



THEIR VIEW

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# India's employment paradox of the 21st century: An explanation

We saw a post-covid reversal of both positive and negative labour-market trends and the causes should be debated carefully



**SUDIPTO MUNDLE**  
is chairman, Centre for Development Studies.

The covid pandemic is the great divide of the early 21st century. We compare conditions before and after 2020. This also applies to employment trends. The International Labour Organization-Institute for Human Development (ILO-IHD) *India Employment Report* released last month highlighted some curious paradoxical trends of the pre-pandemic period that were sharply reversed following the pandemic. Drawing on Periodic Labour Force Survey (PLFS) data and the earlier NSS Employment-Unemployment surveys, the report points out that there were some very slow but positive employment trends during 2000-2019 which were reversed after 2020. Three developments in particular are worth noting.

First, there was a pre-pandemic shift in workforce distribution from agriculture to the non-agricultural sector, a key structural transformation of the development process. Unfortunately, most of the additional employment was primarily in low-skill, poorly paid jobs in construction and services. The workforce transformation also lagged far behind the corresponding transformation of the structure of production. Nevertheless, the shift was a positive development.

The second was a shift from informal to regular employment in the organized sector, the best category of employment in India's complex labour market. Informal jobs remained predominant, but the share of regular employment in total employment rose from 15% in 2000 to 24% in 2019.

The third positive development was a rise in labour productivity across all sectors, albeit with large variations. During 2000-2019, productivity increased the most in manufacturing (annually 6%), followed by services (5%), agriculture (4%) and construction (1%). Of course, rising labour productivity also meant that the labour requirement per unit of output was declining. It is not surprising that construction, where productivity growth was the least, is also the sector whose share in employment rose the fastest during this period.

Paradoxically, alongside these positive trends, there were also some serious negative developments. Thus, the Labour Force Participation Rate (LFPR), the proportion of India's working-age population that is either working or available for work, declined from 62% in 2000 to only 50% in 2019. Similarly, the worker population ratio (WPR), the proportion of employed persons in the population, also declined from 62% to 50% (these aggregate numbers mask large gender differences, where the LFPR or WPR for women are much lower than for men). The unemployment rate, the proportion of population in the labour force who were openly unemployed, rose from 2% in 2000 to 6% in 2019.

Once the pandemic struck, the shock reversed all these trends. The share of agriculture in the



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workforce, which had been going down during the previous two decades, went up again in 2021 and remains higher even today (2023 PLFS survey) than in 2019. There has been a similar reversal of the rise in the share of regular wage employment, which remains lower today than in 2019. But along with the reversal of these positive trends, negative trends have also been reversed. The LFPR, which was declining till 2019, has since gone up. So has the WPR, while the unemployment rate has declined. How can these paradoxical trend reversals be explained?

For an answer to that question, consider the arcane details of how employment is measured in the PLFS. The market is segmented by conditions of work and earnings. The best job is regular wage employment in the organized or formal sector, followed by regular informal employment, casual work and self-employment (covering own account workers, employers and unpaid family workers). All those engaged in these economic activities are counted as employed.

During good market conditions, workers are able to move to better jobs and the reverse happens during adverse conditions. But these dynamics are not captured in aggregate employment or unemployment numbers. It has been argued that when conditions were improving, those 'employed' in miserable jobs for little or no pay at the bottom of the pyramid could afford to move out of the labour force, since others in the family were able to earn

better. Also, getting education has been a major factor driving withdrawal from the labour force, especially for the youth. When urban non-agricultural employment opportunities collapsed with the pandemic, workers had to migrate back to rural areas as underemployed workers in agriculture, which acted as a shock absorber.

The declining workforce share of agriculture was reversed, as also the rising share of regular

employment in the formal sector and productivity gains. The number of self-employed workers, especially unpaid family workers, had an upswell, and with that the LFPR and WPR improved while the unemployment rate declined. After all, unpaid work for a family farm is also counted as employment in the PLFS, no matter how odd that may be. These trend reversals have persisted and showed up in the 2023 PLFS too. It is still too early to tell whether it is an aberration in the near-term or a long-term structural reversal.

Finally, a major focus of the ILO-IHD report is the relationship between youth unemployment, education and skills. I have not got into these issues on account of space limitations, but would strongly recommend the report to interested readers. It is important because these are the factors, along with related policies, that will determine whether India reaps a demographic dividend or faces a demographic disaster in the decade ahead.

These are the author's personal views

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India's declining workforce share of agriculture was reversed after covid, says the ILO-IHD report. Our productivity gains and rising share of regular formal-sector employment saw reversals too.

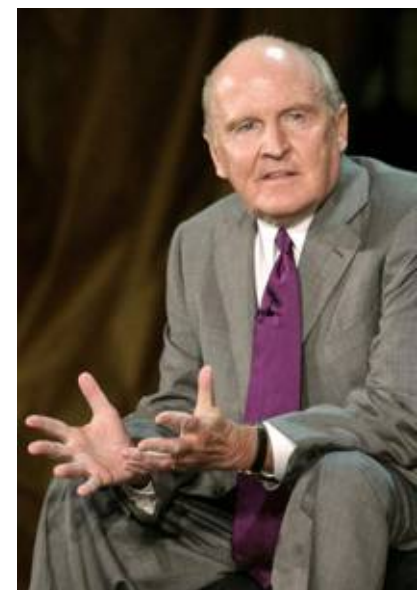
Self-employed workers had an upswell, especially unpaid family workers, and that could explain why labour force participation improved and the country's unemployment rate declined.

# GE's CEO factory has stopped production: It's good riddance

Its assembly line of CEOs has joined Jack Welch's discredited legacy



**BETH KOWITT**  
is a Bloomberg Opinion columnist covering corporate America.



GE's Jack Welch was a leader of leadership thought in the 1990s

Last week, reports surfaced that after more than a year on the market, General Electric (GE) finally managed to offload Crotonville, its storied leadership academy nestled along the Hudson River in the suburbs of New York City.

It's not just Crotonville that's a tough sell these days for GE. It's also the executives the training centre helped shape and the leadership philosophy it long espoused. A GE pedigree was once highly coveted by corporate boards looking to fill out their companies' C-suites. But now, GE-bred CEOs are developing a very different sort of reputation—that of flameouts rather than stars. For the ur-example, look no further than The Boeing Company, where three of the last four chief executives all hailed from the once powerful conglomerate. "The running joke around the company is whatever you do, don't hire another CEO from GE!" one current Boeing manager quipped to *Fortune* earlier this month.

It's a damning indictment of the house that Jack Welch built.

Welch ran the place for two decades, a period in which he developed a management system that rotated high-potential executives through different parts of the sprawling enterprise—a few years here with the now-infamous financial services division, a few there with plastics. Ultimately, that meant mastering the "GE way" was deemed more critical to running a successful business than developing deep domain expertise. To the outside world, it gave the impression that a GE-trained executive could parachute in and expertly lead any business, which is how Crotonville graduates ended up in charge of companies like Albertsons, The Home Depot and Intuit that have seemingly little resemblance to GE.

The Boeing fiasco is just the latest proof point that it's time to abandon the premise of interchangeable CEOs, who are produced at a GE-like CEO factory and can be swapped in and out like widgets. The world is too complicated, the job of a CEO today too challenging and the products many companies produce too technical for this model to work anymore—if it ever did.

At Crotonville, GE reinforced the top-down, corporate-knows-best mentality that has gotten a crop of its alumni into trouble. Executives would disappear for a few weeks at a time to the bucolic campus and learn all about Six Sigma quality and cost cutting in a way that, in retrospect, seems alarmingly divorced from the realities of what was happening on the shop floor. Now we can see how that mentality

played out at a place like Boeing: Engineers were sounding the alarm on the company's safety issues as far back as 2001. But apparently its executives just couldn't hear the warnings in Chicago, where that same year Boeing relocated its headquarters far from its Seattle production lines.

Compare that to the lean manufacturing philosophy that Larry Culp has put in place at the dramatically slimmed down GE. In this world-view, answers to problems can be found on the factory floor, which is also where the culture should be shaped—not at some far-removed corporate command post. Executives should be spending their time with operations, not in Crotonville-like Ivory Towers or wood-paneled conference rooms. There's still a benefit that comes with an academic leadership program that lets people refresh their thinking and opens them up to new ideas. But as Culp has proven, it needs to be more in balance with what a company actually does and how it operates.

GE may no longer be considered a CEO factory, but some corners of corporate America seem to still be searching for one elsewhere. Increasingly, headhunters and boards are looking for their next CEO to have Amazon on their resumes. It's the GE of its day, with its vast operations and legendary management and growth. But already we have a few case studies—Dave Clark at Flexport and Matt Furlong at GameStop, to name just two—that yet again demonstrate that the CEO factory model is too simplistic for today's fast-changing world.

The discourse swirling around who should be the next CEO of Boeing suggests that the message might finally have gotten through: The company needs to prioritize manufacturing experience rather than nebulous 'leadership skills.' That's going to require hiring for very specific expertise, not just someone who ticks the boxes of what a CEO should act and look like.

It's a smart way of thinking about all CEO searches, and especially the complex ones. Boeing's next chief executive must be able to rebuild the company's culture and turn-around the business—all while handling an incensed public and Washington. That kind of executive is made to order, not one likely to be found rolling off the line of any CEO factory. ©BLOOMBERG

MY VIEW | PEN DRIVE

# Polls spotlight the argumentative Indian TV debate

JYOTIRMOY SAHA



is founder of August Media Holdings and also POP TV.

It's election season again in India, and this time, the world seems to be watching. Or so it would seem on social media. In recent years, Indian politics has gotten attention from unexpected quarters. Tennis legend Martina Navratilova doesn't hide her dislike for Prime Minister Narendra Modi, pop star Rihanna threw her support behind Indian farmers, and so on. But celebrity musings aside, India's growing influence in the world has ensured that international publications seeking 'India interest' eyeballs have been very active in their coverage. Strong opinions have been posted by legacy news publications *Time*, *The New York Times*, *Economist* and *Financial Times*. Almost all these opinions, critical of India's current government, conform to their editorial positions and are mostly from Indian writers who are known for their slant.

My kids (both young adults now) tell me that for real opinions, one has to hear the voices of real voters on social media. But is

that really real? The answer lies in recommendation engines—one of AI's most basic applications. Each time you use online search, watch a video, read an article or make an online purchase, your activity is recorded. As patterns of your usage emerge, algorithms start to identify your likes and dislikes. With increased usage, these patterns become more robust and better able to predict your choices with reasonable accuracy. Applied to news and opinions, it can skew the user's view of the world. This technology feeds our very human nature to seek out, comprehend and remember data in a manner that validates our pre-existing convictions and principles. Our natural bias manifests further as we start to cherry-pick data that aligns with our perspective, disregard opposing data, and rely more often on vague information that reaffirms our biases. Online engines fuel this to perfection.

In short, whenever we look for political news on social media, we invariably fall prey to our own patterns. That's why we live in an era of polarized political positions. Funnily, those opinions are not just limited to politics in one's own country. Be it in the US, Brazil, India or other countries, never has the world been more invested in elections.

Expressions of concern for the state of democracy in these democracies fly thick and fast. Ironically, opinions on what counts as 'democracy' in democratic countries are louder than concern for the plight of people living in actual autocracies—over 70% of humanity. If I had a dollar bill for every time I read something asking a democracy question of India, I'd have a mountain of money piled up to my chin (credit the expression to Annie Lennox and David Allan Stewart).

Thankfully, though, political opinions only rise to a crescendo during election season. What matters to the world is India's standing in bilateral and multilateral settings. To most Western countries, India is seen as an indispensable ally in the global balance of power, thanks to its substantial population, huge consumer base, military might and economic influence. The world views India as a valuable partner that operates

under the rule of law and sees no need to confront it over its domestic policies. Calls to do so are mostly rhetorical and support for such rhetoric can be exaggerated by our digital confirmation biases. In general, the world understands that the level of democratic freedoms in India (or lack thereof) isn't really much better or worse than in other democracies. India is a complex country with multiple levels of national, regional and local governments run by a wide spectrum of political parties with various cultures, ethnicities, languages and belief systems. Every few years, there is a churn that sees these levels of government getting voted out and replaced on the basis of prevailing issues.

Globally, nowhere else is there another example of such a complex web of democratic governments run by such a wide variety of people. International news coverage be damned, what stands out in this

din of Indian elections is India's very own brand of TV news debates. With ultra-high penetration of cable TV and broadband internet, large numbers in India are cued in on the last argument they watched on TV or online. I quite enjoy this theatre that boasts a cast of characters. It can easily put any *magnum opus* to shame. They include the hallowed, the shamed, insiders, fighters, gentlefolk, knowledgeable ones, ignorant ones, defenders, attackers, and, for good measure, even a pair of highly passionate estranged brothers from opposite teams. Night after night, this lineup loudly argues every idea, every speech and every word written or uttered by general election hopefuls. Done with the usual flair of Indian dramatics, these debates serve to do one thing very well. They make Indians aware of almost every little dynamic that is at play in elections. So popular is this TV format that it has now begun to extend into once-sedate conferences and stage events as well.

There is only one health warning from this for all international commentators: The Indian electorate is more aware than it may seem and it tends to collectively choose just what is right for the people. In that sense, democracy doesn't get any bigger.

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These elections are attended by a surge of media commentary globally. Social media also seems driven by confirmation biases, so it's hard to get a representative ringside view from overseas.

What stand out in the din are India's TV debates. Foreign observers who question Indian democracy should acknowledge that the country's electorate is more aware than it may seem.