Growth, Employment and Labour through a Budget Lens

K P KANNAN

Vol. 54, Issue No. 33, 17 Aug, 2019

K P Kannan (kannankp123@gmail.com) is associated with the Centre for Development Studies and the Laurie Baker Centre for Habitat Studies, Thiruvananthapuram.

Despite the rhetoric in the budget speech of the finance minister, the larger picture emerging from the recent data is a slowdown in growth and a net decline in employment. Not only is this a case of jobless growth, but also one of job-displacing growth. Men have gained and women have lost. The rural economy has suffered the most. In the meantime, there is a process of downgrading the rights of labour. There is very little to cheer about the economy.

The annual budget presentation in Parliament is a big occasion in India to discuss not only the state of the economy, but also to gauge the government’s, and thereby the ruling party’s, intention in what direction it is trying to steer the economy. The budget presentation is preceded by laying on the table of Parliament the Economic Survey for the preceding year that also gives a long term view of the important trends in the macroeconomy. This year both the Economic Survey as well as union budget were disappointing, to put it modestly.

Two important developments have gone unanswered, given the stakes involved in terms of credibility of statistics both domestically and internationally. One is the controversy over the estimation of the gross domestic product (GDP), a number that the government is so much dependent on to project its economic achievements and power, especially to convince the international players. The recent paper by former chief economic adviser (CEA), Arvind Subramaniam (2019), has cast a shadow over the government’s claim of India being the fastest-growing economy despite a somewhat timid performance than during the United Progressive Alliance (UPA) regime. The basic question that informed analysts are asking relates to the high rate of growth of GDP at around 7% per annum despite a declining trend in a number of crucial macroeconomic variables such as savings, investment, exports and imports, and so on. The second question is the lack of any studied response to the findings of the employment and unemployment survey (now called the Periodic Labour Force Survey 2017–18). Initially, the report and statistics were withheld for about six months, but subsequently released after the re-election of the National Democratic Alliance
(NDA) regime. To be fair, the Economic Survey does not reject the findings but only pleads for comparing the results with the earlier survey in context and then, goes on to give the comparative figures, albeit as an aside in the last chapter of Volume 2 of the Economic Survey. Despite the rhetoric of inclusion and creation of jobs arising out of high growth in the budget speech of the finance minister, the findings of the employment survey gives further credence to the scepticism on the official growth figures for the economy that the government continues to hold on without a convincing explanation to justify the changes in the methodology of the GDP estimation. There is no attempt to discuss the dismal findings of the employment survey in the light of the continuing success story in growth as claimed by the government.

However, following the announcement by the Prime Minister on 15 June 2019, setting a target of $5 trillion GDP for the economy by the end of his second term, the finance minister has restated that goal, although without giving a time frame, but presumably implying that the goal will be reached by the end of the current term of the government. The CEA takes some freedom in extending the time frame from five to six years, that is, by 2025, one year more than the current term of the government. Assuming a 7% depreciation of the rupee during this six-year period (that is, 1.3% per annum as against the 2.6% per annum during the last five-year period) and assuming no change in domestic inflation, he calculates the warranted real growth rate at 8% per annum. If the government sticks to the five year time, then it will no doubt warrant a higher growth rate of about 9% assuming a business-as-usual scenario. Doubling of the GDP in dollar terms is not an impossible feat, but it would take somewhat more time than what is being currently projected. However, there is a danger that every policy will now get tuned to this projected big goalpost. But, at what cost? It will surely aggravate the sectoral inequality as between the rural and urban economies. But, more importantly and from a political point of view, it will further exacerbate the huge interstate inequality with states in central and east India, including the demographically huge state of Uttar Pradesh emerging as clear losers.

But, the biggest spoiler in this “growth-fetish bright prospect” being held out is employment, and of course, its quality. As a matter of fact, the findings of the latest employment survey should have come as a shocker to the government that swears by generating jobs through their strategy of growth based on neo-liberal principles, now being abandoned by its creators (the United States and the United Kingdom), but firmly held on by the International Monetary Fund and World Bank, as far as developing countries are concerned. Showering praise on the role of the private sector, the finance minister extols

India Inc. are India’s job-creators. They are the nation’s wealth creators. Together, with mutual trust, we can gain, catalyze fast and attain sustained national growth. (GoI 2019b: 4)
Dismal Employment Scenario

How credible is this unadulterated praise? For the first time since the national survey-based employment data became available in the early 1970s, there has been an absolute decline in the number of workers in the economy. From a total workforce of 467.7 million in 2011–12, it has declined to 461.5 million in 2017–18, despite an officially claimed, but contested, average annual growth rate of over 7%. Whether one accepts the official growth figure or a lower band, the fact of the matter is that growth during this six-year period has not created additional jobs, but has rather led to a loss of jobs in net terms of the order of 6.2 million. This is what is called the negative employment elasticity of growth. Of course, new employment was created to the tune of 25.7 million during this period of six years (all in the service sector plus around 4 million in construction), but the economy also witnessed a loss of 31.9 million jobs. Detailed examination shows that the biggest loss was in agriculture to the tune of 29.3 million, accounting for 92% of this loss. But, manufacturing also registered a decline to the tune of 0.57 million. That is to say, there has been a net loss of jobs in the productive sectors of the economy along with an increase in employment in the service sector that has not been adequate even to compensate for the loss in the former. Notable among the losers is the loss of 0.37 million jobs in public administration and defence. The net losers are all women.

Given the dependence of an overwhelming proportion of households on employment for their sustenance, these results are not exactly in keeping with the widely touted slogan of “sabka saath, sabka vikas” conjoined later by “sabka vishwas.”

However, what ought to be particularly worrying for the finance minister is the impact of this fall in employment of women, especially those in rural areas. The finance minister said, rather eloquently, that

In India’s growth story, particularly in the rural economy, “grameen arthvyavastha,” the role of women is a very sweet story. This government wishes to encourage and facilitate this role of women. (GoI 2019b: 18)

The irony of this statement could not be starker when we find that women workers in rural areas fell by 24.7 million, whereas that number increased by 2.9 million in urban areas resulting in a net loss of 21.8 million. Male workers in rural areas experienced an increase of 3.7 million, but those in urban areas gained more, by around 12 million. Clearly, the entire loss in employment has been borne by rural women, with 84% decline accounted for by agriculture. These findings also show unequivocally the urban bias of the economic growth story in the country.

What about those outside the workforce? In such a grim employment situation, it is no wonder that the army of the unemployed has registered a threefold increase between 2012
and 2018, from 10.5 million to 30 million. Workers plus the unemployed together constitute the labour force. While the absolute size has not declined due to the inclusion of the unemployed, the labour force participation rate (LFPR) defined as the proportion of workers and the unemployed in the adult population (15 years and above) has declined from 55.5% in 2012 to 49.7% in 2018. Here again, the main brunt is borne by women whose LFPR has declined from 30.7% in 2012 to 22.9% in 2018. Of course, this is not a one-shot affair; instead the declining trend started from early 2000. The argument that this is due to higher enrolment in education of those in the younger age groups (15–24) is only partially correct. In 2012, adult women in labour force and in educational enrolment accounted for 40.4% and the remaining close to 60% were outside the labour force and education. In 2018, this has been found to be 34% in the labour force and education, and the remaining 66% outside. For men, the story is a different one, with 93% and 90% in the labour force and education in 2012 and 2018, respectively.

This exclusion of women has now put India as one of the countries with very low women’s LFPR and in the company of Pakistan (24%). It is well below our immediate neighbours, Bangladesh (36%) and Sri Lanka (35%) and far below other neighbours such as Afghanistan (49%), Malaysia (51%), United Arab Emirates (51%), Indonesia (52%), Thailand (59%) and a far cry from China (61%). The regime that wants to learn from East Asia for accelerating the growth process would do well to help the women if a few lessons on employment are also included in the learning game.

How to Create Jobs?

Quoting M K Gandhi, the finance minister said, “The soul of India lives in its villages” (GoI 2019b: 10). Despite the spirit of this invocation of Gandhi, one wonders whether the government bothered to give a serious look at the findings of the latest employment survey and the crisis situation facing the rural economy, in general, and women in particular. One of the powerful avenues available to the government is the public employment scheme in the name of Mahatma Gandhi. The Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), 2005 is an entitlement on demand for any rural resident, albeit restricted to one member per household. Despite widespread scepticism at the time of its enactment, the total number of job cards issued on demand has not exceeded 43% of total workers in rural areas. Within that only 57% of the job cards are considered “active,” that is, those that actually availed of (or given) the employment under the scheme. Although it is an entitlement on demand, it is well known that there is an issue of aggregation of demand at the local level as well as the supply of works in terms of well-thought-out projects that could strengthen the natural capital of the rural economy in terms of developing/managing land-water-forest-livestock resources. The allocation this year (2019-20) at ₹ 60,000 crore is less than the actual expenditure of ₹ 61,084 crore during the last year. There is an impression that the current regime is not interested in continuing this public employment scheme that has a certain dignity (self-selection and a legal entitlement) and local relevance (employment within 5 km radius).
Not that the UPA which authored this historic act and the scheme was that enthusiastic, going by the average days of employment of 46–50 days per beneficiary. Last year, the beneficiaries were 52.8 million persons (with 51 days on average of employment), that is to say, just 17% of the estimated total workers in rural areas at 311.3 million in 2017–18.

Women now constitute 55% of the persons who availed of this employment, pointing to the increasing importance of this source of employment for poor labouring women in rural areas. Had this average employment been 100 days, it could have provided some succour to those who lost their employment. This does not look like “a very sweet story” for the women in the “grameen arth vyavastha.” Not that the blame for this lackadaisical performance is entirely to be placed on the current regime. The UPA regime’s average performance was exactly the same. An otherwise historic initiative for the labouring rural poor ended up as a half-hearted, half-initiative.

The story is the same with regard to other rural development schemes that are either entirely for the rural economy (for example, the Pradhan Mantri Gram Sadak Yojana, the National Rural Drinking Water Mission) or substantially for rural areas (as in the case of housing, health mission, and the Integrated Child Development Services or ICDS) that could help create more jobs. In fact, the allocation for the Ministry of Rural Development at ₹ 1.2 lakh crore is higher only by 4.8% compared to the previous year. But, in real terms this works out to an increase of a pitiable 0.8% after adjusting for inflation.

**Labour Reforms**

Neither in the *Economic Survey* nor in the budget speech is there a clear direction as to how the claim of growth leading to employment generation can be achieved. However, there is a strong fixation (both in this regime as well as in the UPA regime) that labour reform is the principal answer. And that should be to make the labour market more flexible for capital to invest and realise their profit. The earlier idea, as propounded in the Constitution as well as in the enactment of labour regulation and welfare legislations is now a thing of the past, signalling the victory of neo-liberalism in economic as well as welfare policies.

The introduction of two Labour Codes, the Code on Wages and the Code on Occupational Safety, Health and Working Conditions (OSH) is a case in point. Far from promoting decent jobs along with the much touted high growth trajectory, the labour codes are now perceived by almost all trade unions, impartial scholars and media as a comprehensive onslaught on the workers, especially those who work as insecure or informal workers in both the informal sector (employing less than 10 workers) and in the formal sector. Take the case of minimum wage fixation. In principle, the Code on Wages mandates a national minimum wage (that could be taken as a floor wage) below which no state or the central government should fix industry-specific or statewise minimum wages. However, the issue of fixing the minimum wage has been left to the executive which is contrary to the principle of “need-based” propounded by the Supreme Court and demanded by the Indian Labour Conferences. But, this lofty principle has been followed within days by announcing a pitiable ₹ 178 as the
national minimum wage by the Ministry of Labour and Employment that is higher by ₹ 2 from the previous year’s recommended national minimum wage. Not only that it represents a decline in real wages, given an inflation rate of 4%, but it also signals that the government is in no mood to accept the recommendations of its own committee (Satpathy Committee) that recommended a minimum wage of ₹ 375 per day as of 2018. Of course, this was considerably lower than the demand of the 15th Indian Labour Conference for a national minimum wage of ₹ 692 per day or ₹ 18,000 per month. The new code also takes away the workers’ right to judicial remedy because of the creation of a quasi-judicial appellate authority. For the overwhelming majority of informal workers who do not have an identifiable employer, the route to remedy for non-implementation is further complicated because a claim can only be filed by an appropriate authority, employee or trade union.

The OSH Code has also faced severe criticism from the trade unions. The earlier Contract Labour (Regulation and Abolition) Act of 1979, now merged with this code, has provisions that promote contract labour by relaxing licensing norms that cannot distinguish between perennial and non-perennial jobs and taking away the responsibility of the principal employer. There are provisions for extending the working hours, with the consent of the worker that could lead to a return to the pre-independent days of long-working hours, given the compulsions of a majority of workers not to give their consent. Safety norms have also been relaxed in the proposed code. Workers in the informal sector or those who work as informal, often as casual workers in the formal sector (for example, construction) are at a loss as to what will happen to the welfare boards and funds created on an industry-wide basis. In sum, the message is loud and clear. The path to high growth needs to be paved with cheap and pliable labour for the private corporate sector, the India Inc, with borrowings from abroad and assisted by a freer and easier entry of foreign capital to the Indian economy.

Notes

1 “For comparability, the result of the PLFS with earlier rounds of NSSO surveys need to be understood in the context with which the survey methodology and sample solution has been designed” (Economic Survey 2018–19, Ch 10, p 265).

2 “Inclusiveness has been the cornerstone of India’s development agenda. Over the last few years, efforts in this direction have been accelerated by the government through the mantra of inclusiveness ‘Sabka saath, sabka vikas,’ further elaborated by ensuring ‘Sabka Vishwas.’ As India is a developing economy with resource constraints, we have prioritise and optimise the expenditure on social infrastructure to promote sustainable and inclusive growth. It is critical at this juncture to focus on public investments in human capital and strengthen the delivery mechanisms of government interventions to ensure transparency and accountability. With India having the demographic advantage, improving educational standards, skilling the youth, enhancing job opportunities [emphasis added], reducing disease burden and empowering women will help in realising the potential of a buoyant
economy in the future” (GoI [2019a], Economic Survey, Vol 2: 251).

References

