



# A Clarion Call for Just Jobs: Addressing the Nation's Employment Crisis

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India's labour market is ailing. Addressing of the employment crisis has been mired in a raging debate over the scale of job creation, the availability of data, and which sources and indicators – unemployment or productivity and wages – accurately reflect the state of the job market. The new government has an opportunity to move beyond this debate, acknowledge what ails the labour market, and take measures to address the crisis.

## What are the Challenges?

Only one in two Indians of working age, 15 years and above, participate in the labour force.<sup>1</sup> Only about

one in four women of working age, 23.3%, enter the labour market.<sup>2</sup> Female labour force participation has been declining since 2004 when it was 42.7%.<sup>3</sup> This drop can be attributed to several factors ranging, for instance, from girls staying in education longer and delaying their entry into the labour market, to the 'middle income effect'. A lack of demand from female friendly industries, such as apparel and footwear, and continuing social disapproval are both important factors.<sup>4</sup> Other culprits include migration and the nuclearization of families where there are fewer women in the household to contribute to domestic work. Female or male, low labour force participation is a loss of precious productive potential.

Unemployment is also a loss of productive potential. Recent data suggests that unemployment rose to 6.1% in 2018.<sup>5</sup> A rise in unemployment can largely be explained by the fact that more young people are acquiring an education.<sup>6</sup> With education comes the expectation of a better job. Those who can afford to educate themselves also tend to be in a position to wait for the right job to come along.

Whether one buys the hotly contested unemployment figures or not, the possibility of a growing trend in unemployment is a matter of concern; but arguably more pressing, certainly in terms of the scale of the problem, is the issue of underemployment. The quality of jobs is as important as the quantity of jobs, and in India more people struggle with the former than the latter.

Most people in India cannot afford to be unemployed; they have to work to sustain themselves. Among those who are working, informal employment as a share of non-agricultural employment was 68.4% in 2018.<sup>7</sup> Informal employment usually entails the sharing of low-productivity work, with poor wages and the absence of social protection.<sup>8</sup>

India's 361 million youth between the ages of 15 to 29 represent just under 27% of the country's population.<sup>9</sup> Inspired by the narrative of an emerging market economy with high levels of economic growth, India's youth have rising aspirations. Yet economic trajectories are not built just on aspirations and potential, but also on opportunity. Many of India's youth face constraints in terms of opportunity arising out of low household income, caste, tribe, gender, special needs or religion. The inequality of opportunity in one's younger years manifests in an inequality of outcomes in adulthood.<sup>10</sup>

Enrolment rates have increased,<sup>11</sup> but learning outcomes remain weak,<sup>12</sup> especially for youth from vulnerable backgrounds.<sup>13</sup> Skills training, especially short-term programmes, cannot compensate for years of poor education. Training may help a young

person get a job, but without the requisite levels of education and soft skills cultivated early on, these programmes are unlikely to offer economic mobility and career pathways.

If these challenges go unaddressed, the nation will squander its demographic advantage. This brief window, where the working age population constitutes a rising share in the total population with a relatively smaller dependent population, will slam shut in approximately two decades from now.

### How Can these Challenges Be Addressed?

The nation needs a **National Employment Strategy** that will lay down specific goals in the following three areas:

1. Generating productive and well-remunerated jobs, which entails making public allocations to support sectors that absorb more labour
2. Making enduring, long-term investments in human capital through good quality education, skills and on-the-job training
3. Strengthening labour market institutions – including thoughtful reform of labour regulations, the implementation of a statutory minimum wage, and provision of social protection, especially universal healthcare

#### **Ministries should submit annual action plans laying out how they intend to realize the goals set out by the National Employment Strategy.**

The plans should follow a standardized template specifying (i) concrete actions, (ii) resourcing, (iii) metrics for success and (iv) timelines. These plans should be submitted to an appointed individual in the Prime Minister's Office (PMO) – a 'Senior Officer In-Charge'. Consolidating the plans under the PMO will also ensure coordination and coherence across different players. In the next five years, the National Employment Strategy should focus on the following.

### BOX 1: **Raising Productivity in Agriculture**

With 44% of the employed in agriculture, it is the most labour intensive, though the least productive, of the nation's sectors.<sup>14</sup> The common definition of structural transformation refers to a reallocation of economic activity away from agriculture to higher value-added sectors such as manufacturing and services. But transitioning such a large number of workers out of agriculture and quickly finding them gainful employment in other sectors is unlikely. A more realistic transformation could be one in which the focus is on improving productivity (and consequently wage levels), especially in agriculture. Increasing productivity is a better way to reduce unit labour costs than reducing wages.

Short-term cash transfers to farmers are the flavour of the season, but these address the symptom, not the cause. More effective would be investments in irrigation, energy and transportation infrastructure for rural areas, which will alter cropping patterns towards more labour-intensive and higher value crops. Programmes to ensure competitive pricing of inputs such as fertilizer and revising skewed subsidy structures are key. Addressing price volatility to give farmers access to fair compensation for their produce, coupled with a regulatory framework that breaks the culture of labour contracting and middlemen in farm employment, will help agriculture become more productive and also attract, absorb and retain more labour. Finally, providing access to land records and real crop insurance, especially to small-scale farmers, will also help protect them in case of a crisis, environmental or otherwise.

#### **1. Generating productive and well-remunerated jobs by focusing on sectors that absorb more labour: Labour-intensive manufacturing**

When seen through a jobs lens, the composition of growth matters even more. In addition to improving productivity and wages in agriculture (Box 1), the nation needs an industrial policy that fosters labour-intensive manufacturing. The National Employment Strategy should call for the formulation of an industrial policy that propels us beyond an ad hoc smattering of industrial parks and estates, special economic zones,

or model townships, to undertake a series of steps to enable the growth of manufacturing firms, especially small ones with potential.

Sectors such as agro-processing can be labour intensive and can boost both agriculture and manufacturing, but this requires developing domestic value chains and associated infrastructure. The industrial policy should actively address issues ranging from land clearances to access to power and tax incentives to help bolster manufacturing firms, especially small ones with the potential to grow.

In addition to developing modern domestic value chains, the nation's industrial policy should ascertain how to support the export capacity of firms and encourage participation in global value chains.<sup>15</sup> This calls for a reassessment of current tariff structures, especially the inverted duty structure, to make manufactures more competitive. We must also leverage trade agreements and regional integration to gain market access and stake claim in relevant value chains.

The latter investments in manufacturing will spawn services in sectors such as logistics and transport. These sectors will be increasingly critical for job creation in the coming years. All of these steps must be embedded in sound physical and energy infrastructure, both of which will themselves absorb labour. The government should adopt a methodology

to measure the potential economic impact and multiplier effects of a given infrastructure project, especially with regard to its potential to facilitate direct and indirect employment. This should be a criterion in targeting public investment accordingly.

## 2. Make enduring, long-term investments in human capital: Education, skills and private sector engagement

If generating more labour market demand is one side of the coin, the other is making necessary investments in human capital. A National Employment Strategy should lay out a plan to make enduring, long-term investments in human capital through good quality education, followed by skills and on-the-job training.

The Ministry of Human Resource Development and the Ministry of Skills Development and Entrepreneurship should be merged to establish an effective school-to-skills-to-work continuum instead of separate education and skills silos. Skills training, especially short-term programmes, cannot compensate for a lack of quality basic education. As such, spending just 3% of GDP on education is inadequate<sup>16</sup>; we must allocate at least 6% to this most critical priority, making sure that the most vulnerable populations have equal access to quality learning. But equally important as more spending is reform of the current system to include, among other things, a greater focus on cultivating employability in school.<sup>17</sup>

As school curricula are reviewed, they must also consider nurturing employability in age-appropriate ways. Soft skills, from hygiene to confident communication, must be fostered from early ages. As a child progresses through secondary school, exposure to a range of trades such as the basics of growing food to cell phone repair, basic woodworking and beauty and wellness can instill adaptability, awareness and a work ethic. This form of ‘multi-skilling’ goes beyond the currently limited models of vocational education in secondary schools. These practices do not have to detract from a focus on

the basics: reading, writing and arithmetic; rather, they can root learning in practical application. All children in school, regardless of gender or other social groupings, should be exposed to a multitude of similar trades. Gender stereotyping in skills training is a disservice to the individual and to the mission of creating better employment for more people.

Another glaring gap in the current ecosystem is that training has been largely supply driven. Efforts to properly align training to the needs of the labour market have been deficient, and effective private sector engagement is lacking. Both of these must be rectified if the skills training system is to be operative.

First, market demand must drive skills training across providers. For this, there is a need to map demand such that the method not only examines the anticipated growth of certain large, formal sectors, but is also fine-tuned to take stock of the registered and unregistered enterprises of different sizes and in different geographies to align job seekers to the wide range of jobs that do exist.

Second, there is a need to reform the Sector Skills Councils (SSCs) to more effectively engage the private sector. The private sector is essential for on-the-job training, apprenticeships and internships; it is also critical for understanding market demand and the qualifications needed for different job roles. It is a valuable source of information to understand how demand projections may change in subsequent years: that is, which sectors will need how many workers, and when? This is particularly important as technological change alters the way people live and work at an unprecedented pace.

Yet the current channels for engaging with the private sector – the SSCs – have been inadequate; their efficacy has been marred by factors including endemic corruption, inability to conduct assessments and certifications effectively, and turf battles with other SSCs and stakeholders. The existing National Skill Development Policy needs to be updated and fine-tuned to, among other matters, reform the SSCs.

### BOX 2: **Reforming Sector Skills Councils**

There is a need to clearly delineate the functions of the SSCs, including their specific role in assessments, certification and utilization of the Qualification Packs and associated National Occupational Standards. Based on the clear and specific functions ascribed to the SSCs, there should be guidelines that clearly state which regulatory bodies the SSCs answer to. They should be required to routinely self-report on their structure, composition and performance. This should include reporting on accounts in a timely and transparent manner. SSCs should be responsible for a revenue generation model that disassociates revenue from assessment, certification and QP-NOS utilization. They should reinforce (though not implement) compliance with existing labour and wage regulations. Each SSC should present a concrete plan for detailed demand mapping and employer engagement. These are a few ways in which the SSCs can be reformed to be more effective.

### **3. Strengthen labour market institutions: Toward a simpler labour code, a national floor minimum wage, universal social protection and better data**

**Labour regulations** are a subject of charged debate – one that seems perpetually inconclusive. The disagreement over whether these laws constitute rigidities that stymie firm and employment growth notwithstanding, most stakeholders agree that there is a need to simplify the existing labyrinth of Indian labour regulations. A clear and consistent labour code is inviting for business and investment. A National Employment Strategy should facilitate the simplification and rationalization of the nation's labour laws.

**Minimum wages** that serve as a floor, to ensure that all workers can afford to meet their basic needs, is a necessary part of a successful wage regime. Labour market regulations have to strike a balance between efficiency and equity. India's national floor level minimum wage was instituted in 1996,<sup>18</sup> but it is non-binding. That is, it has no statutory backing under the Minimum Wages Act, or elsewhere. It is merely an

advisory floor limit for the state governments to align their wages to. A successful wage regime is one that is enforceable and provides compensation ladders; it is established through sound industrial relations and collective bargaining, and is periodically adjusted to ensure that wage growth aligns with changes in productivity and prices. This is what we need.

**Social protection** is about more and better workers – the complement to the ongoing quest for more and better jobs. To this end, basic social protection – health, pensions, maternity, death and disability benefits – should be made available to all through a combination of affordable social insurance and public provision of services, especially healthcare, that allow universal access. Currently only about 7% of the labour force has social insurance; even workers in some organized sector enterprises lack social insurance.<sup>19</sup>

Healthcare is perhaps the biggest concern when it comes to building a productive workforce with economic mobility. That public spending on health – for a country of over 1.3 billion that boasts high levels of economic growth – is barely over 1 percent of

GDP is unconscionable.<sup>20</sup> Millions are one healthcare emergency away from crushing debt and poverty. A National Employment Strategy should call for a simplification of the wide web of existing social insurance schemes, and pave the way towards government support for universal healthcare; this is an imperative for a healthy labour market. As technology, migration and urbanization upend traditional employment models, increasing the prevalence of contract and other flexible categories of workers, social protection becomes delinked from employment, which further reinforces the argument for public provision of universal healthcare.<sup>21</sup>

**Data and evidence** from the field must underpin the National Employment Strategy. 'The lack of reliable estimates on employment in recent years has impeded its measurement and thereby the Government faces challenges in adopting appropriate policy interventions,' wrote the government's Chief Economic Advisor Arvind Subramanian in the 2016-2017 Economic Survey.<sup>22</sup> The Survey goes on to acknowledge the many limitations of India's labour market data including 'partial coverage, inadequate sample size, low frequency, long time lags, double counting, conceptual differences and definitional issues'.

Efforts to gather more data more regularly and frequently with a consistent methodology, and making

the results public, are central to the success of a National Employment Strategy. Subsequent Strategies will be strengthened as more time series data becomes available to accurately assess labour market trends. Any data analysis must be textured with qualitative research that can yield nuances and insights, which are as important as those from broad-brush quantitative data.

A National Employment Strategy also needs political will and resources. Given the urgency of addressing the jobs crisis before the demographic window closes, the Strategy cannot be held hostage to an arbitrary fiscal deficit ceiling. Beyond how much a government spends, the composition of spending matters. That is, spending on the aforementioned areas is more likely to contribute to growth and to a wider distribution of its benefits than other forms of expenditure. In addition, there is a need to reassess existing tax and subsidy regimes to ensure that they are progressive, and that they garner more resources to realize the Strategy's goals.

*Suchha vikas* will take work. Whether salaried or self-employed, whether on family farms or in manufacturing facilities, people across India's culturally and politically diverse landscape rely on their work to earn a living, to fulfil family and social obligations, and to satisfy the aspirations that drive and motivate them daily. Politics and policy must take the necessary measures to deliver just jobs; India's progress depends on it.

## END NOTES

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