

Employment Stagnancy in India: Policy plus Monetary reform

Aritra Chakrabarty

Combating a double crisis-low labour productivity and rigid regulations has left the Indian labour market in a wobbling position which needs both fiscal and policy support

Labour productivity in agriculture has remained low because too many workers are working in relatively fixed amount of land and machinery. Availability of limited productive assets has narrowed the scope of use of technology. Irrigation facilities and tractors cannot be applied effectively due to small size of land holdings. The issue of raising labour productivity can be achieved through two channels-one is shifting of excess labour from agriculture to manufacturing and services which has been manifesting in the form of internal migration. The second is to raise investment or increase total factor productivity by moving workers from low productivity jobs to high productivity hobs in industry and services.

The Indian economy is witnessing a dichotomous trend- an increasing share of employment in industry with decline in Value Added to output. When compared to other Asian economies, we're adding workers at the same pace as other developing economies in the region. However, the productivity of jobs has not been high. This coupled with high degree of informalization of jobs has resulted in major chunk of the labour force to remain outside the purview of the labour laws.

The following interpretations came out from the Economic Survey Report (2013-2014). The report clearly highlights a shift in the share of labour force from agriculture to industry and services however accompanied with a declining growth in productivity from the two sectors. As per National Sample Survey Office data, the number of persons in the workforce (usual status) increased from 398 million in 1999-2000 to 458 million in 2004-05, an increase of nearly 60 million (nearly equally divided between the agriculture and non-agriculture sectors) or 15 per cent in five years. This increased further to 473 million in 2011-12, an increase of 15 million or 3.3 per cent over a span of seven years. There was a decline in the workforce in the agriculture and allied sector by over 36 million between 2004-05 and 2011-12. On the other hand, the number of persons in the workforce in the non-agriculture sector increased by 51 million with industry and services contributing nearly 31 million and 20 million respectively.

The last two years were particularly disappointing for the manufacturing sector, with growth averaging 0.2 per cent per annum. This can be particularly attributed to contraction in capital good production which was a result of slowdown in investment activity in the industrial sector. The slowdown in services, in particular the internal trade, transport, and storage sectors, could be attributed to the loss of momentum in commodity-producing sectors. In the absence of sufficiently high growth in agriculture and industry, services would be seriously constrained to sustain growth acceleration on auto-pilot mode since many of the services are dependent on buoyancy in the commodity-producing sectors, especially industry. High productivity sectors have not been able to create employment commensurate with its growth in Value Added.

India, Union and State Budget

The Medium Small Micro Enterprises MSME sector has been absorbing the migrating labour from agriculture with 81 million employed in 36 million units across the country, yet many of these firms are unable to grow and or even shut down. Within the MSME sector, there is a strong concentration of small enterprises and near non-existence of medium enterprises. Too many firms stay small, unregistered, and largely informal because they can avoid regulations and taxes. They have little incentives to invest in upgrading skills of largely temporary workers on investing in capital equipment. Low productivity gives them little incentive to grow-this completes the vicious circle of unorganized sector. The main bone of contention has been the regulatory framework-labour laws which were meant to protect the interest of the labour force has kept majority of the labour out of its ambit. 95 per cent of the workforce is in informal employment or in contractual labour arrangement. The rigid labour laws have played a significant role in low manufacturing sector output and employment and high informal manufacturing output.

In order to revive the manufacturing sector, the Federal Budget came out with measures to revive the slackening manufacturing sector. The need to boost growth in the manufacturing sector was highlighted in the budget speech along with stressing on fiscal prudence. The budget also made provision for investment allowance at 15 per cent for 3 years to manufacturing company which invests more than Rs.25 crore in plant and machinery. In addition to monetary fillip, the NDA government has also initiated reforms in the archaic labour regulatory structure to introduce flexibility in the labour market. Following the example of BJP led Rajasthan government; the government at the centre will introduce amendments in the Apprentices Act 1961 to create larger opportunities of Employment for the Youth. On compensation, the state government is proposing to share the cost of apprenticeship. If a company has less than 250 workers, and is hiring apprentices, the state will absorb half the cost and if the company has employees above this ceiling then the government will absorb a fourth.

The government in Rajasthan has amended the Apprentices Act to improve business environment and make it easier for industry to create more jobs. The amendment makes it easier for industry to recruit apprentices and is the second round of labour law reforms proposed by the state government within the last 30 days. The Rajasthan cabinet also approved amendments to the Boilers' Act which will make life simpler for 1,200 boiler operators in the state. The amendments will allow renewal of licenses through recognized agencies and certification by outside bodies, ending the so called "inspector raj."

While India has 300,000 apprentices, Germany has more than 3 million. By amending the Act, the country can include 10-12 million young people in the program. Even if a company does not absorb all the apprentices, it will at least produce job-ready individuals which can be absorbed by others.

Similarly, as part of the Industrial Dispute Act, Rajasthan's amendment will allow companies to retrench up to 300 employees without seeking government permission. At present, this number is restricted to 100. The changes also make it tougher to register labour unions.

eSocialSciences