

## Employment

Typically the process of economic development is marked by three distinct phases:

- an initial phase of the dominance of agriculture,
- an intermediate phase dominated by industry and
- a final phase dominated by services.

The timing of the different phases of structural change and the duration of such changes have, however, been different across different countries. At its peak, industry had accounted for 50 per cent of the total output in many of the developed countries. In most of these countries, it declined in the later phase to around 25 per cent, with tertiary sector taking over.

India's experience has been unique.

- Leapfrogged to service sector
- Employment distribution didn't move with Production distribution

### Areas of concern

- Rate of growth of employment declined sharply during 1993-94 to 2004-05 as compared to the period 1983-1993-94.
  - Inadequate increase in aggregate employment in 90s is associated with a sharp drop in the pace of creation of work opportunities in agriculture. Along with this, increase in non-agricultural sectors was disappointing
  - Employment elasticity also was lower – jobless growth
  - Organised sector employment increased at 1.2% annual during 1983-94, it declined at 0.3% during 1994-2005. This decline is primarily on account of decline in employment in public sector units. Employment growth in the private sector has accelerated in the second period but the acceleration is insufficient to offset the decline in public sector employment.
  - However, there was also an improvement in real earnings across majority of rural and urban occupational groups. Proportion of self employed and salaried wage class also increased and proportion of casual wage workers declined – rapid economic growth had greater impact on the quality dimension rather than quantum of employment (Rangarajan, 2006).
  - Within organized sector, the entire increase in employment has been largely of informal nature, i.e. without any job or social security
  - Explanation: A substantial restructuring of employment relations is under way in the organized sector. This trend appears to be part of international trend towards greater flexibility of employment, unbundling of manufacturing employment (leading to outsourcing of various services, i.e. tertiarisation of employment which is facilitated by growth of telecommunication and IT services). This has led to a growth in the share of employment in informal sector in industry and

services along with growth in informal employment in organized sector (NCEUS, 2009)

- The organized industrial sector has seen overall growth in gross value added and worker productivity with little growth in employment. This implies that the growth is principally due to rising capital intensity of the industrial sector. Work carried out by NCEUS discusses reasons for this:
  - The product composition of exports has been in favour of higher capital and skill intensity
  - Expansion in domestic demand has been in favour of products demanded by high income groups such as automobiles, white goods which are on an average more capital intensive. In addition cost of capital has fallen relative to labour
- Task Force on Employment Opportunities and the S.P. Gupta Committee identified the sectors, which would require focused attention agriculture, food processing and small-scale units in various sectors.
- Comparing 55<sup>th</sup> and 61<sup>st</sup> NSSO round (Rangarajan)
  - There was a distinct upswing in employment growth from an annual 0.98 per cent (1993-94 to 1999-00) to 2.89 per cent (1999-2000 to 2004-05), signaling a reversal of the previous trend of “jobless growth” during the 1990s (1993-2000), which showed an overall employment generation at around only 1% per annum.
  - In the self-employed category the previous trend of decline has now been reversed. Cutting across the rural-urban divide the share of self-employed workers has increased sharply with an offsetting decline in the share of casual labourers.
  - Regular wage workers number has risen during 2000-05, albeit marginal but higher than the figures for 1993-2000.
  - This rise in self-employment has been viewed by some as an indicator of the deterioration in the quality of employment based on the argument that the rise in jobs in this category has been mainly in the unorganised sector where the wage rates are low.
  - Organised sector employment fell further – mostly due to decrease in employment in public sector (source: Director General of Employment and Training)
  - The analysis of the data thrown up by the Survey and projections indicate that bulk of the increase in employment has happened in the informal sector and agriculture still accounts for a large percentage of the workforce. This trend is a cause for concern as the relatively low wages and lack of social security here translate into the phenomenon of ‘working poor’ i.e. workers in the BPL households. In other words, the congruence of labour force and workforce by itself does not guarantee elimination of poverty. The new challenge is one of improving the total factor productivity in the informal sector and in agriculture so that there is a significant improvement in the emoluments of those who are employed, that is, in the quality of employment.
  - Aggregate elasticity of employment (wrt GDP growth) has tripled from a low of 0.15 to a figure of 0.48 – across mostly all sectors.

- Highest for agriculture sector
- 64<sup>th</sup> round (2007-08) Himanshu
  - Employment growth slowed to 0.17% per annum between 2004-05 and 2007-08, despite 9.4% GDP growth – jobless growth again?
  - These trends suggest a need to situate the growth employment linkage in the context of a dualistic labour market with a small minority of organised regular workers and a majority of low paying subsistence workers.
  - The trend in urban areas was that of declining unemployment rates for males, but a secular increasing trend in the 1990s and beyond.
- General observations
  - the workforce participation rates for females are significantly lower than those of males in rural areas in 64<sup>th</sup> round as compared to 61<sup>st</sup> rounds.
  - As far as the status of employment is concerned, the trend in rural areas is clearly that of a decline in self-employment and an increase in casual workers for both males and females, except for the 61st round. For urban males, the trend suggests a secular decline in regular workers and an increase in the self-employed and casual workers. For urban females, however, the trend is entirely the opposite that of males with increasing regular employment and declining self-employment and casual labour.
  - As far as industrial distribution is concerned, there is a secular decline in agricultural employment for both males and females in rural areas. For urban areas, it is also accompanied by a decline in secondary sector employment for urban males, although this is less clear in the case of females. For both males and females in urban areas, tertiary sector employment has increased over the years.

## Problems

- Bulk of the increase in employment has happened in the informal sector and agriculture still accounts for a large percentage of the workforce. This trend is a cause for concern as the relatively low wages and lack of social security here translate into the phenomenon of ‘working poor’ i.e. workers in the BPL households. Acc to EUS 2011, for the first time 13m left agri during 2005-10
- Taking a long-term view of the trends, it is obvious that employment trends have remained stubborn to change. The change in overall employment as well as the structure of workforce shows only a gradual change.

	1983 and 2007-08
Growth of employment (Usual Status)	1.8%
Population growth rate	1.98%
GDP growth rate	6.12%
Rural employment growth rate	1.44%
Rural pop growth	1.66%
Urban employment growth rate	3.08%

Urban pop growth	2.88%
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- Structure of the workforce has changed much more slowly compared to the changes in the sectoral composition of GDP.

	1983	2007-08
Farm sector (share in GDP)	68.5%	55.4%
Share of regular employment	14%	16%

### 2004-05 to 2007-08: Jobless Growth?

The slump in employment creation during 2005-08 may not be a period of jobless growth.

- During this period, not only did organised sector employment grew at the fastest pace in the last two decades, the deceleration in aggregate employment growth would also be consistent with improved incomes and wages.
- In particular, the rebound of the agrarian economy and the consequent increase in wages would imply that females, children and the elderly would have withdrawn from the labour market.
- Distress was also lessened by the introduction of safety nets such as NREGA, a continuous run of good monsoons and better access to credit during the same period. This, in fact, is what is happening during 2005-08 with the largest deceleration in employment growth seen for the same population groups which saw the largest increase during the previous period. Interpreted in this manner, this would be a positive sign with a lessening of distress and consequently distress movement in employment.
- The improvement in the employment situation is also confirmed by the unemployment estimates which remain high for males in the rural as well as in urban areas but decline considerably for females in the rural and urban areas. As a result, the number of unemployed persons by usual status which increased from 8.97 million in 1999-2000 to 11.29 million in 2004-05 declined marginally to 10.88 million in 2007-08.
- The slowdown in employment growth also looks magnified because of the high base in 2004-05 as a result of distress employment. It is then better to compare the employment growth rates, ignoring the 2004-05 survey year. Moreover, since 1993-94, 1999-2000 and 2007-08 were all good agricultural years, the comparison avoids any seasonal factors.
- Ignoring the 2004-05 period, the growth rate of employment during 1999-2000 to 2007-08 is a respectable 1.84% per annum, although marginally lower than the growth of employment during 1983-1993 at 2.05% per annum.

Two phases:

- The period up to 1987-88 was one of relative stability in employment

trends. This seems to have been broken subsequently with episodes of large fluctuations in employment trends. Starting with a period of jobless growth during 1993-2000 to the employment boom during 2000-05 and then again followed by jobless growth during 2005-08, each of these episodes show extreme movements. Considering that demographic and educational attainments have only changed gradually, these also suggest an extreme sensitivity to economic conditions, particularly for a large majority of the population that is at the margin of poverty.

- Though the most recent period after 2005 shows the lowest ever growth rate of employment and almost no non-farm diversification, too much should not be made of this. The previous period (1999-2005) was of extreme distress and had therefore contributed to increasing participation of females, children and elderly – with a large employment growth in informal employment, decline in organised sector employment and large deceleration in wage rates. In this context the slow employment growth during 2005-08, due mainly to a return to more normal participation rates especially of women, may not be too worrisome. But these also imply that the process of labour moving from the farm to the non-farm sector is nowhere as fast as was assessed from the 1999-2005 data. For 1999-2008, the rate of growth of non-farm employment is lower than that in the 1980s and only marginally higher than what was seen in the first half of the 1990s. That is, the perceived non-farm transformation during 1999-2005 was not a result of pull factors due to higher growth in the non-farm sector but was essentially distress diversification into the nonfarm sector due to the lower growth rate of output, incomes and wages in agriculture.
- This aspect – that the higher growth of non-farm GDP is failing to accelerate the rate of creation of decent jobs – is worrying since it belies a basic expectation of “inclusive growth”. The trends emerging from the most recent round confirm the apprehension of many that the focus of recent economic policy is only on the organised sector to the neglect of the unorganised sector (latter continues to be around 85% of the total employt); and that although there is some employment increase in the organised sector, this is by a small number and is increasingly becoming more informal. It also raises important questions on the various projections made by the official agencies including the Planning Commission on the ability of the economy to create more decent jobs and therefore inclusive growth.
- However, such a process is not entirely unexpected. The nature of growth in recent decades has been such that it has actually contributed to rising inequalities which have further contributed to creating a class of workers who are not benefitting from growth. The divergence in productivity across farm and nonfarm sectors, and formal and informal sectors has only grown during the last years. The evidence on increasing inequality is already available from the consumption expenditure surveys. These are also confirmed by other sources such as the ASI and national accounts which show that not only has the share of profit in value added increased sharply over time, particularly in the last two decades, it also implies that a large majority of the workers at the lower strata of income continue to

- remain vulnerable and poor.
- It is this segment of the population which, since it is perforce “flexible”, contributes to increased employment fluctuations observed in the last decade. It appears that employment is not responding to the longer run opportunities that ought to be created by a growing economy but is responding to vulnerabilities imposed by any short-run shrinkage of incomes. It is obvious that the nature of growth is not inclusive by any means. Rather, it has contributed to the creation of a class of workers which remains vulnerable to economic vagaries.
- Employment estimates are a reflection of what is happening to the larger economy and although longer-run employment growth is positive, there are large fluctuations in more recent data which also show absolutely no sign of any employment acceleration in response to higher GDP growth. What is required is a better understanding of the way employment markets respond to economic stimuli.

### Goldar

- The results of the Annual Survey of Industries (ASI) of the Central Statistical Organisation, Government of India reveal that between 2003-04 and 2008-09, employment in the organised manufacturing sector increased at a very high rate of growth of 7.5% per annum. The growth rate of employment for total ASI (coverage slightly greater than manufacturing) was marginally higher at about 7.6% per annum.
- In the preceding eight years, 1995-96 to 2003-04, employment in the organised manufacturing had fallen at the rate of about 1.5% per annum. Evidently, the recent trends in the organised manufacturing employment are quite different from those in the period 1995-2003, and the impression of jobless industrial growth that has been prevailing for some time among scholars and other commentators on the Indian economy is not valid any more.

	Value add in organized manufacturing sector	Growth rate of employment
2003-04 to 2008-09	12%	7.5%
1992-93 to 1996-97	13%	2.8%

- Increase in employment due to growth in private limited companies. The share of private limited companies in total ASI employment has increased from 25% in 2003-04 to about 33% in 2008-09.

### Way ahead:

- Employment elasticity of manufacturing sector has not been particularly high. A greater focus is required on export oriented industries.

- The experience suggests that the new employment opportunities are likely to be generated in the unorganized sector/ organized sector with informal character of work. Thus, the challenge of quality of work, in terms of earnings and social security will continue. Provision of a minimum social protection to this large mass of workers is, therefore, likely to emerge as a much greater challenge than that of expanding employment opportunities
- Generation of productive and gainful employment, with decent working conditions must form a critical element in the strategy for achieving inclusive growth.
- According to NCEUS, we need to reverse the priority of development agenda from growth first to one of employment first.

### **Economic Survey, 2012**

- For growth to be inclusive it must create adequate livelihood opportunities and add to decent employment commensurate with the expectations of a growing labour force.
- The Eleventh Five Year Plan (2007-12) aimed at generation of 58 million work opportunities. The NSSO quinquennial survey has reported an increase in work opportunities to the tune of 18 million under the current daily status (CDS) between 2004-5 and 2009-10. However, the overall labour force expanded by only 11.7 million. This was considerably lower than in comparable periods earlier, and can be attributed to the much larger retention of youth in education and also because of lower labour force participation among working-age women.
- As a result, unemployment in absolute terms came down by 6.3 million. The lower growth in the labour force is not expected to continue as educated youth are expected to join the labour force in increasing numbers during the Twelfth Plan and in the years beyond.
- This will push the production possibility frontier outward and take the economy on to a higher growth trajectory and can also be viewed as a means of empowerment.
- There is higher unemployment rates acc to current daily status (6.6%) compared to weekly (3.6%) and usual status (2%) – high degree of intermittent unemployment, particularly in rural areas (role of NREGA)
- Only 15.6% of the total workforce had regular wage employment during 2009-10, 33.5% - casual labour and 51% self employed.