

# Conclusion

India's challenge is completing a dual structural transformation, from an agrarian to an industrial, and from an informal to a formal economy, under significant constraints of equity and ecology. Employment policy can contribute to all dimensions of this process.



**T**he creation of adequate, high quality employment is one of the most formidable challenges for economic policy in India today. This requires imaginative thinking based on reliable data and thorough analyses.

This report on the State of Working India has been prepared with the aim of sharing such information and analyses. In this concluding chapter, we first summarise some of the key findings. We then discuss each of the three major sectors in the context of employment policy. We end with reflections on the place of work in the twenty-first century.

## 6.1 / Key Findings

### Nature of the Labour Force and the New Challenge of Open Unemployment

The analysis presented in Chapter Two underlines a significant new development in the Indian labour market: an increase in the rate of open unemployment. The principal status unemployment rate touched 5 per cent in 2015, which is high by historical standards. Further, the headline national rate hides large variations across states as well as age groups, reaching as high as 8 per cent in some northern states and up to 15 per cent for the youth and the higher educated. This is partly to be expected with an increase in the level of education, but is also worrying since it indicates an inability of the economy to create jobs commensurate with the expectations of educated youth. New employment data to be released later this year should be watched keenly to see if this is the 'new normal' for the labour market.

There has been a controversy over the number of new entrants into the labour force each year. Mehrotra (2018) points out that the actual number after 2004 has been much lower than 12 million a year, the latter frequently cited in the popular press. Notwithstanding this, as per the estimates of Ghose (2016), the economy still needs to generate 16 million new jobs annually to accommodate surplus workers and reach the 'Lewis Turning Point' in 15 years. This consists of around eight million new entrants every year (though this changes depending

on the LFPR and may be less), seven million workers out of the pool of surplus labour, and part of the unemployed (0.9 million). Our analysis shows that, far from generating the required employment, the economy may have experienced a net destruction of jobs between 2013 and 2017.

Finally, we point to the need to rethink skill policy. The Indian labour force is becoming increasingly more educated. However, this does not mean an increase in skill. In the Indian context, skill without formal education and formal education without skill are both realities to be dealt with. The government has correctly identified skilling of the labour force as a priority area. However, not enough attention has been paid to upgrading existing skills acquired informally on the job. Such skills exist in abundance and should be the central focus of any skill policy.

### The Kuznets Process: Sectoral Performance

The absolute reduction in the size of the agricultural workforce, which started in 2004, continues to be a reality. These workers, together with the new entrants into the labour force, need to be accommodated in the non-farm economy. Thus far, the destination of workers leaving agriculture seems to be largely construction and not manufacturing. Nationally, construction now employs 50 million workers—as much as manufacturing. Its share in rural employment has gone from 1.4 per cent in 1972 to 10.7 per cent in 2011, and it is the largest rural employer after agriculture.

With respect to manufacturing, the most salient point to note, from an employment perspective, is that this sector has failed to expand its employment share significantly over the past 25 years, remaining in the range of 10–13 per cent of the workforce. The last few years have seen rapid growth in employment in the organised manufacturing sector, but this has come at the expense of employment in the unorganised sector.

Increasing capital intensity in both labour and capital intensive industries has meant low elasticity of employment in general. That said,

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some success stories do exist in the form of industries such as knitwear, plastics, footwear, and metal products, which have delivered stronger than average job growth as well as wage growth.

The labour law regime does not seem to be a constraint on job creation as such, but rather on good job creation, having the perverse effect of incentivising firms to hire off-the-book and contract workers to escape regulation. The current strong *de jure* and weak *de facto* regime seems to be a lose-lose situation, in need of reform. However, a simple elimination or relaxing of laws without an increase in regulatory capacity will be counter-productive, making job quality even worse.

### The Nature of the Lewis Transition

The long-run transition from informal to formal work has been slower than desired or expected in India. In 1987, 55.5 per cent of workers were self-employed. By 2015, this had fallen to 46.6 per cent. Correspondingly, the proportion of regular wage workers rose from 15.6 per cent to 20.6 per cent.

The proportion of formal workers among non-agricultural wage workers has been inching up slowly and is now just under 60 per cent as per the broadest definition of formality ('regular workers'). However, if access to at least one social security benefit (such as paid leave, provident fund, or pension) is included in the criterion, this number falls by half to 30 per cent. A mere 17 per cent of non-agricultural wage workers in the Indian economy have access to regular employment with some benefits and a written contract. It must also be borne in mind that the most rapidly growing sector, construction, is also the most informal.

Wage growth has been occurring consistently, except for the agricultural sector, even if at only half the rate of GDP growth. The recent India Wage Report finds that, between 1994 and 2011, real wages for regular workers grew at 3 per cent per annum and those for casual workers at 3.85 per cent (Papola and Kannan 2017; ILO 2018). Interestingly, we find that

wage growth in the unorganised manufacturing sector has been faster than in the organised sector at least since 2000. The weak growth of wages in organised manufacturing, combined with large increases in labour productivity occurring on the back of rising capital intensity, has meant a striking divergence between wages of production workers and labour productivity in this sector, and a collapse of the labour share. At its lowest point, around 2008, the share of wages in value-added was less than 10 per cent. It has since increased to around 14 per cent. Further, despite growth, wage levels have remained low, with the vast majority of the workforce earning half the lowest recommended salary by the seventh CPC. The Lewisian surplus thus seems to be manifested via continued low wage levels and wage-productivity divergence rather than stagnant wage growth.

### Labour Market Segregation and Its Effects

With respect to gender and the labour market, India has two distinct problems: first, the overall low participation of women in the paid workforce and second, a segregated industrial and services workforce. Manufacturing remains overwhelmingly male, and segregation has actually worsened in the past ten years in this sector. On the other hand, agriculture is increasingly feminised. Segregation has reduced in services, but, even here, in some industries such as finance and professional services, males continue to dominate at over 90 per cent.

When it comes to caste segregation, it continues to be persistent in both manufacturing and services. However, in services, reservation policies in public administration and education seem to have had the desired effect of reducing segregation. The large caste-based movements for job quotas currently underway all across the country need to be seen in the context of this achievement.

Finally, raw gender and caste gaps have declined over time, but are still large at 65 per cent and 56 per cent respectively.

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## 6.2 / Towards a National Employment Policy

In the Introduction, we formulated India's challenge as one of completing a dual structural transformation, from an agrarian to an industrial economy, and from a largely informal to a formal economy, under significant constraints of equity and ecology. Employment policy can contribute to all dimensions of this process. Where, for whom, and how good the jobs are, together determine the nature of the transformation that the economy undergoes.

A National Employment Policy can take the necessary broad and comprehensive approach needed. Here we discuss what each of the principal sectors needs and can offer. It should be emphasised that our focus is on the question of employment and structural change, not on sectoral policies or reform in general. We also discuss the attendant question of fiscal policy.

### 6.2.1 / Sectoral Considerations

#### Agriculture

The problems of the agricultural sector are manifold and complex. This year's SWI does not address the issues facing this sector. But the centrality of this sector cannot be over-emphasised. What happens in agriculture directly impacts job creation as well as the quality of work in the rest of the economy. The experience of late industrialisers in East Asia shows that comprehensive agricultural reforms lies behind the subsequent success of industrial policy. Conversely, to 'get agriculture wrong' is to reduce the likelihood of good job creation in other sectors.

Raising incomes and productivity in agriculture has three important effects: first, a direct impact on the welfare of nearly half the country's workforce and an increase in domestic demand; second, to the extent that the rural-urban earnings gap reduces, a decline in migration, informality and unemployment, and therefore better working conditions in the cities; and third, a fall in commodity prices and

hence reduced inflationary pressures and more room for industrial growth.

Raising productivity has long been a central focus of agricultural policy, but more emphasis has been placed on private investment by farmers in the form of seeds, fertilizers, pesticides, tubewells and machinery. Public investment in irrigation and electricity, local storage and value-addition capacity as well as better transport are all crucial to convert private investment into higher returns. Conversely, a failure of public investment to complement private efforts means a failure to convert the latter into higher incomes and output.

Hence the problem of low productivity of Indian agriculture compared to other large Asian economies like China, Indonesia, and Vietnam persists. But the situation is different for different major crops. For example, India lags behind all three countries in output per hectare of rice but only behind China in wheat. Wheat output per hectare in India is comparable to that in the United States (NITI Aayog 2015). Indeed, some have argued that Indian agriculture seems to have entered an era of 'permanent surpluses'.<sup>1</sup>

But rather than enhancing farm income, this has given rise to the phenomenon of frequent gluts and resulting collapse of incomes. Further increases in productivity have come with rising costs of cultivation, and there is continuing market power of intermediaries in the agricultural supply chain. The result is a perennial situation of farm distress.

The solutions are as well-known as the problems. Increased public investment in the form of irrigation, extension services, local storage and value-addition capacity, and better transport; increased outlays for MGNREGA, making it a truly demand-led programme; direct income subsidies and more social infrastructural investment in rural areas, to name a few. The recommendations of the National Commission on Farmers ('Swaminathan Commission') constitute a comprehensive basis for redesigning policy (Swaminathan 2006).

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<sup>1</sup> [The age of surplus.](#)

## Manufacturing

A recent, thorough analysis of the need for manufacturing-led growth is available in Ghose (2016). The author responds to the 'manufacturing pessimism' in the literature. This pessimism has drawn on the empirical fact of 'premature deindustrialisation' (Rodrik 2016). The decline in the capacity of this sector to create jobs is seen in the fact that the same share in output is associated with far smaller shares in employment for industrialisers today.

Ghose makes three points. First, among a cohort of Asian countries, India has the lowest manufacturing share of employment. Thus, it is possible that peak levels have not been reached. Second, in the past, a substantial part of employment in services such as design, marketing, finance, transport, health, and so on would have registered as 'manufacturing' employment because these services were supplied in-house by firms. They are now increasingly outsourced. This simply means that such allied employment will appear as service sector jobs today. Lastly, the author shows that setting aside social and personal services, the organised service sector is actually less employment intensive than organised manufacturing.

The policy conclusion is that India should not give up on manufacturing-led employment growth quite yet. Rather, as Santosh Mehrotra has argued, there is a need to bring back coordinated industrial and trade policies.<sup>2</sup>

'Industrial policy' has a bad reputation in some circles in India, calling to mind the 'permit raj'. The policies of the pre-liberalisation period have been criticised for disregarding India's comparative advantage in labour intensive manufacturing. The result is that a labour-abundant economy has diversified into skill-intensive and capital-intensive sectors. But another way of looking at the same problem is that even the relatively small manufacturing sector is more diversified and

sophisticated than comparable countries (Felipe et al 2013). The question is, can this diversified manufacturing base be leveraged as India tries to expand into relatively more labour absorbing industries? For example, by ensuring domestic supply of capital equipment at competitive prices thereby helping the trade deficit. Secondly, note that industrial policy never went away. It merely morphed into more acceptable forms such as tax incentives, FDI, special economic zones, and change in labour regulation regimes. The question thus, is not whether industrial policy should exist, but rather what particular form it should take to enable growth in employment, labour productivity, and wages.

One interesting policy receiving attention currently is a wage subsidy. For example, the Odisha Apparel Policy promises ₹1000 per worker per month for 36 months, for units employing a minimum of 200 workers (Government of Odisha 2016). Similarly, the Gujarat Apparel Policy has a provision whereby the state government will provide 50 per cent of the wages, ₹4000 for female employees and ₹3200 for male employees per month for a period of five years. The subsidy is for new enterprises with minimum scale (150 machines) and generating at least 300 domicile jobs (Government of Gujarat 2017). At the national level, the Government of India has already implemented policies wherein it bears the entire 12 per cent of the employers' contribution to the Employee Provident Fund Scheme for new employees of the garment industry. This is for the first three years on the job for those who earn less than ₹15,000 per month. Such policies are also being implemented in other countries.<sup>3</sup>

Industrial craft clusters are major employers in their own right, with over 500 officially listed arts and crafts and millions of jobs at stake.<sup>4</sup> In addition, they are incubators for skill development and manufacturers of products with cultural value. They deserve much more attention in the employment

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<sup>2</sup> [Why alarmists must not derail policy direction if they want a better India.](#)

<sup>3</sup> [Government to bring employees of apparel, garment and textile sectors under EPFO scheme by bearing 12% of employers' contribution.](#) [Wage subsidies in Australia.](#)

policy (Shrivastava 2018). The crafts sector has suffered from a schizophrenic attitude, extolled on the one hand for cultural and heritage value, and neglected on the other for being a 'sunset' industry. This sector must be viewed as a dynamic industrial sector rather than a dying one in need of preservation (Bhattacharya and Sen 2018). Case studies indicate that intellectual property rights such as Geographical Indications can, to an extent, if they are designed sensitively taking into account technical change in craft industries, enhance incomes by reducing imitation and counterfeiting. But they cannot substitute for adequate infrastructure, credit, and market access that can only be delivered by an industrial policy (Basole 2015a).

Connected to the question of crafts is the link in the policy imagination that equates manufacturing with cities. Several craft clusters are rural. Structural change must not be equated with a movement of the workforce from the rural to the urban areas. Only then can the crucial role of the rural non-farm sector be appreciated. This sector is vital for many reasons. First, a healthy and expanding rural non-farm sector contributes to job creation and increased productivity. Second, by employment creation in the rural areas, it alleviates the pressure on cities. Third, it can provide a more sustainable model of development.

### Services

Tradable services such as IT/BPM have received a lot of attention in India's growth story. However, the non-tradable service sector, in particular the social segment consisting of education, health, transportation and other public services, and hospitality, has 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.

The UBS can be seen as an alternative to the Universal Basic Income (UBI), which has recently gained a significant amount of attention and support from academic as

well as policy circles. UBI, a cash transfer to everyone in the population, is a response to the concern that rising automation will lead to increasing productivity with fewer jobs. A redistribution of these productivity gains will offset the otherwise increasing inequality that may result from such technological changes. The UBI, being a cash transfer is also thought to be free of leakages and hence a more efficient way of providing social welfare, while allowing households the freedom to choose what they want to spend the money on. Some trials of UBI schemes are happening in developed countries, and, increasingly, it is also being proposed for developing countries (Ministry of Finance 2017).

But if the objective is to ensure that the poorest families can maintain a decent standard of living, then the amount transferred has to be enough to cover costs of basic needs that are either not publicly provided or are provided but not at an acceptable level of quality. This necessitates some sort of indexing that accounts for the changes in market prices of these requirements, leaving open the possibility that if the government comes under some fiscal pressure, it can run down the real value of the transfer. We can already see this happening in the case of MGNREGA, where the increase in nominal wage rates has been lower than the inflation in some states. Additionally, in a patriarchal society, household power dynamics will dictate what the cash is used for, and it may not be used in the interest of all members of the household. Finally, there are formidable technical and infrastructural problems in timely delivery of cash transfers.

Keeping these problems in mind, we believe it is worth investing in UBS instead of UBI. A key condition for this is an investment in improved and increased public provision of healthcare, education, housing, security, transport, and utilities. This will have multiple positive effects. Some of these services like healthcare and education have large potential for creating good jobs, which would be the immediate effect of an expansion in these sectors. Additionally, providing these services publicly and universally and ensuring that they are of good quality is likely to improve social cohesion as

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<sup>4</sup> [List of handicrafts and craft maps of States-Uts.](#)

affluent sections of the society would also start using them. Many of these services also have clear economies of scale or network effects, which would lead to efficiency gains that come with scaling up. 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.

Many problems can, of course, be anticipated in implementing such an ambitious scheme in a country with low state-capacity and high social stratification. But the UBI is also equally ambitious, with none of the accompanying direct effects on social infrastructure and human capital. If a big policy is being imagined, it is worth exploring UBS since it would be far better on multiple dimensions, including creation of jobs and reduction of inequality, than UBI.

## 6.2.2 / Macroeconomic Considerations

Currently, there is a wide consensus in policy-making circles that the government must create 'enabling conditions' for private industry to be the key generator of employment (hence, for example, the Make in India programme). In this regard, creating supply-side reforms may improve conditions for private industry-led employment generation. But this is insufficient and one needs to pay far more attention to the demand side.

The patterns of demand that exist are worrying. Apart from the reduction in external demand in terms of exports, India's long-standing investment slowdown remains a major cause of concern. Given the peak of 35 per cent of GDP over a decade ago to less than 30 per cent today, it suggests that the working out of the balance sheet issues requires more time (despite very recent modest increases in capital expenditure from the sector). The main increases in demand have come from increases in private (household) and government consumption, which do not necessarily add to the productive stock of capital in the country.

At the same time, there is clear evidence of underinvestment in social and physical assets like health, education and infrastructure, which are essential for growth, employment and welfare. A recent estimate suggests that the country faces a 1.5 trillion dollar infrastructural gap, which is unlikely to be covered by private investment.<sup>5</sup>

Concerted efforts are necessary to envision alternative macroeconomic and fiscal priorities that deliver the needed employment in a reasonable time frame.

Most importantly, the concerns of debt management and stabilisation appear to be overemphasised. There is very little evidence that fiscal deficits have been inflationary or that they have seriously crowded out private borrowing. Nor is there any merit to the concern that current levels of debt (60–80 per cent of GDP) will have deleterious effects on growth. As the then Chief Economic Advisor, Arvind Subramanian, pointed out in his note on the N.K Singh committee report, debt levels were highest precisely during India's dream run.<sup>6</sup>

The case for additional government spending, particularly in areas where it adds to the productive stock of assets, is very strong. The government could identify a slightly higher debt ratio for a period of 10 years and, with favourable debt dynamics (the real growth rate exceeds the real interest rate, which has the effect of reducing the debt ratio), could provide a useful stimulus that would crowd in private players.

At the same time, industrial policies that target employment-intensive sectors should not be off the table. The historical experience of now more advanced industrial countries suggest that these policies, perhaps more accurately labelled as learning, industrial and technology (LIT) policies, have been a central part of such transformation. At the current juncture, the fruitful question to be asked is not whether but which combination of fiscal and industrial policies are most likely to succeed in achieving the aims of growth and quality employment.

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<sup>5</sup> [India needs \\$1.5 trillion for infrastructure: Arun Jaitley](#)

<sup>6</sup> <https://dea.gov.in/sites/default/files/Volume%201%20FRBM%20Review%20Committee%20Report.pdf>

Finally, there is a need to consider whether governments in countries like India have willingly constrained themselves from adopting strategic trade and industrial policies for fear of being labelled protectionist or anti-globalisation. In fact, a large economy like India should have significant leeway in policy-making to suit its own priorities. After all, the true test of a well-functioning economy is whether it makes life better for all its citizens, not merely whether it is open to trade.

### 6.3 / The Future of Work

Since the nineteenth century, thinkers have speculated on the future of work under capitalism, from utopian as well as dystopian perspectives. One example of the former is John Maynard Keynes' thesis that since technological progress makes output grow rapidly per hour of work, people's needs will be satisfied with ever lesser amounts of work, and the human question of survival would eventually be abolished (Keynes 1963). This would free up more time for creative pursuits and enjoyment of life. Before Keynes, Karl Marx had advanced similar views albeit with a crucial caveat. Driven by the profit motive and supported by alienated labour, capitalism could not deliver such a society. But socialism or communism could. The experience of the twentieth century would seem to vindicate at least half of Marx's thesis. Several decades of growth and large increases in productivity have not reduced toil.

On the dystopian front, the spectre of machines making people redundant, causing mass unemployment has also been repeatedly raised since the nineteenth century. Its latest incarnation is the current debate over Artificial Intelligence and automation. In reality, however, rather than the disappearance of work, we seem to have a proliferation of work that people find meaningless and unfulfilling (Graeber 2018). This is over and above the trend in industrialised countries, especially in the Anglo-American economies, of work becoming less stable and remuneration more tenuous. While in countries such as India, structural transformation proceeds haltingly and employment is often unstable and certainly not adequately remunerative.

Finally, in addition to the usual considerations of security, safety, and remuneration, any discussion of employment must ask what work is for and how to make it meaningful for those who do it. Work should not simply be seen as a disutility to bear in order to have access to income. The need to be doing productive work that provides utility and meaning for both oneself as well as others is one of the most fundamental human drives. If we consider work the basis of human civilization and of human creativity, employment policy cannot simply valorise the labour intensity of any form of production. We must also ask about the quality of a work life as well as the ways in which work disrupts as well as enables life.

***If we consider work the basis of human creativity, employment policy cannot simply valorise the labour intensity of production.***





The challenge is to imagine a path in which the fruits of technological progress are more widely enjoyed and in which the economy provides remunerative, stable and meaningful work that allows human capacities to flourish. This requires both destroying 'bad jobs' and creating 'good jobs.' In turn this process demands large transformations in the way our society and economy are organised.

The first five decades of India's independent existence saw some concerted effort to push such an imaginative transformation. The purpose of several of India's major economic initiatives (small scale industry protection, credit policies, and public sector expansion) was at least in part to aid in the Lewis-Kuznets transformation in such a way as to minimize the wholesale uprooting and social dislocations that come from industrialization and structural change. These policies, however, ran aground and had some limited success at best in generating large scale and meaningful growth and employment. Unfortunately, India's move to a more market oriented economy, while tremendously successful at generating more sustained growth has not done any better in terms of widespread employment generation. At the same time, with the demographic changes that are underway and with the aspirational sentiments of an emergent middle class, the need for such solutions has become more pronounced.

Fortunately, there is a rich intellectual and practical heritage to draw on for charting a path. In India, two influential figures of the early

twentieth century, Mahatma Gandhi and Dr. B.R. Ambedkar thought deeply on the social, ethical, and economic significance of work. They challenged three hierarchies that have plagued the world of work, namely, head versus hand, caste, and colonial versus indigenous. The feminist and ecological movements of the latter half of the century add to this formidable heritage. Taken together, these constitute a large social archive of ideas and practices that is available to us to reimagine work in the twenty-first century.

Gandhi's work on labour was central to his economic thought. It elevated the status of craft as well as indigenous knowledge traditions to be on par with that accorded to intellectual labour and modern knowledge. Ambedkar's challenge to caste was also centered on work. Ending degrading forms of labour and embracing modern knowledge as well as modern forms of work were central to his programme. The modern Indian feminist movement also made work, specifically unpaid work, a central aspect of its analysis of patriarchy. Finally, the new ecological movements, in the spirit of 'environmentalism of the poor' have foregrounded the relationship between livelihoods and ecological consciousness.

Contemporary Indian reality demands a contribution from each of these streams. None of them are complete in themselves. Borrowing from them creatively and selectively constitutes the task of our times.

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