

Reforms for Job Creation

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The Economic Survey 2017-18 set three areas of policy focus for India in the medium term – employment, education and agriculture. All three are crucial for India's growth and development trajectory and are interlinked. India has still to set up a skilled workforce that is employable, create high productivity jobs and move surplus workers away from agriculture – the ultimate aim being to reduce poverty, raise incomes and standard of living for all. This paper looks at the challenge of creating jobs for an ever-increasing workforce of Indians and puts together policy recommendations for the next government.

At the outset, we need to ascertain the size and nature of the task facing the government. Here lies the first problem – the lack of updated data. The most recent official Employment-Unemployment Survey was conducted by the Labour Bureau in 2015 and there is no data available from the National Sample Survey rounds after 2011. The State of Working India 2018 looks at various sources - NSSO, EUS, and high frequency latest releases from CMIE to note that a) growth creates fewer jobs than it used to, b) unemployment is rising in India over the past decade, c) although the proportion of the working age population that is looking to work is falling, a larger fraction of those looking are not finding work and d) while unemployment is rising all over India, the situation is more acute in northern states.

The economy has changed dramatically over the past few years – not just in technological changes, but two major events - demonetisation in November 2016 and GST implementation in August 2017 – have had deep impacts on jobs in India. However, without credible data, the extent and nature of impact remain unclear. The recent controversy regarding formalisation of employment and unemployment rate¹ only has one lesson for this paper i.e. India needs to set up systems of reliable, high-frequency data that will show the extent of the problem at a granular level. In other words, data on employment and unemployment should be sliced by region, by sector, by gender, by type of job etc. The finer the level of detail, the more precise and accurate the solutions can be. The government should take up the recommendations made by the Task Force on Improving Employment Data (Government of India, June 2017²) and overhaul the statistical system³.

Labour reforms in India will have to take place against the following backdrop. One, India is grappling with the task of formalising employment. As noted by the ILO, World Employment and Social Outlook – Trends 2018⁴, India has a high incidence of informal employment (more than 75% of total employment), which affects the potential to reduce poverty. With high levels of informal

¹See Box 2.1, page 39, State of Working India 2018, Centre for Sustainable Employment, Azim Premji University, available at https://cse.azimpremjiuniversity.edu.in/wp-content/uploads/2018/10/State_of_Working_India_2018.pdf

²Available at <http://niti.gov.in/writereaddata/files/Task%20Force%20on%20Improving%20Employment%20Data%20-%20Report%20for%20Public%20Comments.pdf>

³Also see "Rethinking India's Employment Data Architecture", Radhicka Kapoor, EPW, Vol. 53, Issue No. 40, 06 Oct, 2018, available at <https://www.epw.in/journal/2018/40/commentary/rethinking-indias-employment-data.html>

⁴World Employment and Social Outlook – Trends 2018, ILO, available at https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_615594.pdf

employment, inequality also becomes ingrained in the society. While part of the problem stems from a high share of employment in agriculture, where informality is typically higher than in the rest of the economy, informality pervades non-agriculture sectors, like construction, wholesale and retail trade, etc. The ILO report also makes the point that in India, the share of informal employment has risen within almost all manufacturing industries, with labour market rigidities preventing modern manufacturing from creating employment opportunities. Here complex and in many cases unnecessary labour laws, with inefficient processes can retard the process of formalisation.

Two, India has to prepare for the future, even as it grapples with the issue of informal employment in low productivity jobs. Policy for job creation will need to adapt to the changing job profiles. A study by FICCI, NASSCOM and EY on 'Future of Jobs in India, A 2022 Prospective'⁵ notes that there is a global trend where the nature of jobs is changing, India is not an exception - by 2022, 9% of the workforce would be employed in completely new jobs, 37% would be employed in jobs with radically changed skill sets and 54% would be in unchanged jobs. The report "Technology At Work v2.0" by Martin school suggests that the technology impact on jobs will be far greater in the developing world than in the developed world. For instance, the report concludes that 69 percent of jobs in India and 77 percent in China are at "high risk" of automation as against 47 percent in the U.S. and 57 percent across the OECD. Here the government approach to education and vocational training becomes crucial to build a suitably skilled, employable workforce.

With this backdrop, the policy recommendations for the next government can be summarised as follows:

- Labour law reforms are a critical area to boost manufacturing investment as the current regulation framework can be described as outdated, inflexible and complicated. Reform here will include for example, giving the employer the necessary flexibility to adjust his workforce due to evolving economic situations, as is practiced in China. In such cases, adequate retrenchment compensation should be provided for, as is followed in Gujarat where retrenchment of workers necessitates payout of 45 days salary for every year worked⁶. Policy should work towards setting automatic stabilizers in the job market, i.e. loosening up of labour laws such that employers are allowed flexibility according to the business environment.
- A single labour code that will synchronise definitions of basic concepts across various applicable Acts will help reduce the regulatory sprawl that each employer has to navigate through. For instance, there are currently 17 definitions of workers, 22 definitions of wages, and 72 laws to comply with⁷.
- The Code on Wages Bill 2017, which subsumes four existing laws, has been introduced in the Parliament but not voted up on yet⁸. One of the aims is to a legal national floor to wages, thereby consolidating wage floors across multiple states and occupations. However, the effectiveness of the minimum wage depends, crucially, on both the state's enforcement

⁵Available at <https://community.nasscom.in/docs/DOC-1645>

⁶PIC Innovating India – The Roadmap 2014-19 <http://puneinternationalcentre.org/publication/innovating-india-the-roadmap-2014-19/>

⁷Manish Sabharwal <https://indianexpress.com/article/explained/manish-sabharwal-problem-is-wages-not-jobs-minimum-salary-unemployment-indian-gdp-5106348/>

⁸<http://pib.nic.in/newsite/PrintRelease.aspx?relid=170541> September 5, 2017

capabilities and the level of the minimum wage itself⁹. Thus, as Vidhya Soundarajan argues, strict enforcement with a lower minimum wage will serve the policy goals best¹⁰.

- The key to job growth will lie in the MSME sector. The government must work specifically towards raising the ease of doing business for the MSME sector, this will include removing bottlenecks to access to credit etc.
- In order to exploit the potential of emerging technologies, the MSME sector must be skilled on latest exponential technologies. The current effort by MSME Ministry to set up new high-tech technology tool rooms and upgrading existing ones under the World Bank funded project in some of the key industrial clusters needs to be expanded across the country. As noted by Nandan Nilekani, “you could have a new model of manufacturing which is high-skilled, high-end cottage manufacturing”.
- The Government should avoid bringing in any formal regulations to curb the advance of exponential technologies in India just for the purpose of saving jobs¹¹.
- In order to encourage start-ups, the government can play a crucial role as a technology promoter, strategic partner, first buyer of new exponential technology application through innovative public-private partnerships, etc. AgriTech start-ups can play a major role in bringing advanced but affordable technological solutions to boost farm productivity in India.
- The government should work with private companies to set up business facilitation centres where individual businesses can work with new technologies. Such centres across India will not only employ a large number of skilled staff, but will be an opportunity to increase the skills for unemployed youth.
- India must set-up high quality career counselling centres that enlighten the students about the emerging dynamic job market. FICCI along with Samsung under the aegis of the Ministry of Labour & Employment, Government of India, is setting up India's first CoE on career counselling. The CoE will use technology tools to develop standards and conduct counselling of youths on emerging jobs of future and changing workplace readiness for informed decisions.
- Themismatch between demand and supply of labour can be fixed by creating a labour market information system, by which emerging demand for skills are spotted quickly and the necessary training and certifications for the same are created quickly. For this, India needs an agile public-private partnership (industry-academia linkage is one way) in capturing demand for skills and following through with quick investments in skill-building to match demand with supply. Planning should be done at state and district levels, where there is granular information on education, skills and job options. Jobs and skill commissions are best created at state and district levels, with Delhi only providing the guidelines, the tech infrastructure and funding for them¹².

⁹ Arnab Basu, Nancy Chau, and Ravi Kanbur, “Turning a Blind Eye: Costly Enforcement, Credible Commitment and Minimum Wage Laws” CEPR Discussion Paper No 5107, August 2005, available at

https://papers.ssrn.com/sol3/papers.cfm?abstract_id=779288

¹⁰ <https://www.livemint.com/Opinion/sX6cZQuRcuyrbHggZNI0hK/Opinion--How-to-successfully-set-a-minimum-wage-in-India.html>

¹¹ RA Mashelkar, Exponential Technology, Industry 4.0 & Future of Jobs in India, 2017, PIC, Pune

¹² R Jagannathan, Six ways to turn around the India job crisis, October 11, 2018,

<https://www.livemint.com/Industry/PpHdVFJRIhRamo50DZRIIj/Six-ways-to-turn-around-the-India-job-crisis.html>

- Universities of the future need to transition towards a learner-centred education model where learning and work go hand in hand.
- Vocational education and training should be merged with formal education to reduce the social stigma. Vocational Education and training should be given the same status as formal degree, movement between the two should be made possible.
- Right to Education should involve State Chief Ministers, rather than the Prime Minister for better results. Chief Ministers can assess the exact and detail needs of their respective state and then provide services according to the needs, thereby ensuring appropriate allocation of resources to yield better results.
- Shifting the focus of agricultural growth from food security to income security brings in potential for employment and welfare enhancement. Large scale “on farm” investments in irrigation and “off farm” investments in post-production activities like storage, transport, and marketing to complete the supply chain will generate formal employment within agriculture.