

PRIMARY OBJECTIVE

PUT JOBS FIRST



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EXPERT VIEW

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In September 2015, the state government of Uttar Pradesh advertised 368 jobs of peons, for which the minimum qualifications specified were a secondary school education and the ability to ride a bicycle. It received 2.3 million applications, among which there were 250 PhDs, 25,000 post-graduates and 150,000 graduates. Such instances abound.

The past 12 months have witnessed agitations for reservations, spread over time and across space, by Gujjars in Rajasthan, Patels in Gujarat and Jats in Haryana, seeking quotas in educational institutions and government employment. Such agitations recur.

What these apparently unconnected occurrences have in common is a desperate search for scarce employment opportunities. The scale and nature of this problem cries out for attention.

In 2011-12, the total labour force in India was 472 million. This was about 55% of the total population above the age of 15 years. It was lower than elsewhere in the world because so many women do not seek work. The unemployment rate, as a proportion of the labour force, surprisingly, was a mere 2.7%. This is most deceptive and the explanation is simple.

In a country such as India, poor people just cannot afford to be unemployed and find whatever work they can, simply to subsist. A significant proportion of their work, however, is neither sufficiently recognized nor adequately rewarded. There are some who work hard for a living. There are many who work very hard but do not earn enough for a living. There are others who work but are paid little for their labour. Indeed, the number of overworked and underemployed people, who cannot even eke out a livelihood, is very large.

Much of employment in India is still in the unorganized sector, even though its share in total employment decreased from 89% in 1999-2000 to 83% in 2011-12, while the share of the organized sector increased from 11% to 17%. However, during this period, the proportion of informal workers in the organized sector rose from 41% to 58% of the total. Thus, more than half the workers in the organized sector have no security of employment or social protection.

The unemployment rate is highest among the educated. In 2011-12, it was 5.6% for those with a higher secondary school education and 8.8% for those with any tertiary education, as compared with 2.7% for the total labour force. The problem is more acute among young people seeking jobs as new entrants. In 2011-12, the unemployment rate for educated youth (secondary education and above), in the age group 15-29 years, was 14%,

which was somewhat lower for men at 12%, but much higher for women at 23%.

The employment problem is more visible in the magnitude of unemployment and the quality of employment. The number of the unemployed in 2011-12, the backlog, was 12 million. The increase in the labour force is about 8 million per annum. Obviously, a reduction in, let alone an eradication of unemployment, is an enormous task. But that is not all. The quality of employment is a cause for concern. For a large proportion of the workforce, there is little, if any, security of employment or social protection. Working conditions are poor even in the formal sector and often worse in the informal economy. Estimates for 2011-12 suggest that 25% of all workers in India lived below the poverty line adopted by the government, and almost 60% of all workers lived below the World Bank poverty line of Purchasing-Power-Parity US\$2 per day (India Labour and Employment Report 2014).

It would seem that the employment problem has been aggravated, rather than resolved, by development outcomes in India over the past three decades. Rapid economic growth has not led to commensurate employment creation. Gross domestic product growth was 6.2% per annum over the period 1980/81-2011/12, although it was even higher at 8.4% per annum during 2003/04-2011/12. Figure 1 shows that total employment growth was far slower at 2% per annum during 1983-1993/94, 1.8% per annum during 1993/94-2004/05, and just 0.45% per annum during 2004/05-2011/12. In fact, employment growth was sustained by the services sector, because it was low or negative in

agriculture and modest in manufacturing. However, during 2004/05-2011/12, when output growth was most rapid, employment growth dropped sharply across sectors.

The mismatch between output growth and employment growth emerges clearly from Figure 2 on employment elasticity (proportionate increase in employment divided by proportionate increase in output), total and sectoral, for the three periods. It has a value of one when employment growth is exactly the same as output growth and a value of zero when employment growth is zero; but it can be greater than one if employment growth is higher, or negative if employment growth is negative. The figure shows that employment elasticity declined progressively over time across sectors. During 2004/05-2011/12, when output growth was most rapid, it was negative in agriculture, negligible in manufacturing and services, and close to zero for the economy.

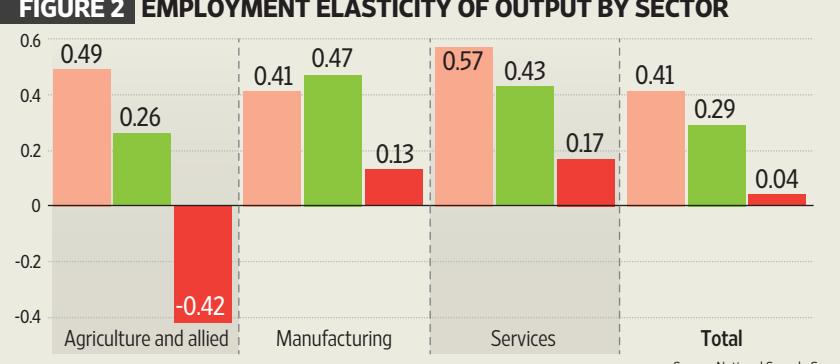
This reality is best described as "jobless growth". The impressive pace of economic growth in India has been driven by increases in labour productivity rather than increases in employment. Such jobless growth is neither an accident nor a coincidence. It is the outcome of policies. Macroeconomic policies sought to focus on stability, defined in terms of prices rather than output or employment, so that managing inflation and balancing budgets became the essential objectives. Economic policies that stressed more openness in trade and investment sought to attain price competitiveness by reducing unit costs of production for selling abroad and attracting foreign investment at home. This called for wage restraint

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FIGURE 1 EMPLOYMENT GROWTH IN INDIA BY SECTOR



FIGURE 2 EMPLOYMENT ELASTICITY OF OUTPUT BY SECTOR



and labour market flexibility. Structural reforms attempted to increase average labour productivity, through the use of labour-saving technologies or through a restructuring of firms that increases efficiency.

Obviously, economic policies that dampen or stifle employment creation require correctives. But the promotion of employment as an objective also needs proactive policies. For one, it is necessary to match the supply of labour with the demand for labour in a market economy. For another, it is necessary to make the unemployed employable. The pursuit of these objectives is not rocket science. Skill development is an imperative. Its importance is widely recognized. Yet, we have miles to go in this domain. School education for the unlettered, to the secondary level, would make them both trainable and employable, particularly in the manufacturing sector. Getting away from the diploma-disease, which has spread in the search for scarce employment, is absolutely essential, through vocational education or technical training, to make the unemployed, especially educated youth, employable.

Modest increases in agricultural output are associated with negligible increases in employment. The informal or unorganized services sector is an employer of the last resort, but levels of income are low and quality of jobs is poor. Therefore, the manufacturing sector is the only feasible path to employment creation. It has to be the focus of employment policies. And this would be in conformity with our national comparative advantage embodied in cheap labour.

India's most abundant resource, labour, is underutilized. Employment creation can both mobilize and create resources. It constitutes resource mobilization insofar as it uses our most underutilized resource, people. The absorption of surplus labour in employment, then, is a source of economic growth. It also constitutes resource creation insofar as it increases labour productivity, from very low levels, thus introducing another source of economic growth. For workers so engaged, their wages are not only costs for employers but also incomes for markets. The same people who constitute resources on the supply side provide markets on the demand side. From this perspective, there are no trade-offs between output growth and job creation: growth can create jobs, and jobs can drive growth, reinforcing each other.

Thus, employment matters as a driver of economic growth. And if economic growth is to be transformed into meaningful development, which improves the well-being of people, employment creation is essential insofar as it provides income opportunities. In fact, livelihoods are the only sustainable means of reducing and, ultimately, eradicating poverty. Inclusive growth is mere rhetoric. Any process of economic growth is pro-poor if and only if it creates employment.

The time has come to think of employment as a solution rather than a problem. This should also lead to some rethinking about the meaning of efficiency beyond the usual conceptions of economic efficiency or technical efficiency. Indeed, employment expansion is at least as important as productivity increase. In a sense, both represent the utilization of labour as a resource. Why, then, does thinking about efficiency focus on one and neglect the other? Our popular understanding of efficiency must extend beyond output per worker and productivity gains to include expansion of employment and labour-use.

Jobs were centre stage in Narendra Modi's election campaign in 2014. Later this month, he completes two years in office as Prime Minister. Yet, in government, promoting employment creation is neither on the agenda nor on the horizon. Such disconnect from the aspirations of people is unsustainable in a vibrant democracy. In the realm of politics, employment must once again become an integral part of the discourse and the process, as a primary objective rather than a residual outcome.

The evidence cited in this essay, the latest available, is based on National Sample Survey data on employment and unemployment for 1993-94, 2004-05 and 2011-12.

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