THEIR VIEW

How to deal with the country's growth-employment paradox

One way to nudge resource allocation in favour of labour-intensive growth is to make capital costlier in relation to labour

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India is the fastest growing major economy in the world. Yet, seen through the lens of employment, the growth story is quite gloomy. While GDP grew at 6.5-7% between 2011-12 and 2022-23, employment grew at only 1.9% annually. Employment growth need not keep pace with output growth, since a good part of the latter should be attributable to productivity growth. However, employment growth needs to keep pace with the growth of labour supply. Otherwise, the difference will add to the backlog of unemployment. During the period 2011-12 to 2022-23, while employment grew from about 466 million persons to about 577 million, as per Balwant Mehta's estimates, labour supply grew from 477 million to about 595 million. Thus, the number of unemployed grew from about 10 million in 2011-12 to over 19 million in 2022-23, an annual growth rate of over 5.6%—not much lower than the growth of output! I am ignoring the fact that India's official surveys employ a very broad definition of employment, wherein all under-employed persons who had any work even for one hour a day for just 30 days during the preceding 365 days are counted as employed.

One strategy to nudge resource allocation in favour of more labour-intensive growth is to lower the wage-rental ratio (which broadly measures the relative cost of labour and capital). This would raise the relative profitability of labour-intensive sectors and resources could gradually be re-allocated towards these sectors, making growth more labour intensive. Outside agriculture, which is already overburdened by under-employed household labour, there are many labour-intensive sectors that offer large volumes of employment. A recent NCAER study estimated that in 2022, the top 10 non-agricultural labour- intensive employers, such as construction, trade, land transport, education, other services, food processing, textiles and garments, etc, were already employing around 240 million persons (*bit.ly/3Z5ALIe*). A decline in the wage-rental ratio could lead to a significant re-allocation of resources, including capital, in favour of these sectors.

How can the wage-rental ratio be reduced? Lowering the wage rate, the numerator, is a non-starter since the level of wages is already very low in India. As per the latest Periodic Labour Force Survey (PLFS), the monthly real wages of regular employees, the best-paid category, was just ₹10,000 per month in 2022-23 (at constant 2011-12 prices). Casual wage labour, the worst form of employment, fetched only ₹4,500 per month. The self-employed, accounting for over 57% of total employment, had comparable monthly real earning of only ₹7,000 per month. Clearly, since the absolute level of wages (or earnings) remains so depressingly low, the policy goal here has to be not lowering but raising the absolute level of real earnings, based on rising productivity and rising labour demand.

What about the denominator? In India, where the government is the dominant, pre-emptive, borrower of funds and government-owned financial institutions also the dominant suppliers of funds, the cost of capital is essentially a quasi-administered price that does not reflect the scarcity value of capital in a capital-scarce developing country. As per our NIPFP *Mid-Year Economic Review*, the yield on the benchmark 10-year government security has been stationary in the 7-7.5% range for the past couple of years and the short-term Treasury Bill yield has converged with it (NIPFP *Policy Brief* May 2024). The yield curve on corporate bonds has also closely tracked the sovereign bond yield with just about a half percent risk premium. Pande and Mehta have estimated that the 10-year G-Sec yield has been at this level or lower during most of the past two decades and the short-term Treasury Bill yield has usually been significantly lower. With headline inflation hovering around 5-6% for the last couple of years, and higher in many years during the past two decades, it implies that the real interest cost of capital is around 2% at present and was significantly lower, even negative, in many years during the past two decades.

What policies can raise the real cost of capital to incentivize more labour-intensive growth? Depreciating the exchange rate would switch macroeconomic expenditure from imports to exports and simultaneously raise the cost of foreign capital. However, our trading partners could accuse us of currency manipulation. Moreover, real rates cannot be suddenly raised in a disruptive manner when the private investment cycle is just beginning to recover. Thus, raising domestic real interest rates, supported by exchange rate depreciation, can at best be part of a larger menu of policies to induce more labour-intensive growth.

A promising policy measure that can significantly lower the wage-rental ratio is an employment-linked incentive scheme (ELI), a concept introduced by finance minister Nirmala Sitharaman in her recent budget. However, the incentives being offered are so limited that they are unlikely to have much impact. A serious ELI grant scheme linked to additional employment, similar to the present PLI grant scheme linked to increases in production, could be very effective. It would tilt the incentive structure in favour of the employment-intensive sectors listed above and make growth more labour intensive.

QUICK READ

One strategy to drive resources towards sectors that employ more people is to lower the wage-rental ratio, which broadly measures the relative cost of labour and capital.

Lowering wages can't be done in a low-wage country and raising the real cost of capital may not suffice, but better employment linked incentives and thoughtful labour reforms could work.

Policies to change relative factor prices are necessary to make growth more labour intensive, but may not be sufficient if employment growth is also constrained by non-price factors. The most important factor here relates to structural rigidities in the labour market. There is a view that it is not the cost of labour, but the rigidities and compliance burden of labour-related Acts, and a maze of other similar laws or rules, implemented by a predatory 'inspector raj,' which stand in the way of higher employment. As it happens, there are large variations across states in the laws and rules that apply. These variations enable us to look at the actual comparative evidence, instead of just speculating about labour-market rigidities and their impact on employment. This is an important issue that requires careful analysis by labour economists.

These are the author's personal views.

MINT CURATOR

China's gaming industry must stop being gender insensitive

The stance of a maker of blockbuster games reveals what's wrong

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Game Science's *Wukong* has provoked a global controversy. AFP

Some gamers who received a copy of *Black Myth: Wukong* were given guidelines for what to talk about as they streamed it. Discussing its stunning cinematic graphics, mythical 16th-century plotline and engaging gameplay was okay. But calling for equal rights for women? Off-limits. Hero Games, one of the early backers of Game Science, which is behind *Wukong*, didn't explain what it meant by including "feminist propaganda" on the list of forbidden talking points and didn't respond to my comment request. Also among taboo topics were covid, China's game industry, or anything instigating "negative discourse."

The made-in-China blockbuster game is smashing records and receiving critical acclaim both inside and outside the country. But the "feminist propaganda" ban was a curious thing to mention. What could have been a golden opportunity to use a runaway gaming hit to spark conversations about women's rights in China instead became a lightning rod for criticism.

Perhaps the creators of the game didn't want to draw any more attention to a controversy that erupted about four years ago, when Game Science released a popular trailer for *Wukong*. The studio's founder and CEO then publicly posted a series of vulgar, sexually explicit comments to celebrate the public reception. At the time, many women gamers expressed outrage and shared their own stories about the pervasive sexism within China's gaming sector. A concept artist based in Chengdu said she had been explicitly instructed by an undisclosed company to design female characters [with sex appeal]. Even years ahead of its release, some women, who make up roughly half of China's gamers as of last year, were rethinking whether to buy *Wukong*. But like many feminist movements on China's highly censored internet, much of this momentum was silenced.

Last year, gaming outlet IGN published a deep-dive, alleging a rampant history of disrespect toward women at Game Science. It pointed to derogatory ads, crude remarks by staff, and a sexist 2013 diatribe from a co-founder decrying how games for men and women are not the same due to biological differences. Game Science has not publicly responded to the allegations.

The "feminist propaganda" censorship request has had a bit of a Streisand effect, with many gamers and outlets only drawing more attention to the topic and the studio's past controversies. A hashtag on Chinese social media platform Weibo that translates as 'Black Myth: *Wukong* insults women' was viewed millions of times before web censors cleaned up posts that spread, among other things, "gender opposition." Many posts on both Chinese and Western social media platforms questioning Game Science's treatment of women in the past were attacked and criticized, revealing how fiercely many will work to ensure that gaming is still a man's world.

State-backed Chinese news outlet *Global Times* ran an editorial this week blaming criticism of the game on racism and anti-Chinese sentiments abroad. It named a Canada-based consultancy, Sweet Baby, in relation to attacks in the Western media. Sweet Baby has been the subject of conspiracy theories that it launched a smear campaign after Game Science refused to work with it. The firm, which offers story and sensitivity consulting to game studios, told me that these rumours are a complete fabrication and that it has never been in touch with Game Science.

This backlash amid the breakout global success of *Wukong* doesn't take away from the pride many Chinese people feel about their culture being represented so significantly in a global arena. But it may be hard for the more than 689 million women in China to feel heartened by this win by an industry that has a long history of treating them as second-class citizens.

Wukong's star power should be used to help shine a light on the Chinese feminist movement. Leta Hong Fincher, author of the 2018 book *Betraying Big Brother: The Feminist Awakening in China*, argued that feminism poses the biggest threat to China's authoritarian regime, which is partly why it has faced such high censorship. Prominent activists have been detained. Last year, a ruling party-affiliated think-tank blamed "the spread of radical feminism" for having a negative impact on China's birth rate. The World Economic Forum ranked China 106 out of 146 countries on its 2024 Global Gender Gap index.

Women are increasingly active gaming consumers: The growth rate of new female gamers in Asia is nearly double that of males. It's unwise of Game Science to dismiss the *Wukong* controversy as feminist propaganda or part of a Western DEI agenda, especially as Chinese companies look abroad to boost revenues. Instead of suppressing this dialogue, gaming studios should drive the narrative.

GUEST VIEW

Family philanthropy has a pivotal role in development

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India's tradition of giving, deeply rooted in cultural and religious values, has evolved into today's strategic philanthropy, with family-led efforts playing a pivotal role in shaping modern India. Family philanthropists have collaborated with governments, NGOs and corporates to tackle systemic challenges. According to the *India Philanthropy Report* 2024, with an annual growth rate of 16% projected until 2027-28, the influence of family philanthropy is set to rise. Inclusive development, with equity—particularly gender equity—as a key facet, is imperative for the country to fulfil the vision of a Viksit Bharat by 2027. Family philanthropists are well placed to be catalysts in this journey by investing in gender-transformative initiatives and addressing funding gaps in underserved sectors and geographies.

The potential: Family philanthropy is gaining momentum in India, with donations from ultra high net-worth individuals (UHNIs) surging over 60% in 2022-23 to ₹6,850 crore, driven by major contributions from Azim Premji and Shiv Nadar. The number of UHNI donors grew from 100 to 120 between 2020-21 and 2022-23, with 70 consistent donors and 50 contributing sporadically. This reveals significant potential for more sustained engagement.

This uptrend extends beyond UHNIs. High net-worth and affluent donor donations grew by 7% in 2022-23, reaching ₹26,000 crore. By 2028, the HNI group is expected to reach 1.7 million, representing a cumulative net worth of ₹460 trillion. But we need a concerted effort to enhance transparency, governance and awareness within the sector to realize its full potential.

Bridge gaps: While philanthropic growth is promising, gaps must be bridged. Without a strong focus on gender, equity, diversity and inclusion, these efforts risk falling short of truly inclusive development. Education and healthcare continue to dominate philanthropic funding, often dwarfing other areas. Although diversification of funding is going up—particularly for gender equity, arts and culture, climate action, mental health and sports for development—significant funds are still needed.

India's philanthropic landscape, though increasingly dynamic and inclusive, lacks a robust dialogue on critical issues like socio-economic inequity. Despite the spotlight on women and girls, many women's organizations remain underfunded and under-resourced. Tackling these challenges requires a stronger commitment to supporting diverse communities and adopting an intersectional approach that prioritizes caste, gender and regional disparities.

Moreover, most giving is concentrated in Tier 1 cities like Delhi, Mumbai and Bangalore, often leaving other areas underfunded. Also, Indian UHNIs still donate less than peers in the US, UK and China, who contribute six to 10 times more.

A new era: Despite gaps, promising trends in family philanthropy suggest a shift towards diversification and innovation. Now-gen and inter-gen givers, including first-generation wealth creators and traditional philanthropists, are funding systemic change. While still supporting education and healthcare, they are increasingly focusing on underfunded causes, using collaboration, data and technology to drive large-scale impact. Their growing interest in Gender, Equity, Diversity and Inclusion (GEDI) and climate action marks a pivotal shift in giving mindsets. They aim to strengthen philanthropic infrastructure by supporting intermediaries, networks, research and capacity building. Raj Mariwala's Mariwala Health Initiative makes mental health services accessible to marginalized communities, for example, while the Kamath brothers' Rainmatter Foundation supports climate action.

QUICK READ

Donations from ultra high net worth individuals surged over 60% in 2022-23 to ₹6,850 crore but Indian UHNIs are far behind their peers in the US, UK and China on philanthropy.

The potential for growth is vast and underfunded fields getting significantly more attention raises the hope that nobody will be left behind in India's drive for a Viksit Bharat by 2047.

Historically under-represented in wealth and decision-making, women are assuming more prominent roles in family philanthropy, using their experiences to tackle gender challenges. They are increasingly adopting a GEDI lens, focusing on complex issues like mental health, scientific research and climate action, with a strong emphasis on supporting underserved communities, including women survivors and nomadic tribes in remote areas. Leena Dandekar's Raintree Foundation promotes community stewardship for sustainable ecosystems, while Rohini Nilekani is investing in programmes that engage men and boys towards achieving gender equity. Meanwhile, Rati and Riah Forbes champion the cause of marginalized groups like children with disabilities and people from Nomadic and Denotified Tribes.

Beyond traditional family-led philanthropy, India is seeing a rise in professionals taking up causes as they accumulate wealth. These individuals aspire to strengthen the philanthropic ecosystem, marking a shift towards more effective giving. Govind Iyer, for instance, has been pivotal in building networks like Social Venture Partners, fostering greater professional involvement in grant-making and learning.

A call to action: Family philanthropists are well placed to address deep-rooted inequities and drive innovation across sectors. By making bold, patient and long-term commitments with an intersectional focus, they can propel India's development. Through strategic collaboration with governments, businesses and civil society, family philanthropy can help ensure nobody is left behind in our Viksit Bharat journey.