

India needs an economic reboot for rapid employment-heavy growth

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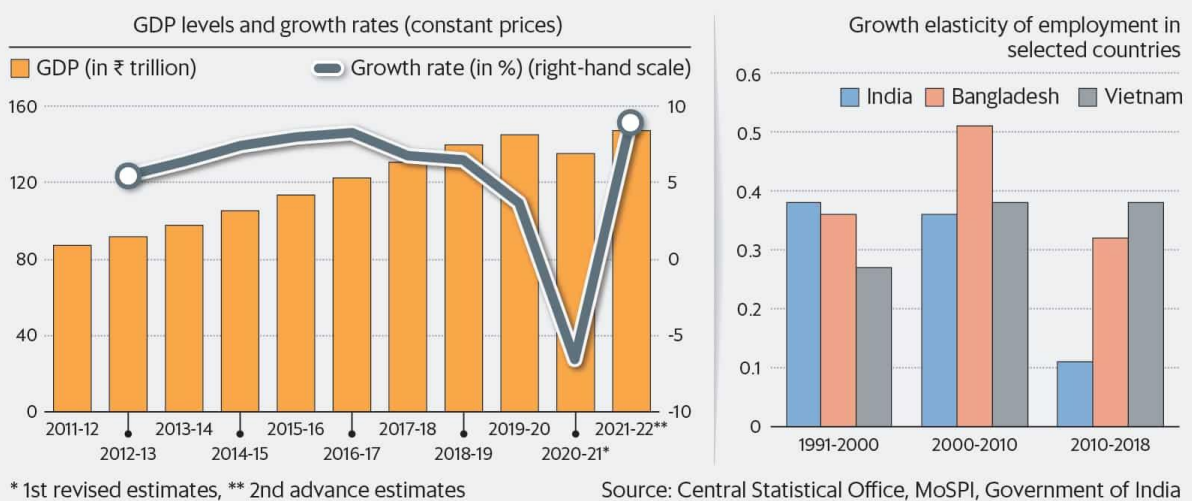
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India would need a structural transformation to achieve fast GDP expansion accompanied by equally robust job generation

After two years of lost growth, India's economy needs a major structural transformation towards a trajectory of high long-term growth of both output and employment. Why the distinction between growth of employment and output? And why is a major structural transformation necessary for high long-term growth? To address these questions and point to a possible way forward, I will draw on several useful papers that were presented by Amit Basole, Alakh Sharma, Mahendra Dev and K.P. Kannan, among others, at the just-concluded 62nd annual conference of the Indian Society of Labour Economics at the Indian Institute of Technology, Roorkee.

Running to stay still

India's GDP growth has not only been disrupted by the pandemic, it has also been getting increasingly jobless.



As Sharma has pointed out, despite the large-scale withdrawal of the young from the labour force, they still account for the large bulk of the country's unemployed. Of the 28 million unemployed persons in 2019-20, young workers in the 15-29 age group accounted for 24 million. Thus, the problem of unemployment in India is largely a problem of unemployed youth. Sharma has also cited a McKinsey Global Institute report which says that 90 million jobs will have to be created between 2023 and 2030 (i.e., an annual growth of 1.5%), to clear the backlog of youth unemployment

before the 'demographic dividend' window, the high working age share of total population, starts closing. Basole has estimated that the growth elasticity of employment—growth in employment relative to growth in gross domestic product (GDP)—is not only low in India compared to some other Asian comparators, but it has also been declining; it is down from 0.38 during 1991-2000 to 0.11 in 2010-18 (see chart). It implies that annual employment growth of 1.5% would require annual GDP growth of over 13%!

Compare that with the actual outlook for GDP growth. After peaking at 8.3% in 2016-17, growth declined during the next twelve quarters to a low of 3.7% in 2019-20, when the pandemic struck, contracting the economy by (-)6.6% in 2020-21 (see chart). The growth spike in 2021-22 was mainly driven by the base effect of the previous year's sharp contraction. For 2022-23, many who had forecast growth rates of 7-8% are now adjusting their forecasts downwards to 6-7%. Bhattacharya and I had stuck our necks out last December by forecasting 5.2% growth in 2022-23 and have stayed with that. Repeated shocks, culminating in the mega-shock of 2020-21, has probably significantly eroded the growth potential of the economy because of the high mortality of businesses, especially micro and small enterprises, and supply-chain disruptions (see my column in Mint of 18 March 2022). But it is not clear that even our modest forecast will be realized following the global disruptions caused by Russia's Ukraine war. Clearly, the challenge of high unemployment cannot be tackled through GDP growth alone without a radical structural transformation.

In envisioning the possible direction of such a structural transformation, it is necessary to take into account the profile of India's young workforce. Among those who are employed, 90% are employed in unskilled or low-skill jobs. It is equally disturbing that the unemployment rate is as high as 35-40% among graduates and technical graduates. Evidently, despite a relatively high level of education, many unemployed graduates are not employable. What kind of transformation would absorb a labour force with such characteristics? In addressing that question, it is useful to compare the structure of the Indian economy with observed global norms at comparable levels of per capita income. The workforce share of industry in India is 6% higher than the norm, while that of services is 15% lower.

The excess share of industry is entirely accounted for by the high and growing employment share of construction, which is way above the norm, as Basole points out. On the other hand, the deficit in the employment share of services is attributed mainly to high-value-added services like financial and professional services, infotech and communication services, etc, which are not employment-intensive. In other words, the transfer of labour out of agriculture has been very slow and workers have mostly moved to low-skill or unskilled jobs in the construction industry as well as trade, hotels and transportation.

Given the low skill profile of the workforce and the sectors where labour absorption has been the highest, different policy approaches will be necessary to tackle India's employment challenge in the medium term and long run. This is also important given the limitations of state capacity. The government needs to focus on a few strategic sectors and let the other sectors be pulled along through their backward and forward linkages operating through the market. In the medium term, the focus has to be on construction and low-skill services. These are the only kinds of jobs the bulk of the labour force is equipped to handle at present. Recall that major infrastructure programmes, like railroads in the US, have often been the foundation of strategic transformations.

Large-scale expansion of high value jobs will have to be a long-term goal. It will require far reaching changes in the skill profile of the Indian workforce, and that will take time. A robust programme of good quality education and skilling linked to learning outcomes, more effective than has been experienced so far, will be key to the success of this long-term strategy.

The two nodal ministries for implementing the medium- and long-term components of the strategy are headed by Cabinet members Nitin Gadkari and Dharmendra Pradhan. Fortunately, both have a reputation for getting the job done.

These are the author's personal views.

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