

JOBS CRISIS

# THE CHALLENGE OF UNEMPLOYMENT



## EXPERT VIEW

SUDIPTO MUNDLE

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Unemployment is the greatest economic challenge facing India. Virtually all major economic policy issues derive from this central challenge. What is the current unemployment situation? Is it improving or deteriorating? Can the government crack the unemployment problem, or will the problem crack the government?

The *India Labour and Employment Report 2016* of the Institute for Human Development (forthcoming, Oxford University Press, henceforth “the report”) presents compelling evidence of how the employment situation has improved during the 21st century. But it also emphasizes the awesome challenge of unemployment that still faces us.

India’s highly segmented labour market and the many shades of employment, underemployment and unemployment imply that little meaning can be attached to simple statistics about the total level of employment or the rate of unemployment. However, with skilful use of the National Sample Survey Organisation’s well-designed employment surveys, principal author Ajit Ghosh, formerly of the International Labour Organization, has demolished several myths and misconceptions about the unemployment situation in India.

Not all people in the working age population are in the labour force, i.e., available for work. The labour force participation rate measures the proportion of people in the working-age group who are actually available for work. The report estimates that at present (2015-16) India has a stock of 511 million workers, including about 38 million subsidiary (part-time) workers, 39 million elderly workers and about 2 million child workers. Excluding subsidiary, elderly and child workers, India has a core workforce of 433 million, of whom 22% are women. The story of employment and unemployment essentially relates to this stock of about half a billion people.

The stock is growing at 1.5% per year, adding about 5.5 million people to the workforce every year. This rate of labour force growth is lower than that at the end of the 20th century. The slowdown is attributable to several factors. India’s population growth has itself been declining since the 1980s. The incidence of child labour has also, fortunately, been declining since around the same time. So has labour participation among the elderly. But the most important reason for the decline in workforce growth is the

drop in labour force participation in the working-age group, especially among women. There is a small decline in labour force participation among men in the working-age group, attributable to their increasing preference for education. The decline in labour force participation among children and, especially, women is attributable to declining poverty.

In support of this conclusion, the report points out that women’s labour force participation declined the most among the poorest households, whereas it actually increased in the case of better-off households. Similarly, by levels of education, women’s labour force participation declined among those not literate or the least educated, but increased among those with higher levels of education. The interpretation is that women who were earlier forced to take on the worst-paid, lowest-quality jobs because of their poverty have withdrawn from those jobs as their household incomes have risen on account of better-paid jobs for their husbands.

The decline in the labour force participation rate should hopefully put an end to all the talk about the “demographic dividend” that was supposed to come from the rising share of the working-age group in total population, and the consequent decline in the ratio of dependents to earners. While the share of the young in the working-age population has indeed been rising, the share of the young who are actually in the workforce has been declining as a consequence of the declining labour force participation rate. Hence, the dependency ratio has been rising instead of falling. Alas, there will be no demographic dividend unless the government can change the scenario.

Turning now to employment, note that the Indian labour market is highly segmented, with a hierarchy of jobs across the different segments. First, there is the organized sector, with regular formal employment in this sector being the best quality of job. It is contractual, with full protection of labour rights, high wages and perks. This is followed by regular but informal employment in the organized sector, without full contractual protection of labour rights and lower wages. Then comes casual employment in the organized sector, with higher underemployment or fewer days of actual available work per worker. Next, there is regular but informal employment in the unorganized sector, followed by casual employment in the unorganized sector, and finally self-employment. This institutional structure can be further disaggre-

gated into sectors of production, e.g. agriculture, industry, services and so on.

This complex structure is central to an understanding of the condition of the labour market. Poor households cannot afford to remain completely unemployed. If proper jobs are not available, they will take on any work that is available—casual, informal, part-time, anything to survive. Thus, an aggregate figure of employment will always approximate the size of the workforce, and tell us little about the actual condition of the labour market. When conditions improve and household income rises, those at the bottom layer may simply withdraw from the labour market as we have seen. Those remaining in the market move up the hierarchy to better-quality jobs. Hence, an assessment of trends in employment-unemployment has to be deciphered from this changing structure of employment, along with trends in real wage rates.

The report assesses that employment conditions have improved significantly during the 21st century. Employment in the organized sector has grown aggressively, faster than in the unorganized sector, with a fairly high growth elasticity of employment at 0.7.

Workers have moved to better-quality jobs: from informal to formal, casual to regular, and from the unorganized sector to the organized sector. Real wages rose for virtually all categories of work. Underemployment also decreased, hence income per worker rose even faster than real wages, lowering poverty incidence across the board. Productivity also rose in all sectors, but faster in the unorganized sector than the organized sector. Hence, dualism—the differences in productivity and real wages between the organized and unorganized sectors—has declined.

This assessment of the improving structure of employment and conditions of employment should now put an end to the long debate about jobless growth. However, the report does not offer much ground for jubilation on that score. All the improvement notwithstanding, the organized sector still accounts for only 17% of total employment, with regular formal employment in the organized sector, the best quality jobs, accounting for only 9%. Self-employment, and casual wage employment, the bottom layers of the labour market, still account for 78% of total employment. Low-productivity employment in agriculture still accounts for 43% of total employment, and the incidence of underemployment is still very high. So is the incidence of poverty.

India still accounts for the largest number of the world’s poor in absolute numbers.

What, then, is the scale of the employment challenge that needs to be addressed? There are around 13 million people in the workforce, available for work, who are at present unemployed, 30% of them women. In addition, there are around 52 million people, 65% of them women, in “disguised unemployment”, such low-productivity work that withdrawing them would make little difference to the level of output. Then there are another 52 million, all women, who are not in the labour force but would be available for work if there were adequate opportunities for productive employment. Thus there are 117 million people, 78% of them women, who need to be absorbed into new and more productive jobs. There are another 6-8 million young people who will be entering the labour force each year for the next decade or so. Generating new employment on this scale is a phenomenally awesome challenge.

The report concludes with a long menu of policy suggestions ranging from removal of capital subsidies to labour law reform and education policy. Two points in particular are worth noting. India’s growth has to be led by manufacturing, not services because, among other reasons, employment elasticity is higher in manufacturing. Also, a large section of the labour force has little or no education, and cannot be employed in skilled jobs in the services sector. Nor can they be easily skilled, given their lack of basic education. Outside agriculture, they can only be employed in low-skill jobs in the manufacturing sector.

This leads to a second point about the urgency of education policy reform. No skill development programme can succeed without an underlying foundation of basic education. But India’s long-standing neglect of quality education at the primary level greatly limits the access to basic education, the essential foundation for skill development. In the absence of reforms in primary and basic education, India’s awesome backlog of unemployment will continue to grow. The possible consequences for social tensions and political strife are frightening.

*Sudipto Mundle is emeritus professor at the National Institute of Public Finance and Policy, and a senior visiting fellow at the Centre for Public Affairs and Critical Theory, Shiv Nadar University, New Delhi.*

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NEXT ESSAY

Montek Singh Ahluwalia

