

Gist of EPW June Week 2, 2021

The Economic and Political Weekly (EPW) is an important source of study material for [IAS](#), especially for the current affairs segment. In this section, we give you the gist of the EPW magazine every week. The important topics covered in weekly are analysed and explained in a simple language, all from a [UPSC](#) perspective.

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1. The Political Economy of G7 Agreement on Taxes

Context

The article focuses on the recent efforts and establishments in the taxation regime of International Trade, focusing primarily on the recent G7 countries' communique.

Highlights

- The joint official announcement issued by the Group of Seven ([G7](#)) countries extended strong support to the efforts of the Group of Twenty and Organisation of Economic Cooperation and Development countries.
- The adoption of a global minimum tax and the tax challenges that arise from the globalization and digitalization of the economy are the focus areas of the G20–OECD efforts.
- G20–OECD efforts will ensure a reallocation of taxing rights on residual profits of the largest multinational companies across different tax jurisdictions, with an initial global minimum tax rate of 15%, at least.
- The group of finance ministers argued that it will establish a stable tax system to mobilize sufficient revenues for investing in essential public goods.

Read more on the Organisation for Economic Co-operation and Development ([OECD](#)) in the link.

International Tax System Reforms

- Initial reforms in the international tax system focused mainly on ending double taxation of multinational companies and reducing money laundering.
- These reforms were largely sponsored by a rich nations' club of OECD countries.
- The roll-out of the Base Erosion and Profit Shifting (BEPS) Project in 2013 significantly altered the template of tax reforms.
- **BEPS**

- BEPS refers to tax-planning strategies adopted by multinational corporations to avoid paying taxes by exploiting tax rules.
- BEPS dogged measures like new multilateral agreements, institutional structures, and instruments that facilitate full taxation and ensure tax sovereignty.
- Read more on [BEPS](#) in the link.

Digital Economy And Taxation Challenges

- The sharp expansion of the digital economy is the most serious threat to tax mobilization on the technology front.
- The new digital technologies enable companies to earn revenues from tax jurisdictions with no physical presence.
- The new agreement on taxing rights and income allocations across different market jurisdictions is significant for both G7 countries and all the digital economy.
- Recently, multilateral interventions were done by some countries including India to avert tougher national tax legislations on digital trade.
- The new digital technologies make it extremely difficult for governments to monitor trade in services and intangible assets.
- The value of international trade in services is almost \$6 trillion, which is about one-fourth of the total global trade and this raises a concern for all.
- The G7 outlook on tax reforms was mostly forced by the major technological changes in trade and commerce that threw up new challenges to the tax mobilization efforts.

Conclusion

- A global minimum tax can ensure a substantial reduction in the potential tax leakages from the growing digital trade.
- The new G7 deal will bring a more equitable tax regime by reversing the direct tax cuts enforced in various countries, including India.

2. The COVID-19 Pandemic and Livelihood Loss

Content

The article highlights the differential impact of the covid-19 pandemic across various states focusing on the variations in migration rates and economic activities.

Introduction

- The literature on migration models identified the rural poor and the unemployed with the highest propensity to migrate in search of jobs.

- The rural low-income households, by working in the lower rungs of the informal sector, are able to experience upward mobility over time, though the relationship between the duration of migration and levels of living is not linear and monotonic.
- The migration from rural to urban areas increases the cost of living significantly.
- Urban life is more dependent on the market for their daily requirements, unlike the workers in the rural sector, where market dependency for daily requirements is relatively low.
- Another disadvantage faced by the urban workers is that they have to pay house rent but in the rural areas, jobs are mostly located in close proximity of the workers' residence.
- These factors make urban workers more vulnerable to employment and income shocks compared to rural workers.

Migration: Factors and Outcomes

- The large cities are able to offer higher real wages as the firms, both in the manufacturing and services sectors, experience productivity gains.
- The informal sector in large cities also appears to be more dynamic than its counterpart in a small- or medium-sized town.
- The prime reasons for migration are eventually connected with economic factors, although those who migrate for educational purposes may also join the job market on completion of the educational program.
- Migration rates, calculated in terms of the decadal flow of population from the rural and urban areas to the urban areas for employment and business per 1,000 urban population can be observed from Table 1.

Table 1: Household Status and Migration Rate

States	Status of Households (%)					Migration Rate per '000'*	Change in Unemployment Rate in April–May 2020 [#] (%)
	Own Account Worker/ Employer	Helper in Household Enterprises	All Self-employed	Regular Wage Salary	Casual Labour		
Andhra Pradesh	30.7	11.8	42.5	23.1	34.5	40.9	14.8
Assam	46.5	5.2	51.8	30.0	18.3	33.8	5.5
Bihar	51.4	5.2	56.6	10.4	33.0	12.7	38.9
Chhattisgarh	34.6	34.3	69.0	14.8	16.3	42.2	2.7
Goa	35.9	5.4	41.4	53.7	4.9	60.4	8.6
Gujarat	39.8	14	53.8	31.2	15.0	49.3	12.7
Haryana	37.8	5.2	43.0	37.1	19.9	51.4	25.7
Jharkhand	41.2	17.0	58.2	16.6	25.2	25.2	45.0
Karnataka	35.3	10.3	45.6	27.2	27.2	53.4	21.4
Kerala	34.2	3.1	37.3	31.0	31.6	13.4	12.8
Madhya Pradesh	35.5	20.9	56.4	14.4	29.1	28.2	15.6
Maharashtra	31.3	14.8	46.1	29.3	24.6	54.6	13.0
NCT of Delhi	33.0	3.6	36.6	59.6	3.8	42.9	22.1
Odisha	42.1	14.8	56.9	16.0	27.1	42.4	10.1
Punjab	34.3	7.5	41.8	35.7	22.6	34.2	11.7
Rajasthan	42.7	25.4	68.1	18.1	13.8	23.4	8.4
Tamil Nadu	27.7	6.2	33.9	34.6	31.5	37.0	37.1
Telangana	36.6	9.0	45.6	27.0	27.4		17.2
Tripura	52.2	3.6	55.8	22.4	21.8	19.4	4.9
Uttar Pradesh	47.7	17.0	64.7	15.7	19.6	21.3	12.1
Uttarakhand	46.1	10.1	56.2	30.3	13.4	51.0	5.4
West Bengal	41.1	7.3	48.3	21.9	29.8	15.8	10.9

* Persons (migrating "in the urban areas" either "from rural or urban" for "work/employment" and "business" for the duration "less than one year" plus "one to four year" "five to nine years") per thousand of urban population.

Change in unemployment rate is calculated over the average change in April–May 2016–19.

Sources: Census (2011); NSO (2020); CMIE (2020).

Image source: <https://www.epw.in/>

- Migration rates are relatively high in both low-income states and high-income states due to both push and pull factors operating at the same time.
- The rich states have both intra and interstate migrants, the poor states are not likely to attract interstate migrants.

Employment Structure and Migration

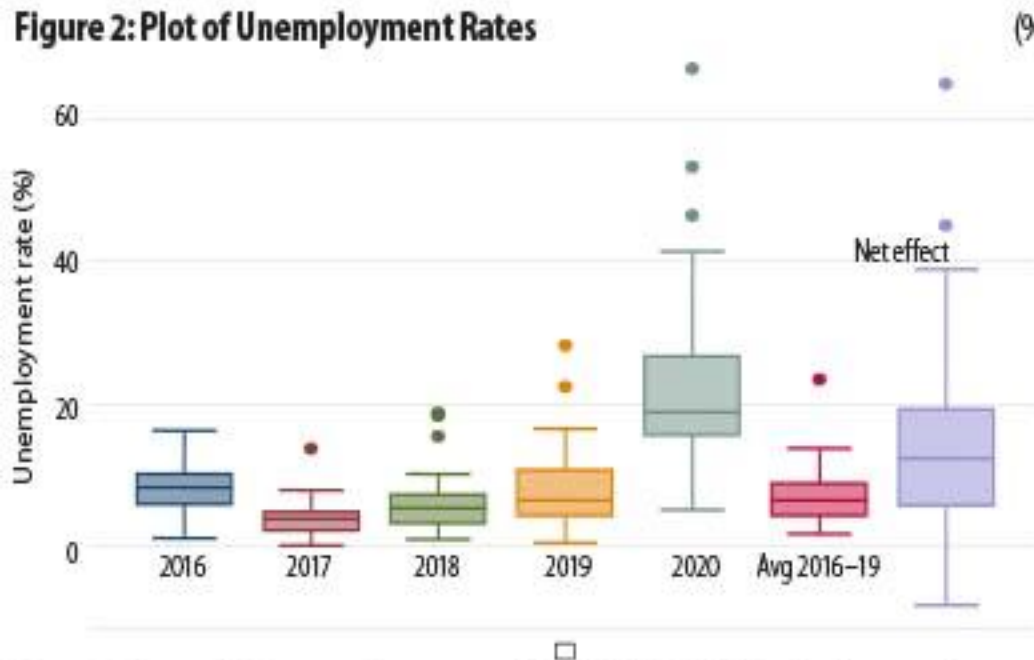
- The relationship between migration and the nature of employment indicates that regular wage employment share and migration unravel a positive relationship.
- Agriculture appears to be a dominant activity in a large number of states.

- Despite the significant loss of share of agriculture in value addition, more than 40% of the workforce is seen to be employed in agriculture in a number of states, including in an advanced state like Maharashtra and also a poorer state like Odisha.
- After agriculture, the services sector comprises a significant percentage of the total employment. The share of manufacturing is on the low side in most of the states.
- The construction sector share and the migration for employment and business demonstrate a pronounced negative relationship, which comes as a surprise because urban construction is expected to pull migration from the rural areas.

COVID-19 Surge and Unemployment Rate

- The average unemployment increased suddenly in April and May 2020 compared to the previous year's estimates.
- The dispersion of the distribution of unemployment increased enormously in April–May 2020, which implies that the effect is not homogeneous.

Figure 2: Plot of Unemployment Rates



Source: Estimated using unemployment rate from CMIE (2020). The data is statewise unemployment rate for different years.

Image source: <https://www.epw.in/>

Unemployment and Casual Labours

- The lockdown resulted in return migration and a steady rise in the unemployment rate.
- States like Karnataka, Telangana, Madhya Pradesh, Andhra Pradesh and Maharashtra registered a massive rise in the unemployment rate in April–May 2020.

- On the other hand, states like Odisha, in spite of facing the same intensity of lockdown, experienced a relatively lesser magnitude of increase in the unemployment rate.
- Odisha has a large percentage of the workforce in the agriculture sector and therefore did not immediately suffer a setback as the lockdown was prevalent mainly in the manufacturing and services sectors.
- The north-eastern states, which hardly experienced any industrialisation over the years, also did not witness any significant rise in the unemployment rate in April–May 2020 compared to the same months in the previous years.
- States which sent out migrant population on a large scale and the relatively developed regions which received the migrant population have both witnessed a rapid increase in the unemployment rate.
- Casual labour are least secure in terms of social security, job contract, and earnings.
- The negative association between the unemployment rate and the share of casual labour across states was reversed to positive after the implementation of the containment measures.

Government Policies

- During the pandemic, leveraging on the existing policies and schemes became crucial to reduce the sufferings of those affected by containment measures.
- The government developed networks and institutions under various schemes, such as [Pradhan Mantri Jan Dhan Yojana \(PMJDY\)](#), Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), PDS, Building and Other Construction Worker Welfare Fund, self-help groups and the Employees' Provident Fund Organisation (EPFO), which were handy in reaching out to the poor and affected.
- The Atmanirbhar Bharat package of about Rs.20 lakh crore was announced in May 2020 which included measures to contain the adverse impact on livelihood.
- Migrants workers without ration cards were made eligible to claim 5 kg of foodgrains per month and 1 kg of pulses, apart from the [PDS](#) beneficiaries.
- The female Jan Dhan account holders were paid Rs.500 per month for three months.
- The government also increased allocation of MGNREGS by Rs.40,000 crore along with an increase in wages under the scheme.

Conclusion

- The rural-urban development disparities need to be reduced for balanced regional development.
- States with higher rates of migration and urbanisation rate, greater dependency on casual wage employment and non-agricultural employment registered a huge adverse impact on livelihoods during the pandemic.
- The urban areas need to take this crisis as an opportunity to strengthen the functioning of the informal economy.
- Government policies should aim for incentivising labour mobility, and reducing mobility costs.
- One Nation, One Ration Card (ONORC) that aims to empower all [National Food Security Act](#) migrant beneficiaries to access foodgrains from any Fair Price Shop of their choice anywhere in

the country by using their existing ration cards with biometric authentication is a positive way forward.

