

TRADE-OFF BETWEEN HIGH GROWTH AND LOW EMPLOYMENT IN INDIA: RECENT TRENDS

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ABSTRACT

The era of liberalization, privatization, and globalization has focused on efficiency and productivity in economic activities. This is leading to employ more capital than labour that is dominating phenomenon in today's world. India is also not far away from this. Our growth episode is also a story of GDP growth via productivity growth hugely contributed by service sector. Service sector is capital-intensive sector. One model is not fit for all. Every nation adopt a growth model which is best alternative for them keeping in view of country's requirement but unfortunately India had not given attention on that. Therefore, we are facing the problem of poverty and unemployment. The pattern and magnitude of economic growth, comprehensive policies and programme of the government affects both. For example, some countries of East and South East Asia (ESEA), e.g. the republic of Korea, Malaysia, Indonesia, and Thailand have their successful story of high rates of growth along with higher rates of poverty reduction thanks to productive employment in 1980s and 1990s. Therefore, we need such an innovative and indigenous growth pattern, policy, programme, income distribution and will power to reduce poverty and give job to every Indian to sustain and increase their livelihood. This study is based on secondary data, which collected from various authentic sources such as RBI bulletin, CSO, and NSSO.

Keywords: *efficiency and productivity, employment, growth model.*

INTRODUCTION

‘The economy is doing fine, but the people are not.’ It shows trade-off between economic growths, employment generation. The interrelationship between economic growth and employment has long been matter of debate and controversy. The trickle-down theory has failed now. Only growth is not enough to generate employment. The incidence of growth on employment depends upon multiple factors and dynamics. Source and pattern of growth, strategy and policies are important. Indeed, employment-led growth strategy is required. In case of India, its high of growth has low propensity to employment. Formal sector creates fewer jobs than informal sector. This is due to change in composition of GDP. The source of growth is matters. More than 60

percent growth comes from less labour intensive tertiary sector. While manufacturing sector contributes only 16 percent and has larger propensity to employment than services. Primary sector has been continuing as high employment sector. That is why unemployment remains stubbornly high even as the economy grows which termed as jobless growth. India is the fastest growing large economy but jobs are not growing as fast as GDP. Secondary sector led growth strategy especially manufacturing- is one of the basic concerns along with primary sector. Meanwhile, India's rigid labour laws and chakravayah problem- easy entry but difficult exit discourages entrepreneurs to employ more workers. Although the government of India has given attention towards it through various programmes and policies viz. - *make in India, stand-up India, start-up India, MUDRA bank initiative, Shramev Jayte* but ground reality is far away. Other dimensions are as following- **ILO (2012)** report says that one of the reasons why employment is not responding to growth could due to structural changes that the global economy is undergoing. Some structural changes are :a) labour saving technological advances; b) workers are moving to low productivity informal sector; c)economies are facing adjustment to ensure environmental sustainability to fight against climate change; d)some demand is coming from extractive sector which have low employment intensity. Further, the conclusion of **ILO(2012 a)** report is that a) growth is not necessary condition for employment generation although it thought to be necessary condition; b)the structural changes in the world economy do not seem to be conducive for employment generation. **Mehta, et al; (2011)** concluded that chronically poor people in India are wage earners, whose jobs are insecure and low paid, offer very little possibility to accumulate wealth or avoid risk. Further, he says, low wage and insecure employment has been increasing more rapidly than higher wage and more secure jobs in both rural and urban areas. Therefore, the trajectory from growth to employment to poverty reduction is not automatic. **Ramaswami's work (2007)** on regional dimension of growth and employment revealed that state within India differ greatly in terms of economic growth and employment potential. He examines some aspect of regional employment growth in India during 1983 to 2004-05. The results confirm widening inter-state disparities in income in the first quinquennium of the 21st century, a continuation of the trend of the 1990s. according to him urban employment occurs strongly in initially urbanized states. All the states are found to be diversifying, but a slower pace in low-income state. A geographic concentration of skilled is observed in financial and business services.

OBJECTIVES OF STUDY

- I. To observe nexus between growth, employment in India.
- II. To analyze the recent trend between growth, employment in India.

METHODOLOGY AND DATA SOURCES

This paper has been analyzed the trends, opportunities, challenges and future prospects of growth, employment in India. The work has used explorative method to draw inferences on the basis of previous literatures and done trends analysis, to show the short term as well as long-term variations exists in the variables taken for the study purpose. Research work based on secondary data. For this study, data has been collected from various sources - mygov.in, indiastat.com; ILO, Labour Bureau Report, Economic Survey, NSSO, CMIE, and others reports and publication.

ANALYSIS

Trade-off between high growth and low employment in India

Following table-1 provides GDP growth, employment growth, productivity growth, elasticity of employment with respect to GDP since the early 1970s. It believed that a high output elasticity of employment generally ensures growth is egalitarian.

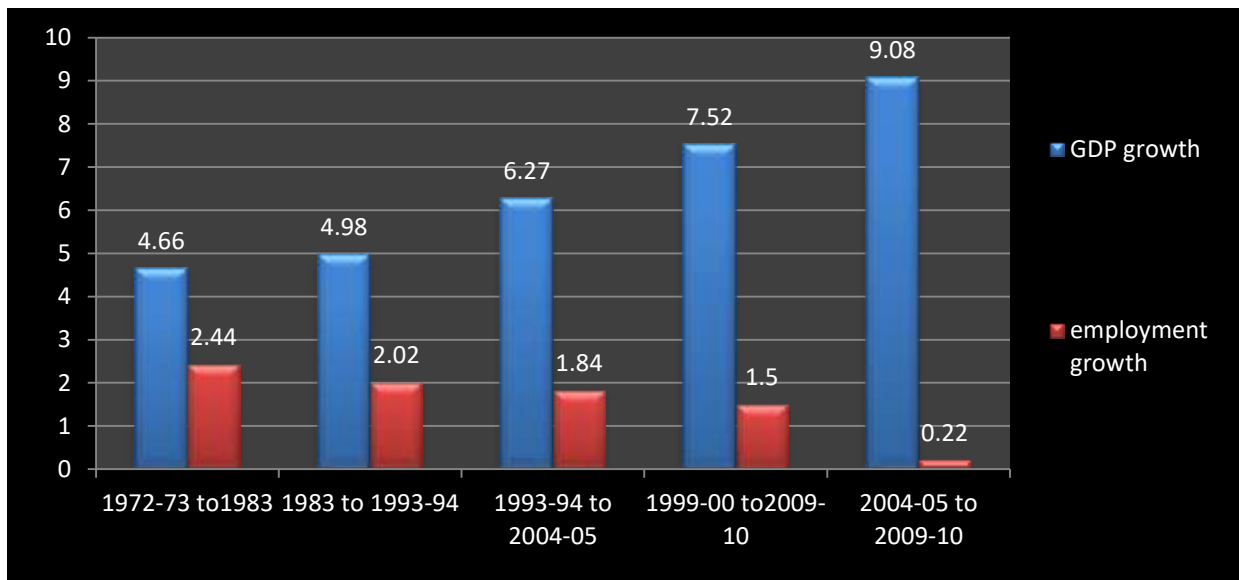
Table.1 : GDP growth, Employment, Productivity and Elasticity in India

Periods	GDP growth (in %)	Employment growth (in %)	Productivity growth (in %)	Employment elasticity w.r.t. GDP
1972 to1983	4.6	2.44	2.22	0.52
1983 to 1993-94	4.98	2.02	2.96	0.41
1993-94 to 2004-05	6.27	1.84	4.43	0.29
2004-05 to 2009-10	9.08	.22	8.86	0.02

Source: derived from Papola (2012)

From table, it is clear that GDP growth has been continuously increases to 9.08 percent in 2004-05 to 2009-10 from 4.66 percent in 1970s. While employment growth has decreases continuously to 0.22 during the period 2004-05 to 2009-10 from 2.44 in 1970s. The figure 1 shows a negative relationship between GDP growth and employment growth. As GDP growth increases, employment growth does not increases. Although, employment growth decreases over the time which seems like a jobless growth in India.

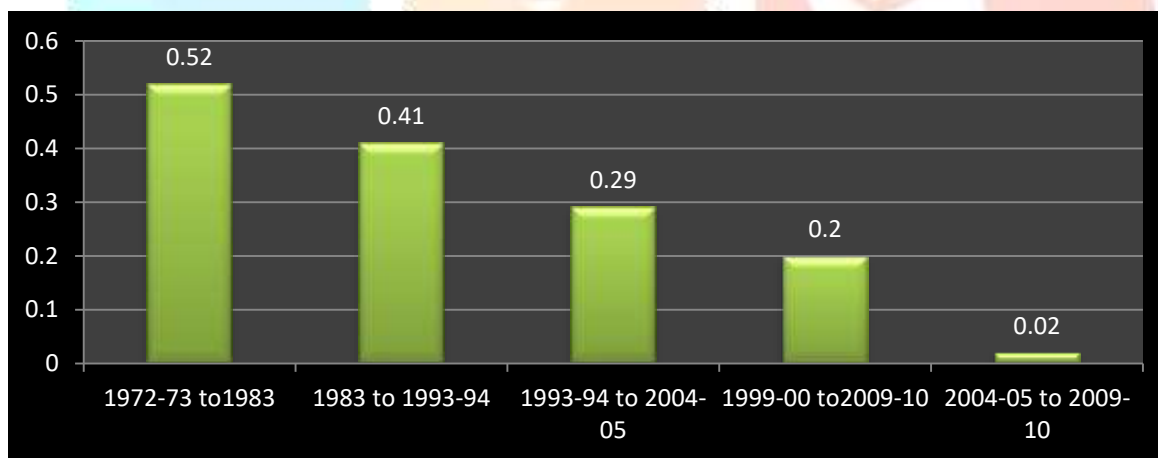
Figure-1: Relationship between GDP growth and employment growth



Source: Papola (2012)

Employment elasticity (EE) with respect to GDP also declined continuously from 0.52 in the 1970s to 0.02 in the 2009-10. It was 0.41 in 1980s, which further decreases 0.29 in 2000.

Figure-2: employment elasticity

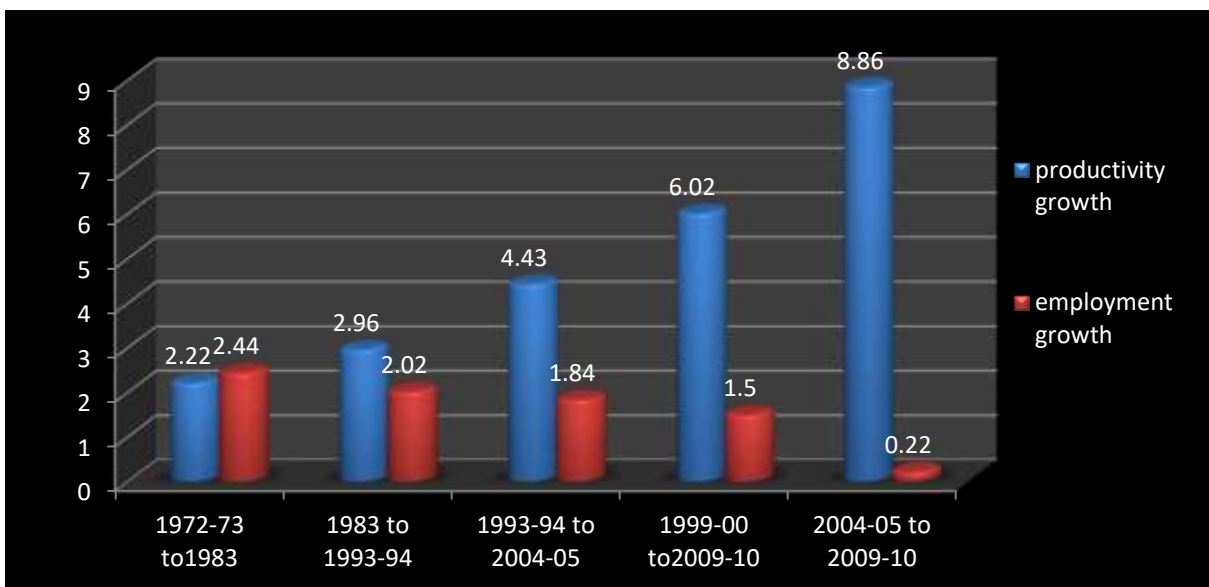


Source: Papola

(2012)

There is also wide gap between productivity growth and employment growth. GDP growth mostly increases due to productivity factor not by employment growth. This episode displayed in figure-3. Productivity growth increase dramatically from 2.22 percent to 8.86 percent in 2009-10 in contrast to employment growth.

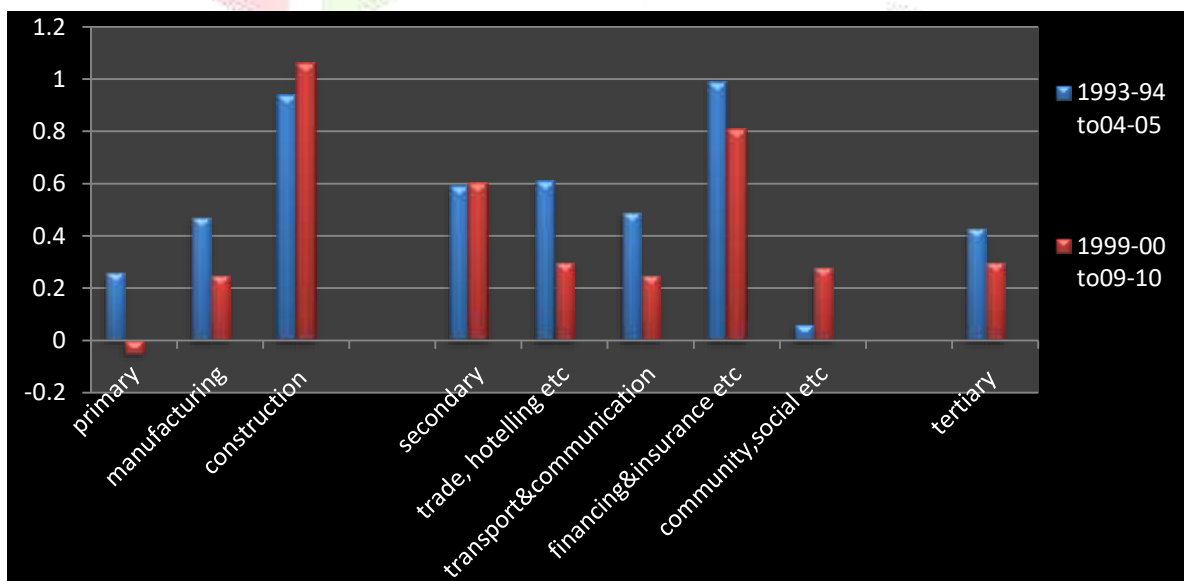
Figure-3: trends of productivity growth and employment growth



Source: Papola (2012)

Overall productivity is increasing particularly in the formal sector but new employment is being created in the low productivity informal sector. Employment growth and elasticity have declined for the primary sector. It is declining in manufacturing sector also. Construction sector shows positive trend, which added new job. The elasticity of employment in manufacturing declined from 0.78 in 1972-72 to 83 to 0.25 in 1999-00 to 2009-10. Employment elasticity in secondary sector was .94 in the period of 1993-94 to 2004-05, which slightly increases to .60 in the period of 1999-00 to 2009-2010. Similarly, the elasticity of tertiary sector has declined. The employment elasticity in service sector was .77 in percent in the period of 1972-73 to 83, which declined to .30 in the period of 1999-00 to 2009-10. In the last two decades, employment was generated more in construction sector, trade, hotels, transport and storage. It is clear from figure-4.

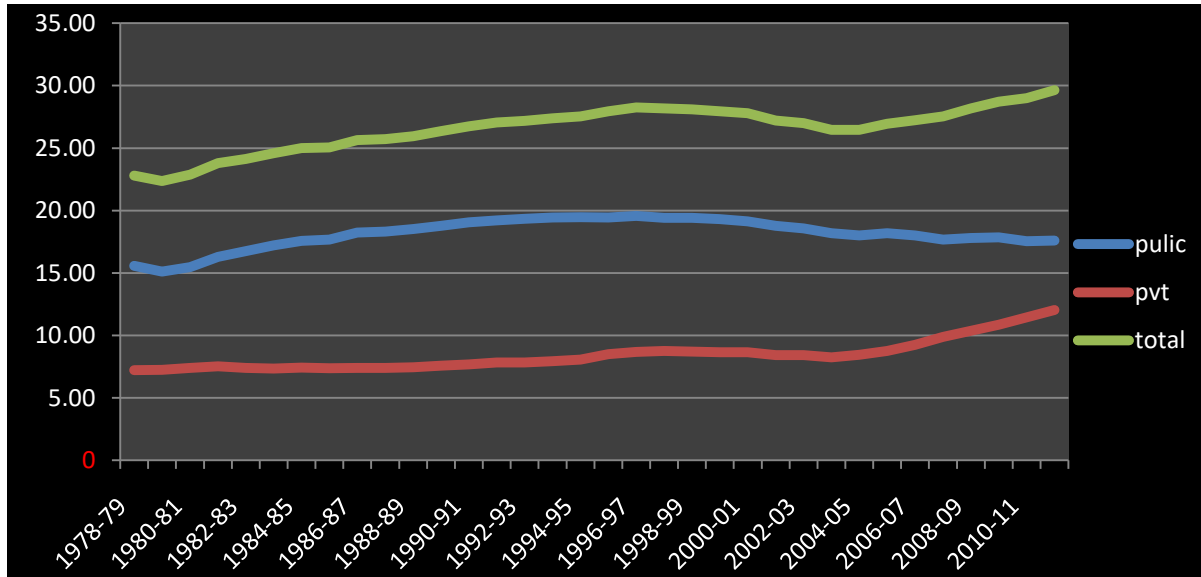
Figure-4: GDP growth, employment, elasticity in India by sectors



Source: calculated from EUS, NSSO various round

Historical data of annual survey of industry (ASI) suggested public sector contributed more than private sector during the 1978 to 2012. Public sector employment increases all time high 19.56 mn in 1996 from 13.63 mn in 1975, then decrease to 17.61 mn in 2012. On the other hand, private sector job creation was constant 7.91 mn per year during the 1975 to 2005 then it rises to 12.04 mn in 2012.

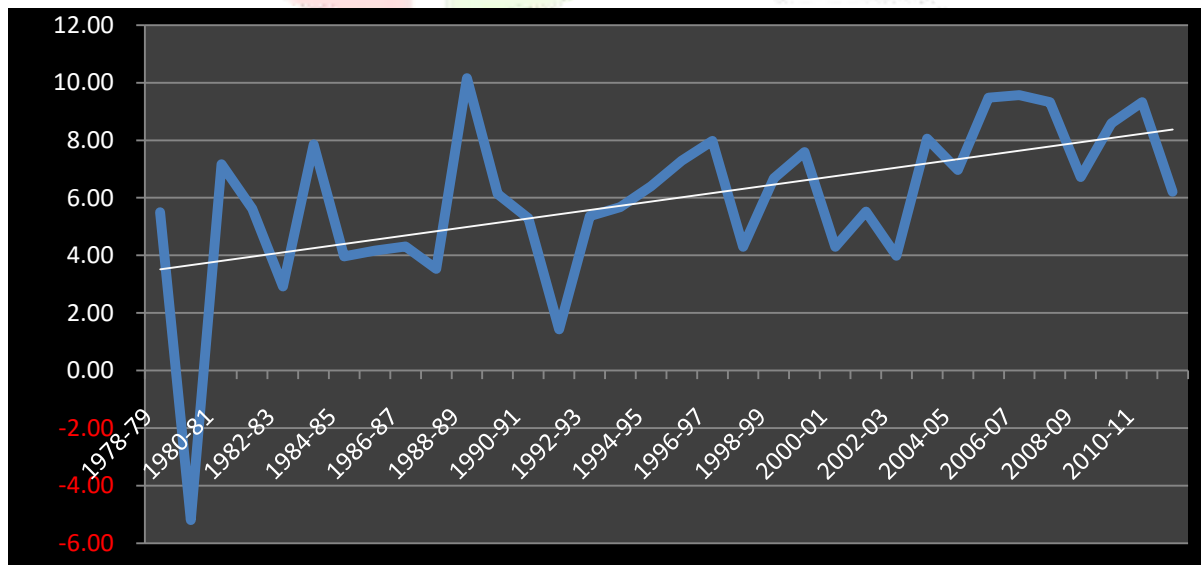
Figure-5: employment generation in public and private sector during the 1978 to 2012.



Source: ASI

While historical data has suggested that GDP growth increases continuously from below 4 per cent annual average growth in 1978 to high growth trajectory above 8 percent annual average growth in 2008-09.

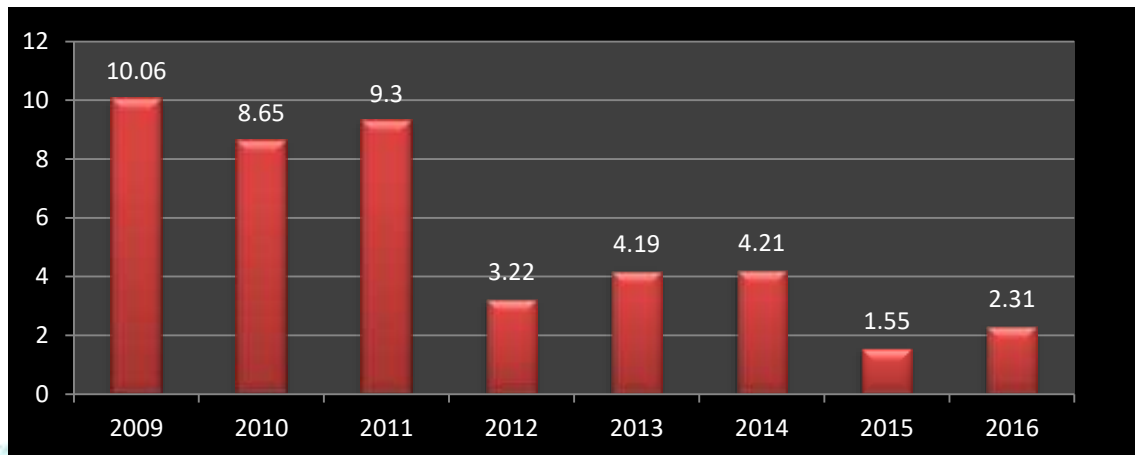
Figure-6: GDP growth during 1978 to 2012



Source: ASI

The service sector's share has increased dramatically, which is a capital-intensive sector. Although the share of the agriculture sector decreases but still provides livelihood to the majority of the population. There is a missing strong back-up in the form of a competitive MSMEs sector.

Figure-7: recent trend of employment in eight-selected sector



Source: Labour Bureau Report, Ministry of Labour and Employment.

That is why the public sector still provided more jobs than the private sector. A public sector job is attractive to the people, mostly in northern India, due to uncertainty and psychological perception.

The employment scenario in the eight sectors, i.e. textile, leather, metals, automobiles, gems & jewellery, transport, IT/BPO and handloom, is presented below in figure-7. The picture of new job creation is gray. In the recent eight years, the highest number of new jobs, 10.1 lakh, was added in the year 2009. After that, it decreased and was the lowest, 1.6 lakh, in 2015. However, in 2016, it increased and added 2.31 lakh new jobs. The 2011 financial crisis and reduced global demand hammered job creation in India during this period. In recent years, GST roll-out and demonetization have affected growth and employment prospects of these sectors. **See figure-7.**

Conclusion

India has achieved much in the last 27 years of economic reforms but it failed on the socio-economic front. There are several factors responsible for that, such as strategic policy failure to make labor-intensive sector competitive, lack of human capital management, slow infrastructure development to reduce capital output ratio to make the economy more competitive. The domestic market is flooded with competitively low dumping prices that reduce the market size for indigenous manufacturers. This is not to argue that imports should be banned - SMEs and first-time entrepreneurs are not able to compete with imported products because of high transaction costs arising out of inefficient logistics and India's overall poor record on ease of doing business. More employed workers, even at lower wages, are a better option than less employed workers at higher wages. The Government should focus on productivity-enhancing skills upgrade measures.

rather than fixing minimum wages. Prudent macroeconomic policy will bring in more FDI that will aid job creation if major concerns on the demand and supply sides are addressed.

The trade-off between high growth and low employment is also arises due to trade liberalization that affects the pattern of demand and services within the country. Next, one, technological progress and last is financial liberalization, which puts constraints on fiscal capacity of India. The dichotomy of high GDP growth with low job creation has prevailed due to the low employment elasticity of services sector, a missing of 2nd phase of development process through manufacturing, increased women workforce, growing automation, and psychological intention of getting only government job, employability index, and complex labour market regulation. The lack of comprehensive development strategy is obstacle to combat unemployment. therefore we need a comprehensive policy to overcome these challenges.

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