of economics, Jawaharlal Nehru University, and author of 'Indian Economy's Greatest Crisis: Impact of the Coronavirus and the Road Ahead'. 2020

## Conflicting reports and statements

Mr. Modi quoted a RBI 'Data Manual' released on July 7, called 'The India KLEMS Database', which "...describes the procedures, methodologies and approaches used in the construction of India KLEMS database version 2024. The dataset includes measures of Gross Value Added, Gross Value of Output, Labour Employment, Labour Quality, Capital Stock, Capital Composition... The database covers 27 industries comprising the entire Indian economy."

Soon after the RBI released this, the State Bank of India (SBI) came out with its own report to counter the financial institutions' reports. It said, "Even if we exclude Agriculture, the total number of jobs created in manufacturing and services is at 8.9 crore during FY14-FY23 and 6.6 crore during FY04-FY14." It added, "The total labour force in India is at 59.7 crore, which is nearly equivalent to 56.8 crore as per the recently released ASUSE [Annual Survey of Unincorporated Sector Enterprises] survey. This total number of labour force is significantly different from private employment surveys."

However, the Centre for Monitoring Indian Economy (CMIE), a private data-gathering agency which publishes data on employment and unemployment, reported in July that in June 2024, the unemployment rate had risen to an eight-month high of 9.2% up from 7% in the previous month. This was contrary to the official narrative of massive employment generation.

What is a citizen to make of these conflicting reports and statements? Ground reports suggest that unemployment is a major issue. In February, about 47 lakh applicants appeared for an exam to select around 60,000 constables in Uttar Pradesh. In 2022, 1.25 crore aspirants applied for the Railway Recruitment Board's Non-Technical Popular Categories recruitment exam. There were protests in Bihar, Uttar Pradesh and other

Public confusion over the extent of unemployment is a result of the differences in the various data bases used

States when the Agnipath scheme was announced in 2022. Indeed, the situation for the educated youth is grim, yet we expect them to be in the vanguard of 'demographic dividend'.

Public confusion over the extent of unemployment is a result of the differences in the various data bases used. Let us examine these.

## KLEMS data

The most recently cited KLEMS data is "a comprehensive measurement tool to monitor and evaluate productivity growth in the Indian economy". It does not estimate employment but uses the official data available. For labour input it uses the Employment and Unemployment Surveys (EUS) by the National Sample Survey Office (NSSO), conducted between 1983 and 2011-12, and the Periodic Labour Force Survey (PLFS)." Clearly, the KLEMS data is based on official data from the PLFS, the ASUSE survey, etc. Given this, why would the employment series from KLEMS differ from the total employment figure given by government agencies? So, neither the Prime Minister nor the SBI should present KLEMS data as an independent source of employment data. Clearly, the officers and economists briefing Mr. Modi misguided him.

Why do different sources give widely varying estimates of employment? This is due to the highly complex structure of the Indian economy and the paucity of reliable data. India consists of the organised and the unorganised sectors. The data for the organised sector is available from statutorily published annual data. That is not the case for the unorganised sector, which employs 94% of the labour force. No other big country has such a huge unorganised sector for which data are sparse. This sector consists of possibly 11 crore farms and 6.5 crore MSME units. Surveying them annually is difficult. Data have been collected periodically via the Census every 10 years and the ASUSE survey every five years. The government is now committed to bringing out the ASUSE survey annually. But ASUSE survey data in turn depend on data from the Census and the Urban Frame Survey (UFS). There has been no Census since 2011 and UFS data apparently pertain to 2012-17. So, outdated data are being used.

Normally, in the absence of current data, earlier data should be acceptable. But 2016-2024 was an abnormal period with four shocks to the economy: demonetisation in 2016, introduction of the Goods and Services Tax, the Non-Banking Financial Companies crisis, and the COVID-19 pandemic. When shocks occur, use of pre-shock

data for sampling creates problems due to structural changes. These four shocks specifically impacted the unorganised sector, the one that the ASUSE survey seeks to estimate. Many units closed down due to lack of working capital. People migrated, the size of towns and villages changed. Thus, a sample based on the 2011 Census would not be appropriate. Closures will not be captured and only the surviving units will be a part of the sample. The ASUSE 2024 Report says, "... 16,382 FSUs (8,495 in rural and 7,887 in urban) have been surveyed; and the total number of establishments surveyed has been 4,58,938 (2,58,296 in rural areas and 2,00,642 in urban areas). ASUSE 2022-23 gives an estimate of 6.50 crore establishments..."

Due to the shocks, the rural-urban ratio and the ratio of smaller and larger units would have changed. This could give an upward bias to the number of establishments and their employment.

## Differences in PLFS and CMIE

PLFS is the other official data source quoted widely. It differs greatly from the CMIE data. This has to do with differences in definitions, such as who is counted as employed. The CMIE adopts the International Labour Organization definition and counts only those who get an income from work as employed. PLFS counts those who are working even if they do not get an income from it. So, those giving free labour or those who sit in fields but have no work also get counted as employed by PLFS. Consequently, in the last few years, PLFS has given around 50%-55% labour force participation, while CMIE says the figure stands at 40%-45%. That means there is a huge difference of about 90 million between the two. The question then is, doesn't nearly everyone do something or the other? There are millions of home makers doing work, for example. Further, PLFS counts the disguised unemployed and the under-employed. So, as far as PLFS is concerned, almost no one is unemployed, while CMIE tells us how many have simply given up looking for work. That is also unemployment, which the official data do not recognise.

The ground-level situation of unemployment is apparent from the frequent reports about the youth struggling to get work and facing issues in examinations. But the government is in denial. Recently, the officials have denied the problems of using data that have holes in them or of citing KLEMS data from the RBI, which does not independently estimate employment. Why not admit the problem and act, lest the growing youth frustration boil over?



# Wrongheaded policy

## The Karnataka Bill on reserving jobs for locals is self-defeating

Despite the fact that attempts to provide reservation in jobs for local workers have been proven unconstitutional and have been rejected by courts, the temptation to pander to nativist sentiments remains among State governments. A case in point is the draft Karnataka State Employment of Local Candidates in the Industries, Factories and Other Establishments Bill, 2024, cleared by the Congress government's cabinet but later "temporarily withheld" following an uproar from industry heads and trade bodies in Karnataka. The Bill envisaged that industries and other establishments would appoint local candidates in 50% of management positions and 70% of non-management positions, and set stringent criteria for defining local candidates. Similar Bills were passed in Andhra Pradesh in 2019, Haryana in 2020, and Jharkhand in 2023. While the Karnataka Bill added proficiency in Kannada as one of the criteria to define eligibility of a local candidate, the Haryana and Andhra Pradesh laws were largely based on residency criterion. The Punjab and Haryana High Court quashed the Haryana Act in 2023 holding it violative of equality guaranteed under Article 14 and freedom under Article 19 of the Constitution. It added that the Act went against the rights of citizens from the rest of the country and that States enacting such laws could set up "artificial walls" throughout India. The Andhra Pradesh Act is still being heard in court, while the Jharkhand Bill has not been implemented. Apart from the aforementioned reasons, the Karnataka Bill is also violative of Article 16(3) that allows for reservation based on residence, but limits it to public employment and to be enforced only by a law made in Parliament and not by a State Legislature.

The temptation for the Karnataka government to come up with Bills that provide for reservation for locals and labour protectionism despite their proven unconstitutionality is perhaps motivated by the fact that there is resentment among resident workers in better-off States that their jobs are being taken over by migrant workers. This is especially so among those aspiring for jobs in the private sector, where some employers have sought to exploit migrant workers to work for longer hours and at lower pay without benefits or social protections and without political support that is otherwise available to local workers. If Karnataka is concerned about this segmentation of the labour market that pits the migrant worker against the locals, it should enforce labour rights for the former as well; and by curbing exploitative practices, it could create a level playing field for all workers. Protectionism for the local worker and parochialism is not the answer.

## What is Karnataka's Reservation for Locals in the Private Sector Bill?

- **Reservation Policy:** The Bill mandates a substantial reservation of 75% for 'local candidates' in non-management positions and 50% in management positions within private sector companies, industries, and enterprises in Karnataka.

- **Definition of 'Local Candidate':** It defines "local candidates" as individuals born in the state or living in Karnataka for at least 15 years, and are capable of speaking, reading, and writing Kannada.

- **Job Categorisation:** It categorises jobs into management and non-management roles.

- Management roles would include supervisory, managerial, technical, operational, and administrative positions.

- Non-management roles will include clerical, unskilled, semi-skilled, and skilled positions in the IT-ITES sector.

- **Skill Development Provision:** Industries are required to provide training programs for local candidates to address skill gaps, with a 3-year timeframe for implementation in the absence of qualified local candidates.

- **Flexibility Clause:** It introduces a provision for reducing the reservation quota to 50% in non-management and 25% in management positions under specific circumstances.

### Note:

- Job reservation Bills or laws for domiciles have also been announced in other States including Andhra Pradesh, Madhya Pradesh and Jharkhand.

- The job quota Bill passed in the Andhra Pradesh Legislative Assembly in 2019, also reserved three-fourths of private jobs for locals.

## What are the Legal Challenges with Domicile-Based Reservations?

- **Balancing Equality and Affirmative Action:** Domicile-based reservations present a legal challenge under India's Constitution.

- Article 14 guarantees equality before the law, while Articles 15 (Prohibition of Discrimination based on religion, race, caste, sex or place of birth) and Article 16 (Equality of Opportunity in Public Employment) allow for special provisions benefiting backward classes, without prejudice to non-domicile candidates.

- **Supreme Court (SC) and High Court Judgments:**

- In Dr. Pradeep Jain v. Union of India (1984), the Supreme Court (SC) held that while some preference could be given to domicile candidates, it should not be absolute and should not exclude non-domicile candidates altogether.

- Supreme Court asks MP Govt to review its 75% domicile quota in B.Ed seats.

- In November 2023, the Punjab & Haryana High Court deemed Haryana's law mandating 75% reservation for locals in the private sector unconstitutional. The court criticised the law for creating artificial divisions among citizens and disrupting laissez-faire principles. Subsequently, the Haryana government appealed the decision to the Supreme Court.

- **Limit on the Quota:** The Supreme Court ruling in the Indra Sawhney case (1992) established that total reservations, including domicile reservations, should not surpass 50% of available seats or posts. This limit applies to all categories of reservations, as emphasised in the judgement primarily addressing reservations for Other Backward Classes (OBCs).



## What are the Arguments in Favour of the Private Sector Reservation Bill?

- **Local Employment Generation:** The policy aims to increase job opportunities for local residents, reducing unemployment and ensuring economic benefits are retained within the state.
- **Economic Equity and Balanced Regional Development:** The policy aims to promote economic equity by addressing disparities in resource distribution within the state.
  - Additionally, it supports balanced regional development by spreading economic opportunities across various areas, rather than concentrating them solely in a few urban centres.
- **Skill Development:** Mandatory training programs can enhance the skills of the local workforce, making them more competitive and better equipped to meet industry demands.
- **Social Stability:** Providing more job opportunities to locals can foster a stronger sense of belonging and reduce social tensions, promoting community harmony.
- **Talent Retention:** The policy can help retain skilled individuals within the state, preventing brain drain and ensuring their expertise contributes to the local economy.
- **Cultural Preservation:** The language proficiency requirement helps preserve and promote the local language and culture, fostering a stronger cultural identity.

## What are the Arguments Against the Private Sector Reservation Bill?

- **Impact on Business Competitiveness:** The policy may limit companies' ability to hire the best talent, adversely affecting their efficiency and competitiveness.
- **Skill Shortages:** The local workforce may lack the necessary skills for specialised roles, leading to operational inefficiencies and increased training costs.
- **Investment Deterrence:** The local hiring restrictions could deter domestic and international investors, negatively impacting the state's economic development and job creation.
- **Legal and Administrative Burden:** Ensuring compliance with the policy could impose additional legal and administrative costs on companies.
- **Discrimination Concerns:** The policy has been criticised for potentially discriminating against non-local candidates, violating the principle of equal opportunity.
- **Economic Impact:** Domicile-based reservations may adversely affect a state's economic growth by deterring businesses and limiting job opportunities.
  - Moreover, in regions experiencing significant inward migration, such policies could hinder national integration and economic mobility.
- **Social Tensions:** The policy could exacerbate social tensions between local and non-local residents, creating a divisive environment and undermining social cohesion.

## Way Forward

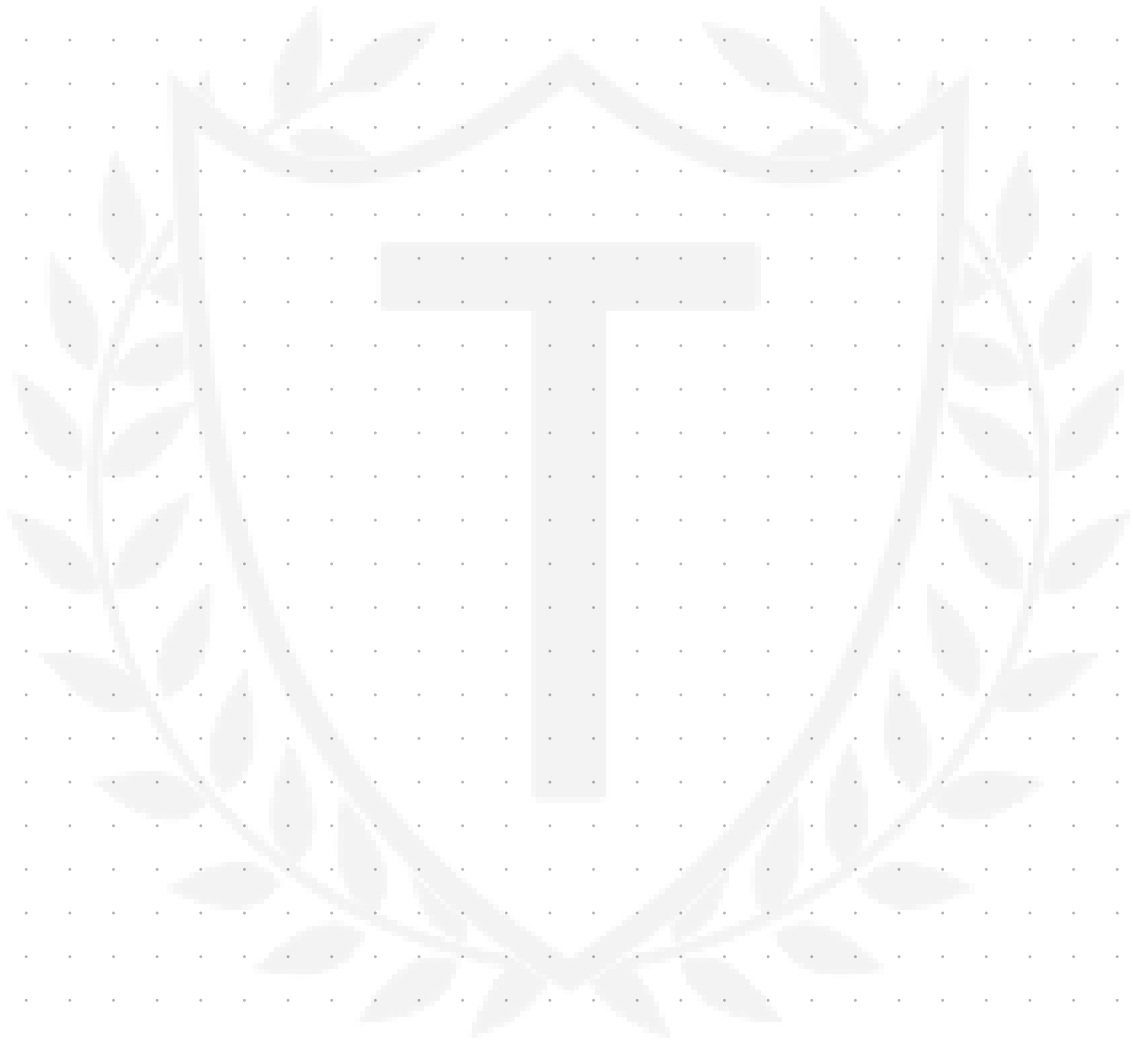
- The reservation policy could be implemented in a way that does not hamper the free movement of manpower resources in the Country.
- The reservation policy could be revisited periodically to assess its impact on the economy and industries in the state.
- Need to ensure that any policy decision taken is in compliance with the Constitution of India and does not violate the fundamental rights of citizens.



Que. Assess the arguments for and against state-imposed domicile reservations in private employment in India. (150w/10m)

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Q. Whether the National Commission for Scheduled Castes (NCSC) can enforce the implementation of constitutional reservation for the Scheduled Castes in the religious minority institutions? Examine. (2018)





# Elevating India's capital goods for a global electronics revolution

## BUDGET IN FOCUS

**Pankaj Mohindroo**

In the early days of the Industrial Revolution, a single invention changed the world: the steam engine. This powered factories, drove progress and transformed economies. The steam engine symbolised a nation's ability to innovate, produce, and lead.

Today, India stands at similar crossroads with its capital-goods industry, especially in electronics manufacturing. The industrial countries of East Asia did not invest in machinery by chance. The investments were driven by export-oriented strategies and demands of international competition. To seize this moment, we must harness the same spirit of innovation that fuelled the Industrial Revolution.

India's electronics production has reached an impressive milestone of about \$115 billion in FY24, growing by almost four times in the past decade. Projections for the next five years are even more promising, with expectations to multiply this figure by five times. Globally, the electronics market, currently valued at \$4.5 trillion, is anticipated to soar to \$6.1 trillion by 2030.

These figures highlight an opportunity and a call to action for India to capture its rightful place in the world stage.

Central to this vision is the role of capital goods – machinery, tools, and equipment that drive production. Advanced capital goods enable us to produce high-quality electronics efficiently and at scale. Our focus should be on de-



veloping unique, cutting-edge solutions that serve domestic and global markets. This demands a significant investment in research and development, supported by policies that encourage innovation and protect intellectual property rights (IPR).

### Demand supply gap

Meeting domestic demand and targeting the export market are both essential. At home, there is an urgent need to close the gap between the demand and supply of capital goods. By bolstering our manufacturing infrastructure, we can reduce dependency on imports and ensure a steady supply of high-quality equipment for local consumption. As India aims to increase its electronics production by five times, the demand for advanced manufacturing technologies will also surge, necessitating a robust domestic capital goods sector.

To spearhead this initiative, there is a need for a dedicated centre with a substantive corpus of minimum ₹1,000 crore focused on innovation in capital goods, potentially housed at the Central Manufacturing Technology Institute (CMTI). Such a centre could drive the development of advanced manu-

facturing technologies and build capabilities essential for electronics and high-tech manufacturing. The CMTI can partner industry leaders and academic institutions to foster innovation, streamline production processes and raise overall competitiveness of Indian manufacturers.

### Fostering R&D

India's robust IPR protection can create a secure environment where new ideas can thrive. By promoting strong R&D ecosystem, we can develop indigenous technologies that not only meet international standards but also set new benchmarks in quality and efficiency.

Globally, the aim is to position Indian firms as formidable contenders. This needs a strategic approach, including understanding global market dynamics, adhering to international quality standards and building a reputation for excellence. The question then arises: why can't India produce firms that rival the likes of ASML, the Dutch giant known for advanced machinery?

Creating such an Indian champion involves many critical steps.

Prioritising the development and acquisition of advanced manufacturing technologies is crucial, supported by dedicated funds for acquiring and enhancing capital goods, including second-hand equipment.

Investing in education and training programmes to equip workforce with technical and soft skills is equally vital. Strong collaboration between industry and academia can foster innovation and ensure that research aligns with indus-

try needs, leading to breakthrough technologies and processes. Additionally, government policies must support the growth of the capital-goods industry by providing incentives for R&D, facilitating ease of doing business, and ensuring a stable regulatory environment.

As the world moves towards sustainable manufacturing practices, India must adopt eco-friendly technologies and processes, enhancing our global competitiveness and positioning India as a responsible manufacturing hub. Embracing digital technologies such as AI, IoT, and big data can revolutionise manufacturing processes, making them more efficient and cost-effective.

Addressing technology and skill gaps is also critical for India's ambitions in the electronics sector. Joint ventures with global leading firms can facilitate skills and technology transfer, while government programme to attract skilled diaspora and foreign experts can build domestic capabilities.

Establishing a roadmap for developing key equipment and progressing to the most cutting-edge technologies, will be essential.

Reducing the cost of capital can enable Indian manufacturers to invest more in technology and innovation, making them more competitive globally.

*(Pankaj Mohindroo is the Chairman of India Cellular & Electronics Association, the country's apex industry body for electronics with a vision to make India a global hub for electronics manufacturing and exports. Kapil Gupta, Associate Director, ICEA has contributed to this article)*





## What is the difference between Capital Goods and Capital Gains?

### What is Capital Goods?

- Capital goods are the tools and machineries used for producing consumer products.
- They're (usually) expensive, and they're purchased for long-term use.
- Raw materials are also needed for producing consumer goods (Biscuits, bread etc) but they are not capital goods.
- Capital goods are also known as producer goods.

### Examples of Capital goods?

- Heavy equipment (such as excavators, forklifts, generators, metal-forming or metal-working machines, vehicles).

boilers, storage tanks, evaporators

Chemical factory

Mixer, grinders, refrigerator

Ice-cream factory

Dumpsters, bulldozers etc big vehicles

Construction, mining industry.

- In short, factory equipment are capital goods because they're used to produce customer goods.
- But the equipment used in an office= not capital goods for example stapler, paper shredder, pen-holder, water-cooler table, chair etc.
- Similarly, specialized air-conditioners installed in drug/ice-cream factories to maintain uniform temperature during production= capital goods.
- But air-conditioners installed in that factory owner's cabin=not capital goods.



## What is capital gains?

- Capital gains= profit made by selling your capital assets.
- When you make profit by selling your capital assets, you've to pay tax to the Government on that profit. That is known as Capital Gains Tax. (CGT)
  - Examples of Capital Assets are
    - 1 Land (but not the agricultural land)
    - 2 Building Factory Plant and machinery. (except raw-material, or finished products) So when you sell capital goods discussed above, and make profit, then you'll have to pay capital gains tax (CGT).
    - 3 Shares, debentures, mutual funds etc.
    - 4 jewelry, paintings, sculptures and other Archaeological collections. (from 2008 onward)
  - Capital gains tax are of two types: short term and long term. (depending on how long you kept the asset before selling it.)
  - Capital gains tax is a direct tax. (because direct tax=charged on your income and property).



Q1. Which of the following is correct

- 1 Capital Gains tax, Custom duty are examples of Direct tax
  - 2 Agricultural land is exempted from Capital Gains tax.
- a Only 1
  - b Only 2
  - c Both
  - d none

Q2. Which of the following are not Capital goods?

- 1 Wheat stored in a granary
  - 2 Boiler in a chemical factory
  - 3 Air-conditioner in a corporate executive's office
- a Only 2
  - b Only 1 and 2
  - c Only 1 and 3
  - d Only 2 and 3

