

Global Conference on Prosperity, Equality and Sustainability: Perspectives and Policies for a Better World during June 1-3, 2016, in New Delhi

Plenary Session 4 :Panel Discussion on Challenge of Employment and 'Make in India'

Report of Proceedings

This panel was chaired by Mr. **Amitabh Kant**, Chief Executive Officer, NITI Aayog, Government of India and the theme presentation was made by Professor **Ajit K. Ghose**, National Fellow, Indian Council of Social Science Research (ICSSR) and Honorary Professor, IHD. Panelists of this sessions were **Jeemol Unni**, Professor of Economics and Director, Institute for Rural Management Anand (IRMA), Gujarat, **Kunal Sen**, Professor of Development Economics and Policy, Manchester University, and **Duncan Campbell**, Visiting Faculty, Cornell University and former Director Policy Integration Department, ILO, Geneva.

This plenary session focussed on the main findings from the India Employment Report 2016 authored by Dr. Ajit Ghose that is yet to be published. Dr. Ghose highlighted the importance of manufacturing-led growth for employment creation in India, argued for growth of both the organised and unorganised manufacturing sectors and asserted that services-led growth is not a viable option. Dr. Ghose presented his arguments under three key themes.

Theme 1 was on the changing nature of employment conditions in India. Under this, he explained that usual indicators like employment growth, unemployment growth and wage growth do not help in assessing change in employment conditions. Additionally, he argued that, firstly, employment growth is no different from labour force growth; GDP growth is independent of employment growth as India is a labour surplus economy and labour does not constrain GDP growth. Secondly, unemployment reflects queuing for jobs in the organised sector by educated youth; with age, youth unemployment decreases since either they find jobs or take up jobs that they had earlier rejected. Thirdly, he felt that wages do not reflect demand-supply equilibrium; while wages indicate the quality of the job, wage growth does not mean that the labour market has tightened.

Hence, Dr. Ghose felt that there is a need to focus on different indicators like change in the structure of employment and in the quality of each type of employment. He presented six kinds of jobs in India categorised under Organised (Regular-Formal, Regular-Informal and Casual) and Unorganised (Regular-Informal, Casual and Self-employed) and explained the hierarchy in these. The structure of employment means distribution of total employment across the six types. A simple single indicator, namely the ESI or Employment Structure Index (a weighted average of employment across ranks) can be used. Nature of change in employment conditions

can be judged from the change in the structure of employment and the quality-change in each category. Overall, he concluded that there has been substantial favourable change in the employment structure, quality-improvement in each type of employment and improvement in employment conditions. However, employment conditions still remain poor.

Under the second theme on the nature of employment challenge confronting India, Dr Ghose said that the question of subsidiary workers and persons out of labour force was raised since the underemployed and the subsidiary workers need to move to full-time employment. So effectively the employment challenge is to exhaust the stock of surplus labour and the currently unemployed so that the fresh entrants in the labour market can be absorbed. This, according to Dr. Ghose would be possible if economic growth of around 8 per cent is sustained, growth is not confined to the organised sector and there is fairly high growth of the unorganised sector, growth of the organised sector is employment intensive and around 50 per cent of the incremental jobs in the organised sector are for the low-to-medium-skilled.

The third theme, Dr. Ghose explained is related to the necessity to achieve rapid manufacturing-led growth to meet the employment challenge since rapid services led growth is not feasible and manufacturing led growth would be more employment intensive (than services) and create higher proportion of jobs for low-skilled labour. Manufacturing would also induce indirect job creation in services, stimulate labour intensive services and encourage growth of construction.

The Chair, Mr. **Amitabh Kant** commented that while manufacturing is a key driver for the growth of India, India has been a difficult place to do business as there are numerous binding and distorted labour regulations and policies which prevent the country from becoming an integral part of global supply chains. He said that the nature of manufacturing is changing across the world and it is increasingly getting digitised and hence manufacturing in the present era leads to creation of different kinds of jobs. Some major challenges faced by the country is falling female labour force participation, illiteracy, youth unemployment and the fact that majority of labour force is concentrated in rural areas. Mr. Kant felt that India has been a reluctant urbaniser and it needs to urbanise rapidly in a scientific, sustainable, systematic and innovative way (the current smart city programme is one such example) such that urbanisation can lead growth of the manufacturing sector and creation of quality employment.

Professor **Jeemol Unni** said that India has not had a jobless growth but that jobs mainly have been created in the unorganised sector. She felt that Dr. Ghose has rightly looked at the stock of labour (including those who have been left out of the labour market) and not just at the principal workers. Some of the key areas to be focused upon are to encourage small enterprises to grow and develop, look at innovative possibilities of organising the small producers so that they can get a good price in the market and to systematically measure skills (the presenter has

used education to measure skills) so that it is possible to understand what kind of skills are required in different forms of employment like in manufacturing. At the same time, she questioned how income of the self-employed was calculated as the National Sample Survey does not provide that information.

Dr. **Duncan Campbell** observed that there is educational polarisation in India where those with secondary education are not really absorbed in the labour market and in tertiary education there is high variation in quality. The report combines both positive and normative analysis but it is important to prioritise the policy recommendations as the current list is very long. He suggested that one explanation behind wages not reflecting demand and supply equilibrium in the labour market might be that it is not a nationally integrated labour market. He opined that the ESI is a useful tool which can be applied to understand sectoral differences to see how one sector has improved or deteriorated in terms of another. Dr. Campbell said that manufacturing has not been the engine of growth in the world except in East Asia and instead there has been deindustrialisation in Latin America and Africa. There is also a current trend of job polarisation in the digital era where jobs in manufacturing are being replaced by robots like in Japan, United States and Germany where labour is expensive. He mentioned a recent study by the World Bank, which highlights that many developing countries are experiencing the same phenomenon and India is one of them. In this light, he argued that it is important to reconsider whether manufacturing can be the major source of employment growth in the future.

Professor **Kunal Sen** used ASI (Annual Survey of Industries) data to show that the employment and real wages in organised manufacturing are stagnating. For growth of employment in organised manufacturing, he felt that it is important to increase the demand for labour and locate the source of this demand. This can be partially done by incentivising the hiring of workers by removing capital subsidies that disincentivises the demand for unskilled labour, provide incentives for job training and weaken some aspects of the IDA (Industrial Disputes Act) among others, he argued. It is more important to increase the demand for labour-intensive manufacturing goods since there has been a lack of export demand as India has not been able to be part of global production networks and tap into western markets. On the domestic side, it is important to understand the combination of fiscal policies that would generate maximum demand for mass consumption goods. In terms of policies for unorganised manufacturing, employment and output growth in unorganised sector are closely related so any policy that increases unorganised manufacturing growth tends to increase employment. In this case, firms exhibit diverse behaviour depending on their growth trajectories, whether they are household or non-household firms, the industry they belong to and whether they are rural or urban and policy prescriptions should take into consideration this heterogeneity. Construction still

provides the bulk of employment for the unskilled workers and is characterized by informal contracts and exploitative conditions.

Following the comments of the panellists, Dr. **Ghose** said that growth in manufacturing does not preclude growth in other sectors. In fact, if manufacturing is the lead growth sector then other sectors will grow in response. While education is not a perfect measure of skills, it links up well with employment. India has a lopsided education policy where there is too much emphasis on higher education for few and too little emphasis on universal schooling. On the demand side, the domestic market is crucial for India and agricultural growth is important in that. Exports should not be ignored but it should be accepted that India cannot get enough growth like East Asia did through exports. However, there exist supply side constraints like infrastructural bottlenecks and ease of doing business. Capital intensity has grown without associated growth in technology – this is due to capital subsidies which should be eliminated. In the labour market, the wage formation process is autonomous and not connected to productivity. This implies that if more capital is used then the return of increase in productivity goes to profit and not into wages. Real wages have increased but share of wages have fallen. He also clarified that self-employment earnings calculation is from national account statistics.

In the discussion that followed, Professor Ravi Srivastava suggested that since the data presented and analysed was for a specific period of time, one should be careful about generalising the observed trends over time. Professor Bina Agarwal commented on the growing importance of construction in the context of urbanisation. While construction at its basic level employs unskilled workers, it also opens up options for the semi-skilled like carpenters, plumbers etc. These people have post-primary level of education and they can be given skills that are in demand. Finally, Professor Amitabh Kundu said in the context of the Chair's comments that high levels of urbanisation are required but it should be dispersed and should not remain confined to metro cities. It has to be disaggregated by spatial units as the growth potential lies in other smaller and medium cities.
