

# The Employment Question in India

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## Politics, Economics, and the Way Forward

The jobs question is begging for answers from the polity. Here an agenda for dealing with urban unemployment, in particular. A key element could be investment in universal basic services. It is all doable provided we are not prisoners of fiscal orthodoxy.

The first few months of 2019 have been unusually exciting in the otherwise staid lives of labour economists and statisticians in India. Every week seems to bring a fresh prime-time fuelled controversy, the most recent example being the statement issued by 108 economists on the state of labour statistics in the country, which then evoked a response from 131 chartered accountants.

While a controversy over job creation and what the labour statistics said did take place in 2018, it received a fresh impetus early in the new year with Somesh Jha's *Business Standard* exposé of a new National Sample Survey Office (NSSO) report on employment. Jha reported the "leaked" findings of the newly instituted Periodic Labour Force Survey (PLFS), which showed that unemployment rates had risen to an all-time high of 6.1% in 2017-2018. The leaked PLFS report came on the heels of considerable uncertainty about the state of labour statistics in the country. In a subsequent press conference at the NITI Aayog, two top officials Vice-Chairman Rajiv Kumar and CEO Amitabh Kant, provided anecdotal counters, foregrounded untested databases, and even went on to undermine the government's own report.

Following the press conference, a two-part article by Amitabh Kant in the *Business Standard* sought to discredit the PLFS based on amateurish arguments of a small sample size and incorrectly estimated absolute numbers. The rebuttal by former National Statistical Commission members offered a detailed response to the allegations made. Somesh Jha, on

the other hand, has written a series of articles on various aspects of the leaked PLFS report, including labour force participation rates, unemployment among the educated and among various demographic groups, levels of formal work, and working hours.

The government's response to the leaked findings was to "junk" the PLFS report entirely and commission a study of employment generation under the MUDRA scheme. Now we have learned that the MUDRA study will also not be released before the elections. Since the PLFS is supposed to be the new flagship labour force survey of the NSSO, it is not clear what this means for its future or indeed the future of labour statistics in India.

The controversy over employment statistics should be seen in the context of the fact there is now a fully established politics of unemployment in India.

At one level, the panic reaction of the government is quite puzzling to those who follow labour statistics. An open unemployment rate of 6.1% is neither startling nor unexpected. As we have discussed in our State of Working India 2018 report, the Indian economy has for some period of time been underperforming in terms of providing a sufficient number of good, desirable jobs, and open unemployment rates have been rising over the last decade according to most credible sources. The figures in the government report might be seen as confirming a medium-term trend that labour economists have remarked upon for years.

At another level though, the panic is more than justified. The controversy over employment statistics should be seen in the context of the fact there is now a fully established politics of unemployment in India. This is a new development that needs to be understood. The politics of unemployment is typically a feature of middle-to-high income countries, not low-to-middle income countries. Traditionally, the principal economic issue of broad spectrum political significance in India has been poverty, not unemployment. And there are still many who say that India's problem is low wages and low earnings, not unemployment. Indeed, this has become the "sophisticated" response to the question of anaemic job creation: a variant of the line "there are jobs, but they are not remunerative enough." Such a statement is trivially true: as Economics 101 graphs so favoured by economists would show, at very low wages the demand for labour will exceed its supply. But precisely because it is trivial, one should ask the question: Why is it that workers are unwilling to accept low wages? This is where India's changing labour market comes into the picture.

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There have been some new developments, which when juxtaposed with older structural and cultural factors, can account for why this is happening in India, a lower middle income country with a per capita GDP one third that of China and half that of Indonesia. The "precocious" part of the Indian labour market that resembles higher income countries, that

has always been there to a limited extent, is now substantial and rapidly rising, and more to the point, it has spread throughout the country, including the rural areas. This has laid the material basis for a widespread politics of unemployment.

## Key Demand and Supply Factors

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Without any claim to being a complete list, we discuss here seven key factors on the supply side of the labour market and two crucial demand side factors.

**1. High growth rates and aspirations:** Sharply increased growth rates since around 2000 and the attendant creation of a culturally ascendant middle class have created an aspirational lifestyle. This means that for most Indians, traditional occupations as well as petty informal work are less and less acceptable.

**2. The youth bulge:** Much has been written about India's "demographic dividend" over the years and it is not necessary to dwell on this point here. We only note that India is a very young country, the median age being only around 28, compared even to China (37 years), leave alone western Europe (45 years). The connection between youth and aspirations is obvious.

**3. The education wave:** Youth today are much better educated than their parents. According to the 2015 Employment-Unemployment Survey of the Labour Bureau, workers with no formal education at all are now a mere 12% of the labour force. The enrolment rate for secondary education reached 90% in 2015. The enrolment rate for higher education (for those in the 18-23 age group) rose from 11% in 2006 to 26% in 2016. As a result, while graduates constituted only 6% of the labour force in 2004, this was up to 15% in 2015. In absolute terms that means nearly 70 million people. Further, these educated youth are no longer concentrated in the large cities (as was the case in the pre-1991 period). Rather they are spread across smaller towns and villages. They constitute a small but vocal and politically visible minority everywhere.

**4. The dominance of 'general' degrees:** College enrolment is reaching all-time highs, but the All India Survey of Higher Education indicates that of the 80 lakh students who graduate every year, only around 10 lakh receive professional degrees. The rest are graduates educated in the Arts, Science, or Commerce streams, who are often not adequately prepared for work in the modern economy.

**5. Sub-standard degrees:** Further, there is a well-known problem of quality of education in both general and professional streams, creating what is sometimes called an "employability crisis". While adequate official or national-level statistics are hard to come by, several private surveys have pointed to the fact that fresh graduates in India, even from the engineering and management programmes, need significant amounts of further training to become "job-

ready”. Companies are increasingly setting up training centres to bridge the gap between college and job requirements. We need to understand better how costs of training are being re-distributed between households, employers, and the government.

**6. Caste:** Caste reinforces the “head-hand” dichotomy that privileges desk jobs over work involving physical labour, and extends it to a “head-hand-foot” trichotomy, where “foot” signifies dirt work. Caste has two major effects in this context: it creates powerful incentives on part of lower castes to move away from traditional occupations to ensure dignity and respect in society. At the same time it prevents upper castes from considering any occupations that have a manual component. This results in a huge supply of labour to white-collar and desk-oriented jobs ensuring that only those who do not have this option are left to work in other occupations and trades.

**7. Gender:** Gender norms, to the extent that they prevent women from working in paid employment, actually reduce unemployment numbers because these women remain out of the labour market. However, with increasing education levels, the number of women, who are not employed and not seeking employment but would work if work was available, is also increasing. And since gender norms impose structural constraints on their mobility, the type of work that they can undertake is restricted. This also contributes to higher unemployment among women than men. Indeed, recent CMIE data indicate that unemployment rates are the highest among young, educated, women.

**8. Collapse of public sector employment:** The above supply-side factors, some of which are relatively new developments and others which are long-standing features of the Indian labour market, have interacted with two crucial demand side changes. First, the public sector has been a large employer in India when it comes to formal or regular salaried jobs. Further, it is also a large employer of general purpose graduates. The slowdown in recruitment and systematic reduction in public sector employment has come at the same time that the supply of educated youth has increased. The intense hunger for government jobs is visible in the vast over-subscription to even the lowest paid forms of public employment, as well as the large protests all over the country over extending the benefits of job reservations to communities such as the Gujjars, Marathas, Kapus, Patels, Jats, and so on, that have been left out of the system till now. The logical, if also somewhat illogical, culmination of this process is the 10% job quota for all households whose income is less than Rs. 8 lakhs per year, covering the vast majority of Indian households.

**9. Automation and AI:** Second, the same processes of integration into the global economy that have delivered high growth rates, have also ensured that Indian firms have much less room to manoeuvre with respect to adoption of the latest techniques, many of which are capital-intensive and labour-displacing. The ability of the private sector to generate employment has been steadily falling across the globe, due to rapid and self-propelling advances in automation. This is particularly true of the manufacturing sector. In the early 1980s, one crore rupees of investment (in 2015 rupees) created around 80 jobs in the

organised manufacturing sector. By 2015 this had fallen to less than 10 jobs (Annual Survey of Industries, various years). Sector-specific studies in IT and other service industries also indicate that many jobs are in danger of disappearing due to automation. While there is a lot of speculation and hype around AI and its job-displacing potential, it cannot be denied that this will be a crucial factor in determining the future of work in India and elsewhere.

What appears clear is that the “pretend and extend” model based on the hope that the growth machine will absorb surplus labour in adequate time to prevent social dislocation, is untenable.

The foregoing factors are clear to all observers of the Indian economy. The question is, of course, what can be done? What appears clear is that the “pretend and extend” model based on the hope that the growth machine will absorb surplus labour in adequate time to prevent social dislocation, is untenable. At the same time, some of the older models of aiding structural transformation seem to have little political purchase. What are needed are several long-term and short-term measures which face these structural conditions as they exist currently. We discuss a few of these here. Public action and spending are strong elements of all these measures that are based on recent work from the [Centre for Sustainable Employment](#) at Azim Premji University.

## **New Measures**

The Indian obsession with being seen as “serious” and garnering a favourable credit rating from international ratings agencies comes often at the direct cost of employment policies and other valuable public expenditure.

### **1. Employment-oriented fiscal policy:**

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At the very first instance, any suggestion of expanding public engagement is likely to be met with the question of government fiscal sustainability. The Indian obsession with being seen as “serious” and garnering a favourable credit rating from international ratings agencies comes often at the direct cost of employment policies and other valuable public expenditure.

There is precious little to suggest that Indian public debt is at very high levels, thereby necessitating public austerity. In the last 30 years, [India’s debt-to-GDP ratio](#) reached a low of 66%, a high of 85% and is now near the low at 68%. In addition, the debt dynamics are particularly favourable at the current juncture. With the nominal growth rate exceeding the nominal interest rate and expected to do so for some time, debt-to-GDP ratios will erode purely from this effect. Central government primary deficits have almost disappeared.

Furthermore, as inflation becomes less of a concern (indeed the concern now appears to be missing the inflation target on the downside), one might expect that interest rates will decline further, increasing the speed with which the debt-to-GDP ratio will fall. Nor is there any reason to believe that current debt ratios are likely to retard growth (which is one of the

reasons given in the NK Singh committee report to reduce the deficit further). As Arvind Subramanian, one of the members, pointed out, the period of the best growth in India (2003-2008) was also that with high public debt-to-GDP ratios. Finally, the last ten years have seen substantial corporate leverage increases and in the ongoing deleveraging, government expansion is perhaps the most fruitful way of accommodating private balance sheet contraction. All of these facts suggest ample space for fiscal expansion.

## **2. Rethinking industrial policy:**

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India's experience with industrial policy (licensing, reservations, permits, subsidies and so on) during the planning years was mixed at best. The neoliberal period has seen outright hostility to industrial policy measures across the globe, barring a few such as tax breaks or the creation of special economic zones. The notable exception, of course, is China, which has continued the East Asian model of heavy state intervention in the economy.

As the work of Alica Amsden, Robert Wade, Ha-Joon Chang and others has shown, strategic industrial policy has played a key role in *all* the successful examples of industrialisation across the world, from the first wave industrialisers such as England to second-wave ones such as Germany and Russia, to later ones such as South Korea and Taiwan. More recently, Dani Rodrik has argued strongly in favour of industrial policy as a way out of the trap of "premature deindustrialisation".

Even in the United States, the Green New Deal, which has found favour among many 2020 presidential hopefuls, seeks to reorient the economy, including industry, towards a more ecologically and socially sustainable path via strong government intervention, including an employment guarantee. India too needs a bold and imaginative vision of an industrial policy for the 21<sup>st</sup> century. And such a policy must have space for industrial craft clusters that are major employers, with over 500 officially listed arts and crafts, and millions of jobs at stake making products of cultural value.

## **3. Universal Basic Services:**

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A bold public commitment to universal basic services will have the dual effect of supplying quality services while creating good jobs. A key condition for this is an investment in improved and increased public provision of healthcare, education, housing, security, transport, and utilities.

Tradable services such as information technology enabled services (ITES) or business process outsourcing have received a lot of attention in India's growth story. However, the non-tradable service sector, in particular the social segments, consisting of education, health, transportation and other public services, as well as hospitality, have significant potential for job creation as well as the capacity to deliver equitable and green growth. A "universal basic services" (UBS) approach can be imagined that delivers human capital advances alongside job growth.

A well-executed UBS would go a long way in restoring public goods to their rightful place in society, creating decent work in the process.

Over the years, India has underinvested in basic social services. Even for our current level of per capita GDP, public spending on these services is average at best and often below average. As a result Indians spend much more out-of-pocket on these services than citizens of other comparable countries. A bold public commitment to UBS will have the dual effect of supplying quality services while creating good jobs. A key condition for this is an investment in improved and increased public provision of healthcare, education, housing, security, transport, and utilities. This includes filling existing vacancies in the system, expansion of capacity, as well as regularising various forms of contract and 'volunteer' workers (such as ASHA and anganwadi workers). This will have multiple positive effects. Most importantly, the services would ensure a basic minimum quality of life for *everybody* regardless of their social or economic location. A well-executed UBS would go a long way in restoring public goods to their rightful place in society, creating decent work in the process.

#### **4. A National Urban Employment Guarantee:**

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At the same time as our towns and cities are facing a crisis of quantity as well as quality of jobs, there is also a crisis of the quality of life in urban areas due to ecological stress and lack of adequate public services. Water-bodies are rapidly being degraded, green spaces are disappearing, the quality of air is deteriorating, and common spaces are shrinking. Creating jobs, improving the capacity of urban local governance and supplying quality public goods and services requires serious public investment. But such investment also has the potential to pay for itself many times over.

India has been a leader in implementation of employment guarantee programmes via the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA). It is time to think about extending this to urban areas also. Such an urban employment guarantee scheme will provide employment within town or city limits to all those who ask for it and thereby provide services to all residents, build our civic infrastructure, and restore the urban commons. This is an idea whose time has come judging from the fact that an urban jobs programme had even been mentioned as part of a possible common minimum programme of opposition parties for the 2019 General Election, and the new Madhya Pradesh government has announced a 100-day urban job guarantee scheme, the Yuva Swabhiman Yojana, after coming to power.

The programme we propose (discussed in detail elsewhere), calls for providing 100 days of guaranteed work at Rs 500 a day for a variety of works. It also provides for 150 contiguous days of training-and-apprenticeship at a stipend of Rs 13,000 per month for educated youth. Here we give a brief idea of the types of works that can be undertaken.

a. *Public works*: Building, maintenance and upgradation of civic infrastructure like roads, footpaths, cycling paths, bridges, public housing, monuments, laying of cables, and other construction work.

b. *Green jobs*: Creation, restoration, and maintenance of urban commons, green spaces and parks, forested or woody areas, rejuvenation of degraded or waste land, cleaning of water bodies (tanks, rivers, nullahs, lakes). Works that can be undertaken here include water conservation and harvesting, flood control, micro-irrigation, enhancing urban greenery, preventing coastal and hillside erosion, disaster management, enabling urban agriculture for subsistence and so on.

c. *Monitoring and surveying jobs*: Gathering, classifying, and storage of information on environmental quality and other aspects of quality of public goods. This will require easy to use equipment for data collection and programmes for data entry. This can provide both temporary employment as well as valuable skilling and work experience for educated youth. Accordingly, these positions can be for a continuous period of 150 days in a year, and with a different set of people hired each year. The information from these monitoring and data collection could feed into prioritising the kind of works that need to be done.

d. *Administrative assistance*: Assisting municipal offices, local public schools, health centres etc. in administration or other ancillary functions, thereby freeing up the teaching or medical staff for core functions. These jobs can again be geared towards higher educated workers, who can avail of this opportunity to build administrative, managerial and record-keeping skills. These positions may also be for a continuous period of 150 days in a year.

e. *Care work*: Assisting regular public employees working in balwadis or creches, providing child-minding services for parents working longer hours, assisted care for the elderly and various services for differently abled, such as reading to the visually challenged, assisting those with hearing or mobility impairment to manage various activities, etc. The motivation here is that the urban poor with such needs often fend for themselves.

As can be seen, the programme would allow for the undertaking of a variety of works thereby providing jobs for people with a range of skills and education levels, as well as addressing a wide diversity of urban needs.

India is at a crucial juncture in its economic development where timely public investment and public policy can reap huge rewards. At the same time, being in denial about the current realities and missing this window of opportunity can have large negative consequences in social and economic terms. Let us act together to ensure that it is the first eventuality that comes to pass.

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