



Azim Premji
University

STATE OF WORKING INDIA

2019

Executive
Summary

Centre for Sustainable
Employment



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About Azim Premji University's Work on Sustainable Employment

Azim Premji University was established in 2010, by the Azim Premji Foundation, with a clear social purpose of working towards a just, equitable, humane, and sustainable society. All of the University's programmes, teaching, research, and practice, work towards this purpose.

To contribute to the critical matter of India creating just and sustainable employment, the University has set up the Centre for Sustainable Employment (CSE), which conducts and supports research in areas of work, labour, and employment. The University is attempting to provide empirically grounded, analytical reflections on the state of work and workers in India, as well as to evaluate and propose policies that aim to create sustainable jobs. To this end the University also gives grants to create new knowledge in the above areas. It also hosts a working paper series to which contributions are invited from researchers, policy-makers, civil society actors, and journalists. The University's CSE website is an important part of this agenda. In addition to research papers and policy briefs, it hosts government reports, as well as data and statistics on the Indian labour market.

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State of Working India 2019

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The Employment Question in India - Politics, Economics, and the Way Forward

1. State of Working India 2019 is being published close on the heels of the 2018 report. The principal reason is that this year's report aims to intervene in the debate over employment generation in time for the general elections to be conducted in April and May 2019. In this report we present an update on the jobs situation for the period between 2016 and 2018, and also present some ideas for employment generation.

2. The recent 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.

3. 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.

4. Without any claim to being a complete list, we discuss seven key factors on the supply side of the labour market and two crucial demand side factors that together contribute to the crisis. On the supply side we have high growth rates and aspirations, the youth bulge, the education wave, the dominance of 'general' degrees, sub-standard degrees, and continued

relevance of caste and gender based rigidities. On the demand side we have the collapse of public sector employment and inability of the private sector to create adequate good jobs due to contractualisation and automation.

5. The foregoing factors are clear to all observers of the Indian economy. The question is, of course, what can be done? Several long-term and short-term measures which face these structural conditions as they exist currently, are needed. Public action and spending should be strong elements of all these measures.

6. The report details four policy measures for addressing the crisis. In Chapter Three, Strengthening Towns through Sustainable Employment: A Job Guarantee Programme for Urban India, we propose a programme that calls for providing 100 days of guaranteed work at ₹500 a day for a variety of works in small towns. It also provides for 150 contiguous days of training-and-apprenticeship at a stipend of ₹13,000 per month for educated youth. In Chapter Four, Creating Good Jobs through a Universal Basic Services Programme, we argue that 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. Chapter Five, How to Revive Indian Manufacturing: On the Need for Industrial Policy, by Jayan Jose Thomas discusses the renewed interest in, and continued relevance of industrial policy. Srinivas Thiruvadhanthai in Chapter Six, Using Fiscal Policy to Alleviate the Job Crisis, argues that there is ample fiscal space to address the crisis via public spending.

7. 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.

What do Household Surveys Reveal about Employment in India since 2016?

1. India's labour statistics system is in transition. The five-yearly employment-unemployment surveys conducted by the National Sample Survey Office (NSS-EUS), the last of which was in 2011-12, have been discontinued. The annual surveys conducted by the Labour Bureau (LB-EUS) have also been discontinued. The last available survey in this series is from 2015.

2. The government has not released the results of the new high frequency Periodic Labour Force Survey (PLFS) conducted by the NSSO.

3. In the absence of official survey data, we use data from the Consumer Pyramids Survey of the Centre for Monitoring the Indian Economy (CMIE-CPHS) to understand the employment situation between 2016 and 2018.

4. CMIE-CPHS is a nationally representative survey that covers about 160,000 households and 522,000 individuals and is conducted in three 'waves', each spanning four months, beginning from January of every year. An employment-unemployment module was added to this survey in 2016.

5. We find that the CMIE-CPHS estimates of the labour force participation rate (LFPR) and the workforce participation rate (WPR) for men are comparable to those from the LB-EUS survey, as well as the NSS-EUS. For women, these rates differ substantially across surveys.

6. Our analysis of CMIE-CPHS reveals that:

a. Five million men lost their jobs between 2016 and 2018, the beginning of the decline in jobs coinciding with demonetisation in November 2016, although no direct causal relationship can be established based only on these trends.

b. Unemployment, in general, has risen steadily post 2011. Both the PLFS and the CMIE-CPHS report the overall unemployment rate to be around 6 per cent in 2018, double of what it was in the decade from 2000 to 2011.

c. India's unemployed are mostly the higher educated and the young. Among urban women, graduates are 10 per cent of the working age population but 34 per cent of the unemployed. The age group 20-24 years is hugely over-represented among the unemployed. Among urban men, for example, this age group accounts for 13.5 per cent of the working age population but 60 per cent of the unemployed.

d. In addition to rising open unemployment among the higher educated, the less educated (and likely, informal) workers have also seen job losses and reduced work opportunities since 2016.

e. In general, women are much worse affected than men. They have higher unemployment rates as well as lower labour force participation rates.

Strengthening Towns through Sustainable Employment : A Job Guarantee Programme for Urban India

1. We propose the creation of a National Urban Employment Guarantee Programme that strengthens small and medium-sized towns in India by providing urban residents a legal right to employment, improving the quality of urban infrastructure and services, restoring urban commons and ecology, skilling youth, and increasing the financial and human capacity of Urban Local Bodies.

2. The proposed programme seeks to address the following key problems:

- Underemployment and low wages in the informal urban workforce
- Migration to large cities from small and medium towns
- Poor quality of urban infrastructure and services
- Ecological degradation of urban spaces
- Shortage of human and financial capacities of Urban Local Bodies
- Unemployment and lack of skills in the educated labour force

3. Groups and organisations working on urban issues across India have many years of valuable experience solving these problems. We hope they find this proposal of interest and invite them to respond to it.

4. This programme should have a strong legal basis in the form of a National Urban Employment Guarantee Act which provides a statutory right to employment at specified wage rates and number of days. While it draws on some principles of the rights-based framework of the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) 2005, the programme has a broader scope as it deals with varied forms of employment. We emphasise that the programme would not be at the cost of MGNREGA but rather the two would go hand-in-hand.

5. The programme should be applicable for all cities and towns with a population less than 1 Million (10 lakhs). It covers about 4000 Urban Local Bodies accounting for about 50 per cent of the urban population as per the 2011 census.

6. The proposal calls for providing 100 days of guaranteed work at ₹500 a day. It also provides 150 contiguous days of training and apprenticeship at a stipend of ₹13,000 per month for educated youth. The programme thus creates opportunities for urban informal workers as well as for educated youth, giving the latter a chance to acquire work experience as well as skills while enabling them to address needs of their communities.

7. A large variety of works that require a range of education and skills may be undertaken through this programme. These include public works such as building and maintenance of roads, footpaths, and bridges; creation, rejuvenation, and monitoring

of urban commons like water bodies, forest land, wetlands, and parks; monitoring, evaluation, and surveying of environmental quality, apprenticeship in municipal offices, public schools, and health centres; and provisioning of care for children and the elderly.

8. The relevant Urban Local Body (ULB), such as the Nagar Panchayat, Municipal Council, or Municipal Corporation, shall be the principal authority responsible for administering this programme. It shall identify projects, prepare annual works plans and implement the programme in a participatory manner by involving the ward committees and ward sabhas. The programme shall be administered by a set of dedicated staff starting from the level of the Ward.

9. To make it truly demand-driven, we propose that the annual estimated pool of Central government funds be transferred to the states at the beginning of each financial year. The state governments, in turn, would transfer the Central and the state share of the budget to the ULB so that funds are locally available. To ensure timely payment of wages, the wages would be disbursed in a decentralised manner at the local ULB.

10. We propose proactive transparency and accountability structures such as mandatory periodic social audits and public hearing through a designated independent unit, as well as a mandatory grievance redressal architecture. The programme includes a 'right to timely grievance redressal' which ensures that the grievances of workers are addressed through Grievance Redressal Councils at the Centre and state levels, and dedicated Grievance Redress Officers at the ULB.

11. The total estimated programme budget would range from 1.7 to 2.7 per cent of GDP depending on whether employment is guaranteed to one adult from every household or every adult resident. We estimate that between 30 to 50 million workers in India's small towns will be eligible for employment through this programme.

Creating Good Jobs Through A Universal Basic Services Programme

1. We propose the creation of a Universal Basic Services (UBS) programme that will expand the current public system of delivering key services creating millions of good jobs in the process.

2. India has experienced several years of high GDP growth with improvements in availability of private goods and services. However, it has failed to convert this growth into a strong system of public goods. As malls, mobiles, and motorcycles have flourished, streets, schools and sanitation have suffered.

3. Historical experience of industrialised economies shows that the transition to a mature democracy involves the creation of a strong and shared sense of the public. There is an urgent need to expand public spending on services that will create an inclusive and stable democracy.

4. In this paper, taking the example of two crucial public services, health and education, we first show that, despite improvements, India currently underperforms relative to comparable developing countries in terms of public spending as well as outcomes. Out-of-pocket spending by households on health and education is high, and a leading cause of indebtedness.

5. State-level analyses show considerable heterogeneity in spending as well as performance. We identify states that have performed relatively well in delivering public services given their level of per capita income. We find that states with relatively higher public spending on health per capita also tend to have lower out-of-pocket expenses in private health facilities. We also identify states which are providing public education that delivers outcomes on par with the private system and at a fraction of the cost to the household.

6. On the employment front, we find that a modest expansion of the current system, that consists of filling vacancies and eliminating shortfall in infrastructure in the health and education systems, can create more

than 2 million jobs, which is around 15 per cent of the current workforce in these two sectors.

7. Regularising the employment of anganwadi workers, ASHAs, helpers, and other contractual employees in the public health and education system can create good jobs for another 3 million workers.

8. There have been calls recently to increase the health budget from around 1 per cent to 3 per cent of GDP, and the education budget from 4 to 6 per cent of GDP. Our analysis strongly supports the need to make this commitment. It will make enough resources available to eliminate existing shortfalls, expand capacity, and create decent jobs for millions of workers across the education and health spectrum.

9. We analyse the current policy approach to urban housing and argue for greater attention to the inadequate nature of available housing, rather than only its presence or absence. We also argue that there has been too much emphasis on ownership, and not enough on seeing housing in the holistic context of the lives and priorities of the working poor in urban areas.

10. We argue that provisioning of public housing is connected to employment in two keys ways: as a direct creator of jobs, and as a facilitator of good jobs via ease of access to transportation and other essential public services.

How to Revive Indian Manufacturing? On the Need for Industrial Policy

1. This paper argues that the absence of a well-articulated industrial policy has been a major stumbling block in expanding manufacturing employment in the country.

2. State intervention has played a crucial role in the successes of the East Asian economies such as South Korea and Taiwan where the 'leading hand of the State' was instrumental in identifying potential areas of growth, as well as in guiding, promoting, and disciplining the private players.

3. The withdrawal of the State from industrial development in India after the 1990s has implied not only a marked deceleration in public investment but also the State's abdication from the sphere of industrial policy. This has been a crucial difference between the Indian and the East Asian industrialisation experiences.

4. After a long period out in the wilderness, State intervention in industrialisation has been making a comeback in scholarly and policy circles. There is now greater recognition of the fact that economic growth is delayed not just by government failures, but often more severely due to market failures. Recent discussions highlight the role of State as a leading player, especially in the creation of new technologies and in the setting up of sophisticated industries.

5. After 2004-05, while there has been a marked acceleration in the growth of factory employment in India, the growth of overall manufacturing employment decelerated, mainly due to the stagnation in employment growth in the small and informal sector firms. The 'spread effects' of the growth of the factory sector on small firms in the informal sector have clearly reduced after the 2000s.

6. At the same time, there has been growing informalisation within the factory sector during recent years. The shares in incremental employment of contract workers and other employees who are outside the purview of the labour laws have been rising sharply since the 2000s onwards. Also, as shares of gross value added in the factory sector, profits have been rising and wages declining during this period.

7. Given such a context, labour laws no longer appear to be a constraint on the growth of the manufacturing. Experiences from various industries show that employers find different ways to circumvent the existing labour regulations, while the authorities adopt a lax attitude towards implementing them.

8. After 2011-12, the sharp decline of investment in the Indian economy has contributed to a slowing down in the growth of the factory sector. But the growth-retarding effects are likely to be much higher in the informal sector, especially in the aftermath of demonetisation of high value currency notes in

November 2016 and the introduction of goods and services tax (GST) in July 2017.

9. The paper identifies the following key issues in Indian manufacturing, which a new comprehensive industrial policy should address.

a. Public investment: Investment rates in India had reached the levels achieved by China by 2007. However, the Chinese and the Indian rates began to diverge after that. In the aftermath of the global financial crisis, while the State in China responded with massive investments in infrastructure and new technologies, the Indian economy suffered due to stagnation in both public and private corporate investments.

b. Infrastructure: In India, electricity shortages have had a significant negative effect on the growth of output and revenues of manufacturing firms. The growth-retarding impacts of power shortages have been more severe on small industrial units, which cannot afford to install generators. Our field research in Coimbatore in Tamil Nadu confirms that power shortages have been the most serious constraint to growth in this industrial town between 2007 and 2014.

c. Finance: From the 2000s onwards, development banks in India as well as in many other countries began offering 'universal banking services', diluting their core strengths in long-term lending. With the crisis due to NPA and other problems affecting the banking sector, credit disbursed by the commercial banks to the industrial sector has declined sharply from 2014-15 onwards. Several owners of small and medium firms we spoke to highlighted the problem of relatively high interest rates.

d. Trade liberalisation: The weighted average of import tariffs in India on capital goods declined from 94.8 per cent in 1991-92 to 5.6 per cent in 2009-10. The tariff reductions have adversely affected the prospects of India's manufacturing firms, which are, as noted above, already disadvantaged by many supply-side constraints.

e. Capital account liberalisation: The gradual liberalisation of India's capital account from the 2000s onwards and the resultant increase in the inflows of foreign portfolio investments (FPI) into the country

have created problems for the country's manufacturing sector. The volatility in FPI flows has led to wide fluctuations in exchange rates and also in the prices of several commodities (such as steel and cotton).

f. FDI: Recent studies show that the impact of FDI in promoting manufacturing growth in India, especially by bringing in new technologies and managerial capabilities, has not been very high.

g. Regional diversity: In India, industrial policies should reflect the priorities and requirements for industrial development across various regions. There are variations across states with respect to demographic structures, which also have important implications for their labour markets. This paper uses the example of Kerala to illustrate the importance of state-specific industrial policy.

h. Research and development: India requires technological advances that generate new economic opportunities and absorb — not displace — labour. It needs to be noted that innovations and technological interventions are needed in the case of traditional and labour-intensive industries as well.

i. Domestic Market: India should envisage an industrial growth that is driven more by the domestic market, which will benefit from an improvement in the wages and incomes of its rural and urban informal workers. In any case, the prospects for a growth strategy led by exports are rather bleak, given the continuing crisis and the uncertainties in the global economy.

Using Fiscal Policy to Alleviate the Job Crisis

India consistently ranks high among major economies in economic growth, but its record in employment generation has been underwhelming. As the State of Working India report (2018) shows, each percentage of gross domestic product (GDP) growth has resulted in fewer jobs being created over the past 25 years, barring the 1999-2004 period. While India has made great progress in alleviating extreme poverty, employment generation is critical if we want to move the masses toward middle income. Most of macroeconomic policy and strategy is focused on generating growth, but little attention is paid to employment generation beyond lamentations, especially when there is good evidence of a substantial difference in outcomes when fiscal policy is directed towards employment.

India needs a comprehensive national employment policy, supported by fiscal expansion, driven by policy designs that promote labour-intensity while addressing the vast needs of basic services, ecological sustainability, and preservation of heritage and traditional crafts. However, such a policy will flounder if the bogeyman of fiscal sustainability forever hobbles the fiscal support needed. In particular, the obsession with rating agency decisions is pernicious. As I discuss in Section 6.2 below, there are major misconceptions about India's fiscal policy, government debt, and fiscal sustainability that are belied by India's own experience since the 1980s. Unquestionably, developing economies face greater constraints than developed economies on the balance of payments (BOP) front. I discuss these challenges in Section 6.3. However, currently, with the central government primary deficit almost vanishing, there is ample fiscal space to support employment programmes.

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