

Labour Market Performance and the Challenges of Creating Employment in India

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1. Introduction

Economic capability of an individual is, to a very large extent, determined by the status of employment. Employment not only ensures economic security, but it also promotes general participation in society and the economy. Employment is necessary for promoting better health and education not only for those who are employed, but also for those who are dependent on them. In addition, it provides a sense of dignity to the individual.

For the last three years, since the global financial crisis of 2008, unemployment rates have been rising in large number of countries. The unemployment rate in US increased sharply from 5 per cent in 2008 to more than 10 per cent in 2010.¹ The unemployment rate in European Union increased from 6.7 per cent in 2008 to 10 per cent in 2010.² Spain was one of the worst hit with unemployment rate increasing from 9.5 per cent in 2008 to 19.1 per cent in 2010. It may be pointed out that the global financial crisis was manifestation of ever growing leverage given to the financial sector in the developed countries (UNDP, 2009 & Stiglitz, 2010). The accumulated debts of households and banks were clearly unsustainable and when the crisis began the economy went into depression resulting in falling employment and output.³

Given the increasing global integration, India was not fully insulated from the financial crisis of 2008. However, the reforms carried out in the Indian financial system since 1991 is one of “carefully calibrated liberalization, combined with steps to strengthen the regulatory framework” (Ahluwalia, 2011). As a result, despite the global financial crisis, India was somewhat insulated from the crisis that hit many countries and also could maintain the high growth rate.

Although the impact in India was not as acute as in different parts of the world, there was negative impact on the Indian labour market as well. Job cuts did take place and it was largely due to falling profitability in the industries, and this tendency was stronger in export oriented industries like textiles, metal products, gems and jewellery, leather, automobiles, information technology. In these industries, the major job loss occurred in the unorganized sector and the estimated job loss was to the extent of 6 per cent (Government of India, 2010).

However, it may be pointed out that the problem of unemployment in India is a structural problem and even though the recent financial crisis has an impact on it, the issue of lack of employment growth (despite high GDP growth) is much more deep rooted, going well beyond the realms of employment policies alone.

This paper attempts a review of labour market performance in recent times in India and analyses the challenges it faces in creating productive and gainful employment which are critical in achieving inclusive growth. Section 2 provides an analysis of labour market performance in recent period in

¹ US Bureau of Labour Statistics. The unemployment rate in May 2011 was 8.7 per cent.

² http://en.wikipedia.org/wiki/Economy_of_the_European_Union

³ <http://www.nytimes.com/2011/05/15/magazine/paul-krugman-how-the-financial-crisis-was-wasted.html>

India. The next section points out some of the important challenges in generating productive and gainful employment. The last section provides some concluding remarks along with policy implications.

2. Labour Market Performance

India has been experiencing very high GDP growth rates in recent years. Since 2002-3, there has been almost a paradigm shift in growth rate (Table 1). This shift has however failed to adequately address the issue of unemployment, which was more than 8 per cent in 2007-8 (by current daily status).⁴

Table 1 GDP Growth Rate Per Annum (%)

<i>Period</i>	<i>GDP Growth per annum (%)</i>
1960s	3.5
1970s	3.5
1980s	5.6
1990s	5.7
2002-3 to 2006-7	7.8
2007-8	9.3
2008-9	6.8
2009-10	8.0
2010-11	8.6

Source: Ahluwalia, 2011

The high GDP growth rate in recent years did not lead to concomitant increase in employment generation. Most of the increase in economic activity took place in the service sector which accounted for around 50 per cent of GDP. The share of the manufacturing sector has declined to less than 15 per cent. Most of the employment generation has taken place in the skill-intensive and capital-intensive sector and not much in the labour intensive industries. Therefore, despite considerable economic growth, employment creation has not really taken place to the extent commensurate with GDP growth. The employment growth has been around 2 per cent for a considerable time period (Table 2). The recent high growth phenomenon can therefore be referred to as “jobless growth”.

⁴ In India, Employment and Unemployment Surveys conducted by the National Sample Survey Organization collects information on employment status of an individual. The estimates of employment and unemployment provided by the NSSO are based on usual principal and subsidiary status (UPSS), current weekly status (CWS), and current daily status (CDS). As per the UPSS, employment and unemployment status of an individual is defined on the basis of major time criterion in the last 365 days. Employment and unemployment by the current daily status is determined by the activity status of the person on each day of the reference week using a priority-cum-major time criterion. The estimates of unemployment based on CDS captures both open unemployment and under employment.

Table 2 Growth in Employment, by UPSS (%)

<i>Period</i>	<i>Employment Growth per annum (%)</i>
1977-78 to 1983	2.0
1983 to 1987-88	1.5
1987-88 to 1993-94	2.2
1993-94 to 1999-2000	1.2
1999-2000 to 2007-8	1.4

Source: Dev (2006) for 1977-78 to 2000. For the period 1999-2000 to 2007-08 calculated from NSS database 64th Round, 2007-08, and 55th Round, 1999-2000

Unemployment rate higher for Scheduled Castes and Scheduled Tribes

One of the important channels by which benefits of economic growth gets percolated to different sections of the society is through labour market. Studies have indicated that there is a “tight relationship between wage earnings, income, and household expenditures across different regions of India” (World Bank, 2011). However, the benefit of economic growth has not really percolated to all sections of the society. Indian society has historically been stratified into different social groups, and there are certain groups, viz., Scheduled Caste (SC) and Scheduled Tribe (ST) social groups, which have primarily remained outside the mainstream of society and are characterized by socio-economic backwardness. Economic deprivation has historically been much more pronounced among these social groups. The incidence of unemployment was higher among these social groups in both rural and urban India (Table 3).

Table 3 Unemployment Rate by Current Daily Status, by Social Group, 2004-5 and 2007-8 (%)

<i>Social Group</i>	<i>Rural</i>		<i>Urban</i>	
	<i>2004-5</i>	<i>2007-8</i>	<i>2004-5</i>	<i>2007-8</i>
Scheduled Castes	12.0	12.0	11.4	10.1
Scheduled Tribes	6.5	7.5	7.5	10.0
Others	6.6	6.4	7.1	6.0
All Social Groups	8.2	8.4	8.3	7.4

Source: Calculated from NSS Database (61st and 64th round)

From Table 3 it can be clearly observed that the unemployment rate by current daily status was the highest for SCs in both rural (12%) and urban (10%) India. As against this, the unemployment rates for ‘Others’ in rural and urban India were 6.4 per cent and 6.0 per cent respectively. In urban India, the unemployment rate increased only for STs (that too by 2.5 percentage points), while for all other social groups it declined, thereby causing an overall decline in unemployment rate in urban India during this period. It may be pointed out here that urban India is at the centre of the current ongoing growth phenomenon. The fact that the unemployment rate is increasing only for STs at the centre of economic growth, further highlights the fact that economic growth has not been inclusive enough.

The non-inclusive character of the growth process has been highlighted in various studies and policy documents including the Eleventh Five Year Plan which clearly stated that “a major weakness in the

economy is that the growth is not perceived as being sufficiently inclusive for many groups, especially the Scheduled Castes (SCs), Scheduled Tribes (STs) and minorities” Gender inequality also remains a pervasive problem and some of the structural changes taking place has an adverse effect on women” (Planning Commission, 2008).

In terms of gender, it may be noted that women participation in the labour market has been rather low in India.⁵ Some of the reasons for lower participation of females in the labour market are social and family related constraints, and non-recognition of much women-centric work as economic activity (Government of India, 2010).

Occupational diversification of the workforce: Increasing importance of rural non-farm sector

In addition to persistence of unemployment which was much more pronounced among certain social groups, an important feature of the Indian labour market is the occupational diversification. In rural India, there was a clear decline in the proportion of the population whose major source of income was agricultural self-employment. This underlines the increasing importance of the non-agricultural sector in rural India, where the proportion of the self-employed population increased from 13.1 per cent in 1993-4 to 15.2 per cent in 2007-8 (Table 4).

The increasing trend towards self-employment was evident in urban India as well, and an important reason for this was the decline in regular wage / salaried employment. (Table 4).

Table 4 Distribution of Population in Rural and Urban India, by Employment Type, 1993-4, 2004-5 and 2007-8 (%)

Sector	Household Type	1993-4	2004-5	2007-8
<i>Rural</i>				
	Self-employed in non-agriculture	13.1	16.7	15.2
	Self-employed in agriculture	42.4	39.8	39.0
	Agricultural labour	27.5	24.1	25.1
	Other labour	7.5	10.6	11.3
	Others	9.5	8.8	9.4
<i>Urban</i>				
	Self-employed	38.8	43.3	42.6
	Regular wage / salaried	42.8	39.6	39.0
	Casual labour	12.9	11.8	13.1
	Others	5.5	5.2	5.3

Source: NSS, Report No. 531

Across social groups, the proportion of workers employed in regular wage employment was the highest among Others (24%). Majority of the STs were self employed while the largest chunk of SCs earned their livelihood as casual worker (Table 5). In terms of wage payment and decent work conditions regular wage employment is the best. The fact that only 7 per cent of STs are into regular wage employment highlight the vulnerability of this social group.

⁵ Workforce participation rate (WFPR) for females (for age group 15 years and above) in rural India was 48.5 per cent as against 84.6 per cent for males. In urban India, WFPR for females was 22.7 per cent as against 76.3 per cent for males (NSS, Report Nos. 409, 515).

Table 5 Distribution of Workers (UPSS) by Status of Employment, by Social Group, 2004-5 (%)

Employment Status	ST	SC	Others
Self-employed	54	40	64
Casual Wage Earner	39	48	12
Regular Employment	7	12	24
All	100	100	100

Source: Government of India, 2010

Wages: Even those who are employed, a considerable section of them are living below the poverty line

In India the unemployment rate as per current daily status in 2004-5 was 8.3 per cent, while the incidence of poverty was 28 per cent. This implied that a considerable section of those employed were involved in low productivity work where the remuneration was lower than the minimum wages. In the year 2004-5 approximately 22 per cent of the workers (i.e., 102 million workers out of a total of 459 million workers) were living below the poverty line. Within the workers, incidence of poverty was the highest among the casual workers (32 per cent) since many casual workers earned much less than the minimum wages. It was further noted that the incidence of poverty among urban casual workers was higher than rural casual workers, rural-urban migration being an important contributory factor (Government of India, 2010).

There were considerable differences in wages and other work conditions across different types of employment. The average daily wage in salaried employment was much higher than other types of wage employment. Even within salaried employment, there was considerable difference between urban and rural areas (Table 6). Wages in urban areas were higher than those in rural areas.

Within the unorganized sector, casual labourers were the most vulnerable, and here too, the average wages for females were considerably lower than for males. A vast majority of casual labourers in the unorganized sector were paid much lower wages than the stipulated minimum wages. It was estimated that 85 per cent of all casual workers in rural areas and 57 per cent in urban areas got wages below the minimum wages. Further, the physical conditions of work in the unorganized sector were quite deplorable (Government of India, 2007).

Table 6 Average Daily Wage, 2007-8 (Rs)

Type of Employment	Rural		Urban	
	Males	Females	Males	Females
Salary / Regular Wage	175	108	276	213
Casual Labour in Public Works other than under MGNREGA	76	71	NA	NA
Casual Labour in Other Types of Works	67	48	87	51

Source: NSS, Report No. 531

Note: 'NA' implies Not Applicable

'MGNREGA' stands for Mahatma Gandhi National Rural Employment Guarantee Act

In a nutshell it can be concluded that the high GDP growth rate has not really resulted in concomitant increase in employment growth thereby resulting in higher unemployment rate. Even among those

who were employed, a considerable section in the unorganized sector was living below the poverty line because of extremely low wages. Unemployment rates in India have remained higher for certain social groups (SCs and STs) which have primarily remained outside the mainstream of society and are characterized by socio-economic backwardness. Along with high unemployment rate another notable feature in the Indian labour market is the occupational diversification, particularly in rural India, where there is an increasing importance of non-farm sector.

3. Challenges in Creating Employment

In India, presently, 781 million persons are in the age group of 15-64. More than 500 million people in India are under the age of 25 years.⁶ The Census of India projections show that by the year 2021 more than 64 per cent of the population will be in the working age group of 15-59 years. In order to fully utilize this demographic dividend (increasing share of the working age population) it is important that the population in the working age group is productively employed. Skill enhancement becomes absolutely crucial in improving the employability and it is with this perspective that India has set an overall target of creating 500 million skilled workers by the year 2022. This is possible only if the working population is educated and acquires the requisite skills. The importance of technical and vocational education system lies in the fact that it imparts necessary skills which improves employability of the workers and thereby improves quality of life for the workers, and enhances industrial productivity.

Approximately 102 million workers are living below the poverty line. These workers are mainly involved in unskilled works where the productivity is low and wages paid are below the minimum wages. Increasing earning of these workers along with creation of jobs for the new entrants is a formidable challenge facing the country today. In order to improve the employability of the workers, skill enhancement is necessary.

At present, only 10 per cent of the workforce in the country has some form of skill training (2% with formal training and 8% with informal training). This is extremely low when compared with countries like Korea (96%), Germany (75%), Japan (80%), and the United Kingdom (68%). What is more, 80 per cent of the new entrants into the workforce do not have any opportunity for skill training (Planning Commission, 2008).

Lack of school education is an important impediment towards improving the employability

Lack of educational attainment is one of the important reasons for inadequate skill training in the country. In 2007-8, mean years of schooling in India was 4.2 years (calculated from NSSO database, 64th Round, Expenditure on Education Survey). One-third of the workforce of 395 million in the unorganized sector in the country is illiterate.

One of the important drawbacks of the school education system is the existence of a very large number of out of school children in the country. If we consider the age group 6 -17 years, close to one-fifth of the children have either never attended school or have attended school in the past but were currently not attending.

⁶ Census, 2011

Among the various reasons for discontinuation or dropping out, the three most important reasons identified in the survey (based on NSS 64th round) were lack of interest on the part of parents, lack of interest on the part of children, and financial constraints. These three factors together accounted for at least half of the cases of discontinuation or drop-outs across all social groups.

It may be pointed out here that the levels of public expenditure in education are extremely low compared to incomes and needs, and it has rarely approached four per cent of GDP. So if public expenditure itself is low and there are 300 million people living below the poverty line, discontinuation due to financial constraints will be a natural outcome.

One of the important changes in the school education system in India during the past one and a half decade has been the growing presence of private educational institutions. During the period 1995-6 to 2007-8, the proportion of students attending private unaided institutions increased by eight percentage points at both the primary and upper primary levels (from 12% to 20% at the primary level and from 9% to 17% at the upper primary level).⁷ Among the important factors that have resulted in such phenomenon share of private unaided institutions are lack infrastructure in government schools, and significant teacher absenteeism. The private unaided institutions are the most expensive, while government institutions are the least expensive. The average annual expenditure per student in higher education in private unaided institutions was more than thrice that in government institutions.

Rapid expansion of private unaided institutions with high fee structure has resulted in alienation of the economically vulnerable sections of the society from the education system. Skill enhancement for these sections of the society is crucial to improve their employability. However, with serious dearth of basic schooling, skill enhancement beyond a certain point often becomes difficult, and thereby they remain trapped in low productivity and low wage employment. Expansion of the school education system to the economically vulnerable sections of the society is an important challenge that the country must overcome in order to improve their employability.

Inadequate and out-dated technical education system severely affect skill enhancement

The accelerated economic growth that the country has been experiencing since the last 7-8 years has already created shortage of skilled manpower (Planning Commission, 2008).⁸ In India, presently, 781 million persons are in the age group of 15-64. More than 500 million people in India are under the age of 25 years.⁹ In order to fully utilize this demographic dividend (increasing share of the working age population) it is important that the population in the working age group is productively employed. This is possible only if the working population is educated and acquires the requisite skills. The importance of technical and vocational education system lies in the fact that it imparts necessary skills which improves employability of the workers and thereby improves quality of life for the workers, and enhances industrial productivity.

In India, within technical education, 43 per cent of students attended private un-aided institutions. In case of vocational education, the proportion of students attending private un-aided institutions was 47 per cent. Therefore, in India, bulk of the students opting for technical and vocational education

⁷ NSS Report Nos. 439 and 532

⁸ Business Standard, 29th November, 2007, reported that quite a few companies in India have no option but to import workers for even blue-collar jobs. For instance DLF Laing-O'Rourke had plans to bring 20000 carpenters and electricians from West Asia. Reliance Industries were using 40000 blue-collar workers from abroad for its Jamnagar project work.

⁹ Census, 2011

attended private un-aided institutions. The number of privately owned industrial training centres (ITCs) was 4909 which was more than twice that of 1997 government owned industrial training institutes (ITIs).¹⁰ These private un-aided institutions were much more expensive, and the average annual out-of-pocket expenditure per student in private un-aided institutions was more than twice that in government institutions (Government of India, 2010). More than half of the expenditure incurred was on account of tuition fees. So, the existence of expensive private un-aided institutions also acted as a deterrent and prevented the participation of STs in such programmes. It may be pointed out here that in rural India, 48 per cent of STs were below the poverty line in 2004-5.¹¹

In addition, there are a number of structural deficiencies and constraints like outdated curricula and inadequate infrastructure, mismatch between training and employment requirement, and absence of interaction between industry and training institutes have adversely affected skill development in India. In order to increase employment opportunities and enhance the quality of employment for the growing working age population, adequate training of the youth, and skill formation are essential. Revitalising the vocational and technical education system in the country, therefore, is crucial in realizing the demographic dividend.

4. Conclusion and Policy Implication

Even though the Indian labour market, and in particular the unorganized sector has been adversely affected by the global financial crisis, the problem of unemployment in India is a structural one, the causes of which goes well beyond the employment policies of the country. The high economic growth that the country is facing has already created shortage of skilled manpower. Therefore, on the one hand we have shortage of skilled manpower, and on the other, high unemployment rate. This paper primarily focuses on improving the employability through skill enhancement. It is important to realize that along with labour market policies, education policies also play a crucial role in dealing with the problem of unemployment and under employment. The analysis of skill enhancement was presented at two levels: first at the level of school education, and second, at the level of technical and vocational education. The analysis was presented keeping in view the socio-economic dis-aggregation of the population.

At the level of school education, given the fact that there is an expansion of private un-aided institutions with higher fee structure which has the potential to alienate the socio-economically deprived sections of the society, public expenditure on school education should be increased. Back in 1966, the Kothari Commission on education emphasised the importance of education in the social and economic development of the country and had suggested that six per cent of the national income should be spent on education. For the past several years public expenditure on education by Central and State governments have been hovering around 3 per cent, and the six per cent mark has never been achieved in the country.

Given the very low proportion of skilled workers in India, skill enhancement is of prime importance which will improve the employability of the workers. This can be achieved by arranging for periodical training of the workers to make them aware of the technological advancements, recognizing and certifying the informally acquired local skills by creating an independent accreditation and certification process, expanding and modernizing the skill development institutions through greater linkages with the industries.

¹⁰ Annual Report, 2008-9, DGE&T, Ministry of Labour, Government of India

¹¹ Planning Commission, 2008

In order to improve the infrastructure of skill development the Government of India had taken up 100 ITIs for upgradation into Centres of Excellence in 2005-6 at a cost of Rs. 1600 million. Another 400 ITIs were similarly taken up for upgradation by the World Bank in 2006-7 at a cost of Rs. 15810 million.

In order to give concrete shape to the policy structure of skill development, the Government of India has set up the Skill Development Mission in 2007 with a three-tier structure, viz. (a) the Prime Minister's National Council on Skill Development, (b) the National Skill Development Coordination Board, and (c) the National Skill Development Corporation.

As an integral part of the National Skill Development Mission, the Prime Minister of India announced a four-fold increase in the skilled manpower training capacity of the country on August 15, 2007. The Government of India has taken a number of initiatives for financing the training, for example

1. Upgradation of 500 ITIs into Centres of Excellence with domestic as well as World Bank funding to the tune of Rs. 20 billion
2. Upgradation of 1396 government ITIs through the Public-Private Partnership model with Rs. 35.5 billion
3. Establishment of Skill Development Centres through the Public-Private Partnership model at a cost of Rs. 1115 billion

In addition, in order to address the issue of unskilled unemployment and under-employment in the rural areas, National Rural Employment Guarantee Act (now renamed as Mahatma Gandhi National Rural Employment Guarantee Act) was passed in the Parliament in 2005 and at the moment its coverage has been extended to all the 631 Districts of the country. The estimated cost of implementation of this act is roughly one per cent of GDP.

Box 1 Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)

MGNREGA was enacted in 2005 with the objective of ensuring livelihood security in rural areas by guaranteeing 100 days of employment to a rural household whose members volunteer to do unskilled manual work. It is a demand driven legislation where rural people can get work on demand and also have a say in deciding what kind of developmental works are to be undertaken locally. Provision of work and creation of durable assets are the twin objectives of this Act. A very significant feature of this Act is that if a worker who has applied for work is not provided employment within 15 days from the date on which work is requested, an unemployment allowance shall be payable by the State Government at the rate prescribed in the Act. For the year 2010-11, 55 million rural households have been provided employment under this Act, resulting in creation of 2564 million person days of employment. Total of 5.1 million works were undertaken in 2010-11 of which 2.6 million works were completed (Ministry of Rural Development, Government of India).

Given the fact that the country is experiencing a fairly high rate of GDP growth in recent period, the capacity of expanding the public works programme is also increasing. Public works programmes undertaken in India acted as a cushion which to a very large extent mitigated the negative influence of financial crisis on employment generation.

Also, the public debt situation in India is considerably better than many of the advanced countries in the world. In case of European Union, public debt was 80 per cent of GDP during the year 2010. For some countries the public debt to GDP ratio was well over 100 per cent (143 per cent for Greece, 119 per cent for Italy). For a large number of countries (including United Kingdom, Germany, France) this

public debt to GDP ratio was in the range of 80 per cent to 90 per cent. In case of United States public debt to GDP ratio was 96 per cent in the year 2010.¹²

In contrast, the situation is quite different in India and fiscal deficit was 6.3 per cent of GDP in the year 2009-10. The average fiscal deficit in the country for the last seven years has been around 4 per cent. There is thus a huge scope in India of augmenting public investment and thereby generate employment opportunities.

¹² http://en.wikipedia.org/wiki/United_States_public_debt

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