

3rd Kautilya Conference
4-6 October 2024, New Delhi

**India's Growth-Employment Paradox and
Employment Linked Incentives**
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India's Growth- Employment Paradox: High GDP growth but tardy employment growth

- Growing at 6-7%, India described as fastest growing major economy
- Projected to become the third largest economy by end of the decade
- However, employment is growing at a trend rate of only 1.9%
 - Cannot keep pace with GDP growth, since productivity is also rising
 - But employment growth also not keeping with work force growth
- Unemployment backlog has grown from 10 million to 19 million between 2011-12 & 2022-23 i.e., at 5.65% p.a., marginally lower than GDP growth
- Lower bound estimate, employment definition very weak in NSS, PLFS
 - Anyone employed for just 30 days in the previous 365 days considered employed, actual unemployment likely to be much higher



Can the price of labor relative to capital, wage-rental ratio, be lowered to eliminate the excess labor supply?

- Relative price adjustments are supposed to clear markets
- In factor markets, if there is excess supply of labor, the relative price of labor needs to fall to reduce backlog of unemployment
- Reference is to relative price of labor and capital, the wage–rental ratio, not absolute wages. In fact absolute wages are very low in India
- Regular wage employees, 22% of workforce and the best paid earned Rs 20702 in 2023-24 per month as per the latest PLFS survey
- The worst paid 20% of the workforce, casual daily wage workers, earned only Rs 10.302 per month (21 days)
- Self-employed workers, largest segment of the workforce (58%) earned Rs 13,279 per month



Can the wage-rental ratio be lowered by raising the denominator, the cost of capital?

- Clearly no case for lowering wages, but can the cost of capital be raised?
- Real cost of capital in India is very low for a capital scarce developing country
 - Yield on bench mark 10 year G-Sec stable at 7 to 7.5% during past 2 years
 - Short term 180 days Treasury Bill yield has converged with the long term G-Sec yield
 - Yield curve on corporate bonds have closely tracked sovereign bonds with roughly half percent risk premium
- Headline inflation has been around 5 to 6 per cent during the past two years
- Hence the real cost of capital has been 2 per cent or less



Can the wage-rental ratio be lowered by raising the denominator, the cost of capital?

- During past decade G-Sec yield has either been at present level or lower
- 180 days Treasury Bill yield significantly lower
- Headline inflation has been higher than 5 to 6 per cent in most years during past two decades
- Thus the real cost of capital has been significantly lower than 2 per cent in the past 2 decades, sometimes even negative
- Clearly a strong case for raising the real cost of capital, but can this be done?



Can the wage-rental ratio be lowered by raising the denominator, the cost of capital?

- With international capital flows, this cannot be done without ring-fencing the domestic capital market
- Depreciation of exchange rate is an interesting policy option
 - It would raise the domestic cost of foreign capital
 - Simultaneously it would switch macroeconomic expenditure in favor of exports vis-à-vis imports
- However there are limits to how far this can be done
 - Can attract charges of currency manipulation by trade partners
 - Domestic interest rates cannot be raised disruptively when the private investment cycle is just reviving
- Hence raising real interest rates, supported by depreciation, can at best a part of a larger policy package



A more attractive policy option to lower the wage-rental ratio is an Employment Linked Incentive (ELI) Scheme

- Concept of ELI scheme was introduced by Finance Minister in the Budget
 - Allocation of Rs. 10,000 crore for 3 alternative schemes to subsidize salaries or provident fund contributions of new employees in large firms
- Though welcome, the scheme benefits thinly spread across too many eligible firms may not be very effective.
- Better option is PLI grant scheme linked to additional employment in selected labor intensive sectors with high employment potential
- A recent NCAER study (Bhandari, Kumar, Sahu, 2022) listed 20 labor intensive sectors with at least 20 additional employees per Rs. 1 crore.
- Of these 10 sectors are already significant employers with high demand:
 - construction; trade; land transport; education and research; textiles and garments; food and beverages; hotels and restaurants; other services; and paper products, printing, publishing and miscellaneous manufacturing



A more attractive policy option to lower the wage-rental ratio is an Employment Linked Incentive (ELI) Scheme

- Targeting ELI grants for a few selected sub-sectors of these 10 sectors could significantly boost their demand by reducing their cost
- India has a highly segmented labor market
 - 90% of workers are informal employees, only 10% are formal employees
 - This 90% is further segmented among regular wage employees (22%), casual wage workers (20%) and self-employed (58%)
- Difficult to administer the ELI scheme for hard-to-reach groups in this segmented market
 - An Aadhar like aggregation platform is required
- Massive administrative task, but if Aadhar could be done, so can this
 - In fact the ELI platform can piggy-back on the Aadhar data base



Along with ELI scheme a parallel scheme is required to drive long term shift to high quality jobs

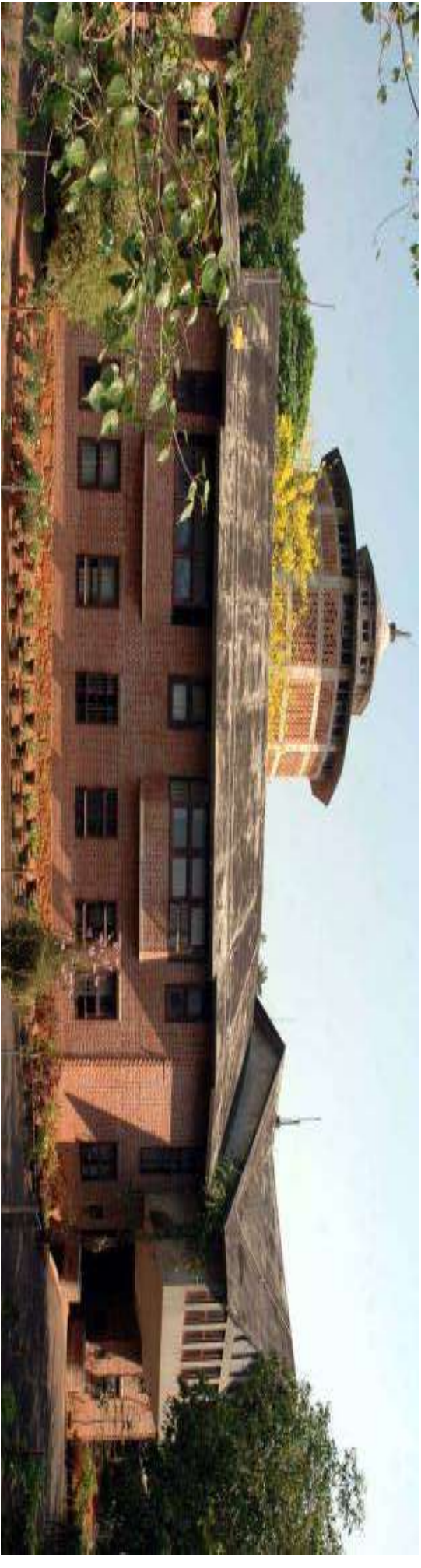
- The ELI scheme can help accelerate employment growth in the listed 10 sectors
- But these would be mainly for medium-low skilled jobs at modest earnings for self-employed and casual workers
- A parallel scheme is required to gradually drive employment structure towards high skilled, high productivity and well paid jobs
 - Modern, complex industries with strong backward and forward linkages should be the focus of this scheme
 - Effective skilling programs for these industries should be the key of these schemes
- Hardly 4% of India's workforce have certified skills compared to over 70% in advanced countries, over 90% in some east Asian countries
- Numerous skilling programs launched over the years have not been effective in generating actual employment
 - potential employees, who know the skill-gaps to be filled, were not involved in the core of these programs



Along with EII scheme a parallel scheme is required to drive long term shift to high quality jobs

- In this context the scheme announced in the Budget for subsidizing apprenticeship in large organized sector corporates sounds promising
 - If corporates respond and register for the scheme it can be scaled up
- This forward looking scheme will help prepare India's 21st century workforce: highly-skilled, highly-productive and well paid
- This workforce should be skilled for the technological revolutions that will shape the emerging 21st century global economy
 - The energy transition
 - The artificial intelligence (AI) revolution
 - The bio-technology revolution
- In this context it is encouraging to note that an apprenticeship program for artificial intelligence has recently been announced.





Thank you...



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