

# Comments on India Employment Report 2014

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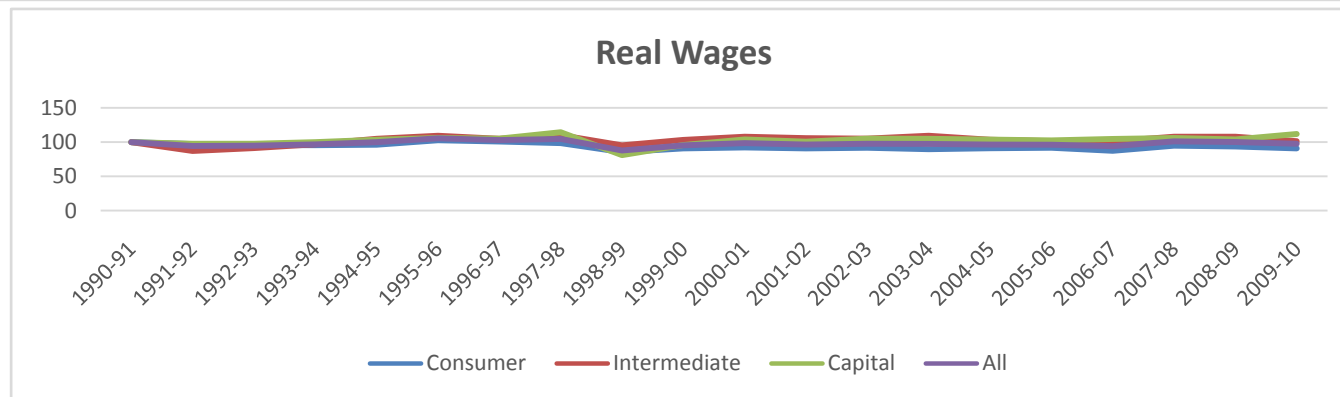
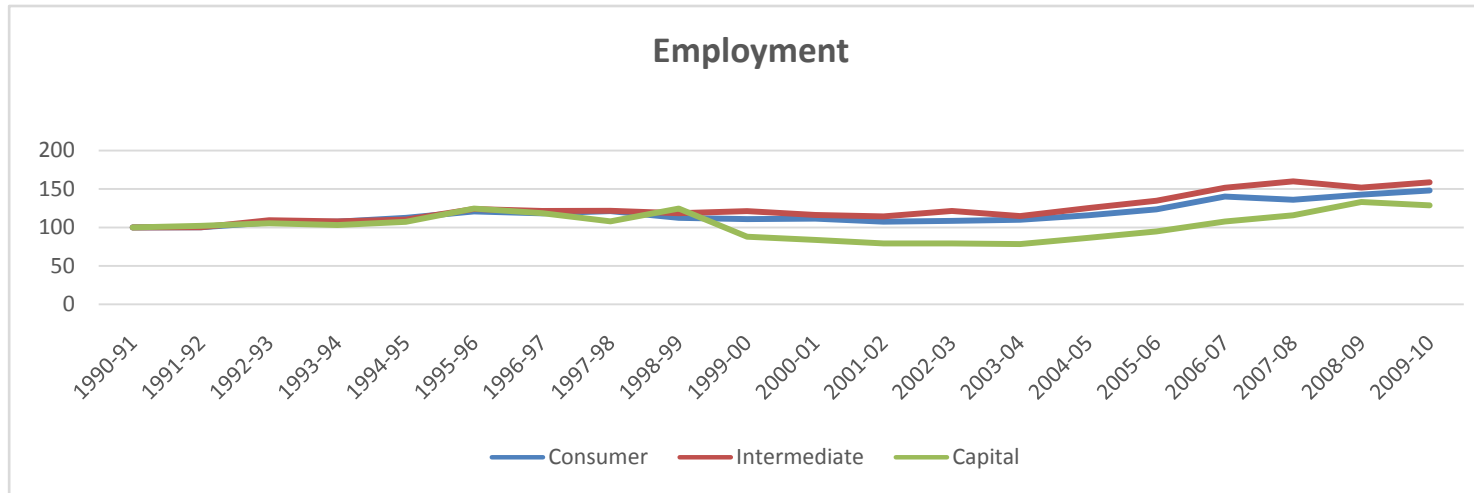
# The Employment Challenge in India

- The Report highlights the importance of manufacturing-led growth for employment creation in India.
- Argues that services-led growth is not a viable option.
- Makes the case for growth of both the organised and unorganised manufacturing sectors.

# Outline of My Presentation

- What is the evidence on organised manufacturing employment and wage growth so far?
- What are the policy options for stronger employment growth in organised manufacturing?
- What are the policy options for unorganised manufacturing growth?
- Is there a role for the service sector for employment creation?

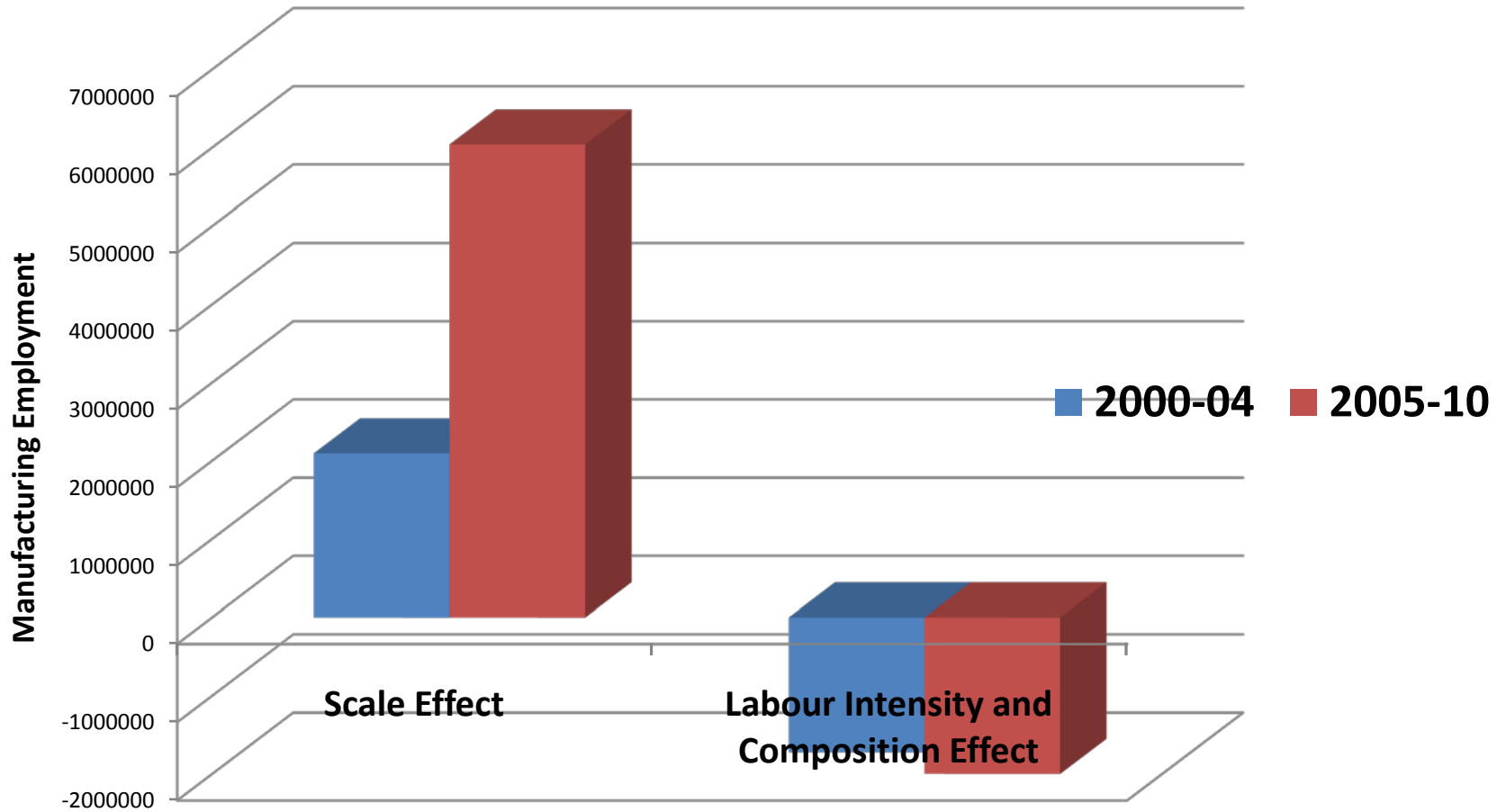
# Employment and Wages in Organised Manufacturing



# Wage Share of Value Added in Organised Manufacturing



# Jobs Created and Lost in Organised Indian Manufacturing



# Organised Manufacturing Employment: Policy Options

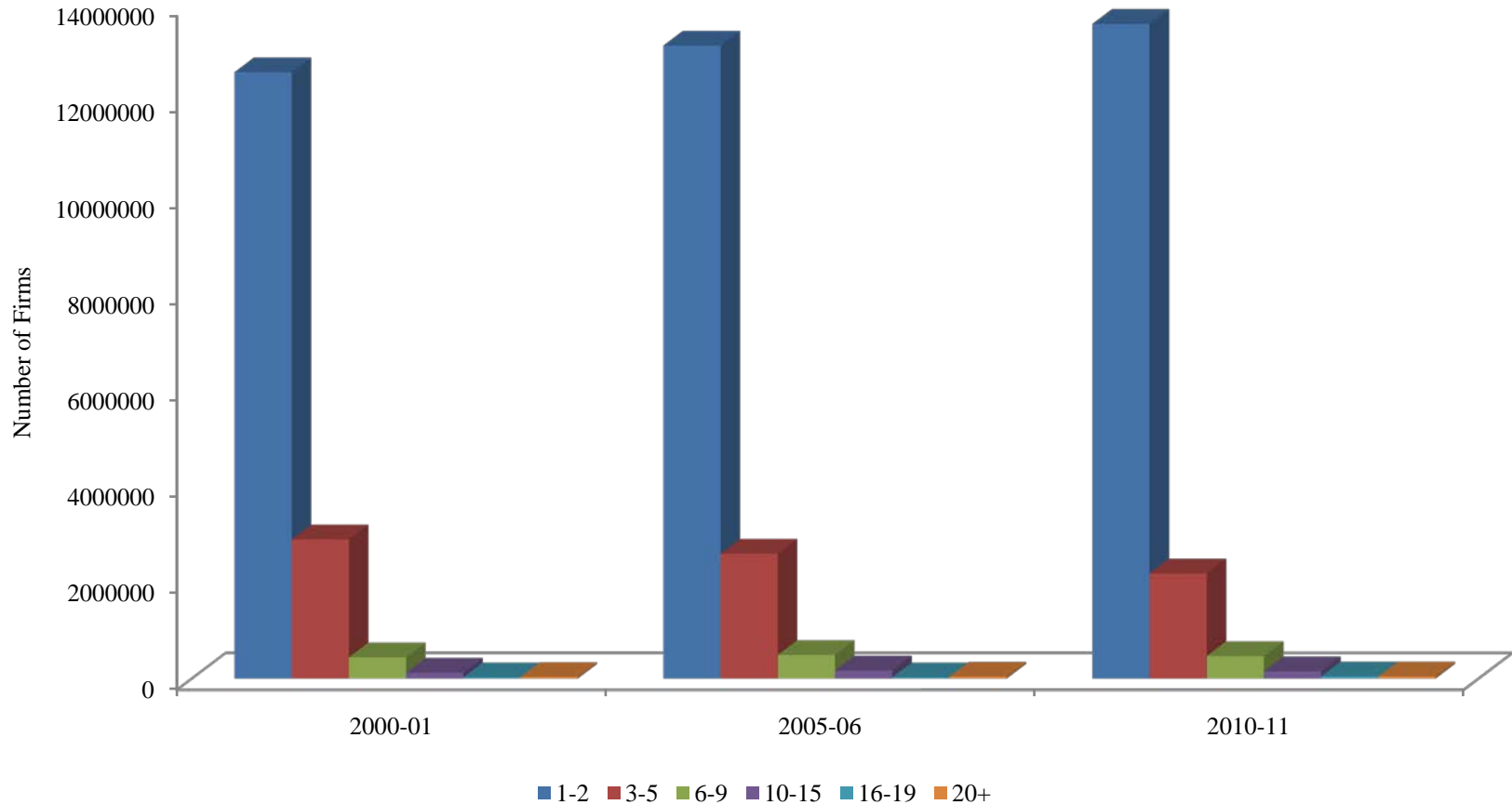
- Conventionally Discussed Options: Labour Laws, Schooling, Skills, Infrastructure. Not clear which really matters most. What should we tell policy-makers on where to concentrate?
- **The Importance of the Demand for Labour**
- *Where is it going to come from?*
- **Working on the Intensive margin: Incentivising the Hiring of Workers**
- Removing capital subsidies that disincentives the demand for unskilled labour., incentives for job training, weakening some aspects of the IDA ...

# Generating Demand for Labour

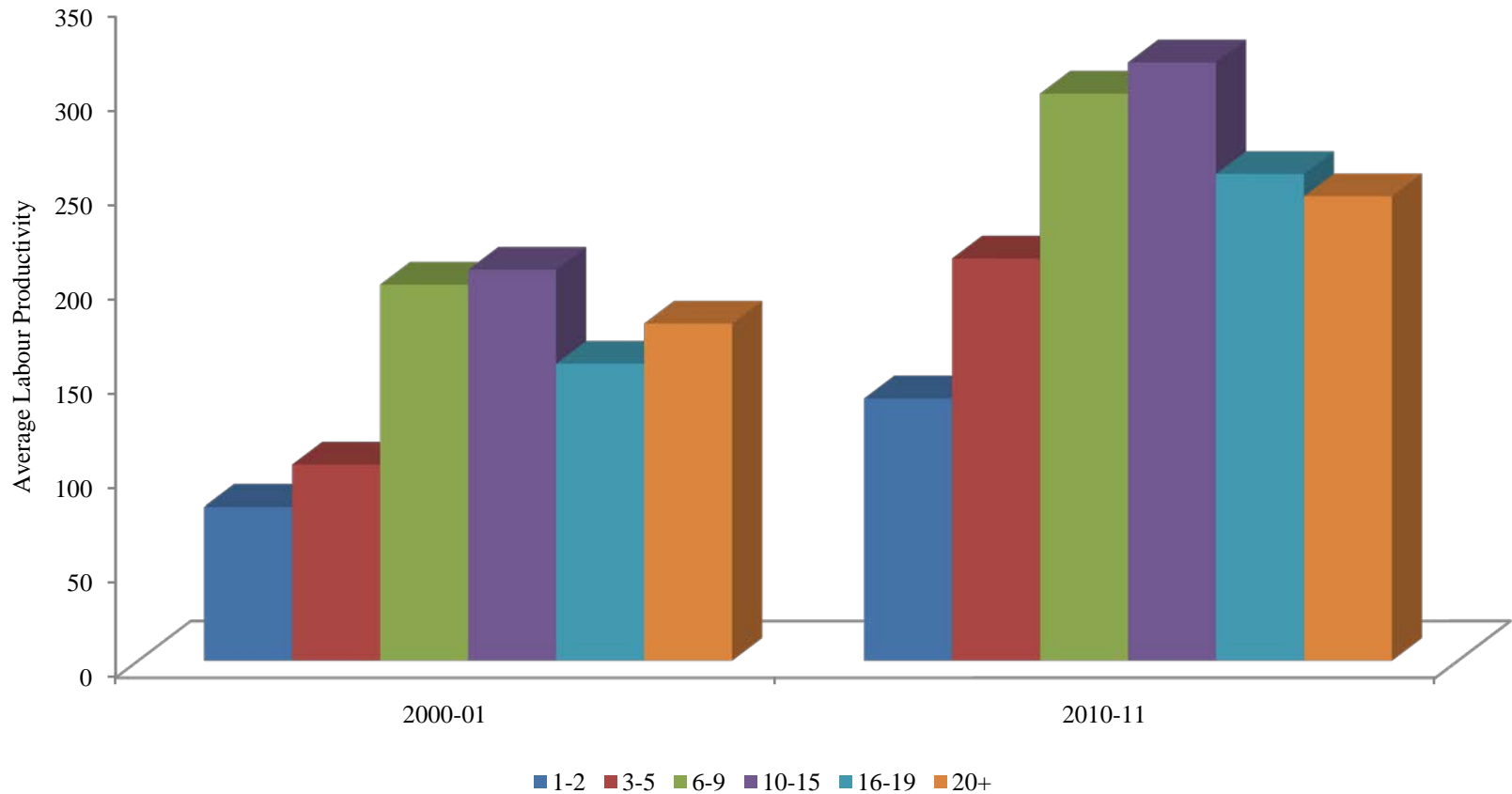
- **Working on the Extensive Margin: Increasing the Demand for Labour-Intensive Manufacturing Goods.**
- Lack of export demand (especially for labour intensive sectors) related to the failure of Indian firms to be part of East Asia centred global production networks, and to tap into Western markets for garments, leather, toys,..
- **Make in India has to be about Industrial Policy 2.0 (targeting industries, not firms; developing firm capabilities, removing co-ordination failures, more synergistic consultations between state and business)**
- On the domestic demand side, what combination of fiscal policies will generate the maximum demand for mass consumption goods?
- Land redistribution was key to creation of home market in East Asia. What can work in India?



# Household enterprises dominate the landscape of unorganised manufacturing in India



# Enterprise Productivity in Unorganised Manufacturing



# Unorganised Manufacturing Employment: Policy Options

- Employment and output Growth in unorganised sector is closely relate so any policy that increases unorganised manufacturing growth tends to increase employment.
- **In this case, the extensive margin matters much more.**
- **What do we know about unorganised manufacturing growth?** Raj and Sen, 2016, *Out of the Shadows? The Informal Sector in Post-Reform India*, OUP)
- Firms exhibit very diverse behavior in terms of their growth trajectories, depending on whether they are household (OAMESs) or non-household firms (NDMES and DMEs), the industry they belong to, whether they are rural or urban, and so on.
- Policy prescriptions that are “one size fits all” and that do not take into account the heterogeneity of firms in the informal sector is of limited relevance.
- **For unorganised manufacturing, state’s involvement in industrial policy should be with a small s, not a big S.**
- Devolution of power to municipal authorities and district industrial centres to devise policies that are more in accord with the needs of the firms in their geographical area. Focus should be on local public goods.

# Unorganised Service Sector: The Elephant in the Room?

- Construction, followed by trade, hotel & restaurants provide the bulk of employment for unskilled workers in India.
- Still the most likely employment in cities for a poor rural migrant.
- Characterised by informal contracts, middlemen and exploitative labour conditions.
- Need for more formalised contracts, and elimination of middlemen, along with protection of rights of workers.
- More initiatives needed for skill development, in conjunction with large construction firms.