CHAPTER 1

INTRODUCTION

1.1 Introduction

Growth and employment are the twin goals considered central to economic policy agenda in both developed and developing countries alike. The idea that growth of output brings with it changes in growth in employment is well established and backed by empirical evidences for many countries. Periods of buoyant Gross Domestic Product (GDP) expansion are often associated with rising employment opportunities, while, conversely, slow-downs bring growing unemployment (Boltho and Glyn, 1995).

Linking output growth to employment has wider ramifications. With the expansion of employment, the benefits of growth are likely to be shared. Enhanced employment opportunities provide people with better and new sources of income (Heintz, 2006). There are evidences that greater employment content in economic growth often causes reduction in poverty (Islam, 2004). To this effect, employment intensity of growth, which measures the responsiveness of employment growth to output growth, assumes significance. Employment intensity of growth often provides valuable insights into the labour market paradigm and the overall macroeconomic performance of an economy. It serves as a useful instrument that examines how growth in output and employment evolve together, creating, in turn, varying impacts across both time and space and causing possible structural economic changes (Kapsos, 2005).

In recent decades, the economies of the world have witnessed sweeping changes in several macroeconomic fronts, thanks to globalization and liberalization processes. It is, however, common place these days that along with certain opportunities, globalization has brought in enormous challenges. This observation is especially relevant with regard to employment. It is established that the era of globalization is associated with far-reaching changes in the structure of employment, including pressures for increasing flexibility, scenarios of ‘jobless growth’, unprecedented rise in informalization and casualization, and declining opportunities for the less skilled (Heintz, 2006). There is a growing concern over the weakening of the linkage between output growth and employment growth in both developed and developing countries. The situation in developing country is indeed far more serious. While possibility of a strong output-employment linkage is considered an empirical regularity in some advanced countries, there are, however, evidences of growth weakening such links in developing ones (Jha, 2003; Bhattacharya and Sakhtivel, 2004b; Heintz, 2006).

1.2 Scenario of Employment in India

Of late, India occupies the coveted status of being one of the emerging economies of the world, thanks to the much talked about reforms processes. The country has moved from the erstwhile ‘Hindu rate of growth’ to a new growth trajectory and successfully achieved a decent growth in recent years. However, the said achievement in growth is stated to have failed to improve employment situations in the country even though the growth rate of labour force has been quite low (Jha, 2003; Unni and Raveendran, 2007). Indian economy is currently experiencing 'old problems and new paradoxes'[1]. The major problem of the economy pertains to ensuring decent livelihood to all its citizens, an issue as old as India's independence. Coupled with this, there are paradoxes, which are indeed relatively new. To be specific, despite the acceleration of economic growth over the last decade, the positive correlation between growth and employment is reported to have weakened. Many researchers have described this phenomenon as 'jobless growth' (Joshi, 2004; Unni and Raveendran, 2007). Besides, falling real wages and wage shares seem to have failed to ensure adequate demand for labour in the country. What is further disquieting is the increase in petty self-employment in all the sectors (Ghosh and Chandrasekhar, 2007).

From the point of view of the entire economy, employment growth is found to have slowed down from 2 percent per annum during 1983-84 to 1993-94 to less than 1 percent per annum during 1993-94 to 1999-2000 (Planning Commission, 2001). In 2004-05, labour force in India consisted of about 430 million, growing annually at about 2 percent (GOI, 2007). Slightly less than 63 percent of it is employed in agriculture producing about 23 percent of the domestic product. Industry employs around 15 percent of the workforce producing a little over 26 percent of the domestic output. Close to 50 percent of domestic output is contributed by service sector, whereas ironically, it absorbs only 22 percent of the total workforce (NSSO, 2006). This is contrary to the situation as prevalent in other advanced countries of the world or other fast-growing Asian economies in their comparable stages of development.

[1] Ghosh and Chandrasekhar (2007) have made a detailed discussion on this.

There are evidences that the Indian manufacturing sector witnessed jobless growth in 1980s, which improved in the following phase (Mazumdar and Sarkar, 2004; Goldar, 2000; Nagaraj, 2000). In recent years, there is growing 'tertiarization' of the structures of production in India (Joshi, 2004; Eichengreen and Gupta, 2010). However, the argument that employment is tertiarized[2] may need a close scrutiny as the evidence speaks otherwise. For employment conditions to improve, growth must occur simultaneously in both modern and traditional sectors (Goldar, 2000; Ghose, 2006) including private and public units[3]. It is argued that though the tertiary sector plays a catalytic role in employment generation and poverty alleviation in medium and long run, simultaneous growth of all sectors is desirable (Joshi, 2004).

Persistence of regional disparities in India remains yet another serious challenge. States within India differ greatly in terms of economic growth and employment potential (Bhattacharya and Sakthivel, 2004a; Ahsan and Pages, 2006). While employment has risen across all states in the past three decades, the pace of employment creation in middle- and high-income states has far outstripped that of poorer states. India's poorest and most populous states, where about 40 percent of the population live, account for only one-quarter of organized sector employment. States differ greatly in their ability to translate growth into jobs. However, poorer states have fared even worse than their counterparts. High-growth states are generally more successful in translating growth into jobs. It is also the case that some fast-growing states have been less successful in generating job-intensive growth (Purfield, 2006).

[2] Joshi (2004) argues that employment is tertiarised along with output.
[3] Goldar (2000) finds that in 1990s, the contribution of the Indian public sector to employment was far insignificant as compared to the registered private sector.

1.3 Employment in Development Strategy of India: A Historical Account

In India, in view of the growing numbers of the unemployed, employment has always been an important policy concern over last six decades of development planning. Consecutive Five Year Plans, which have laid down the directions for overall and sectoral development in a medium-term perspective, have been quite explicit in respect of the goal of employment generation (Papola, 1994).

Interestingly, in the initial years of development planning, employment was not expected to emerge as a serious problem; yet there was effort to see that sufficient employment was generated in the development process to employ the growing labour force productively (Papola, 1992). A reasonably high rate of economic growth, backed by the expansion of labour-intensive sectors like small-scale industries, was expected to achieve this goal. During this period, the rate and structure of growth rather than technology were considered as the key instruments of employment generation. Unemployment was estimated to be relatively low, as was the growth rate of the labour force, and a targeted economic growth rate of 5 percent, with an emphasis on labour-intensive consumer goods sectors, was expected to generate adequate job opportunities.

Achievements relating to growth and employment during 1950s and 1960s, however, fell far short of expectations. GDP grew at an average annual rate of around 3.5 percent. Employment growth averaged meager 2 percent, whereas the labour force grew at a rate of 2.5 percent. As a result, the number of unemployed, estimated as 5 million in 1956, rose to 10 million by 1973-74 (Shetty, 1978).

Recognizing the urgent need to address the problems of growing unemployment and persistent poverty which was found to afflict over one-half of India’s population, the fifth five fear plan (1974-79) envisaged a reorientation of development strategy towards employment-oriented growth and the introduction of special anti-poverty and employment programmes. While this approach continued for about a decade, the magnitude of the problem was found to have become greater in the meantime. The seventh plan for the first time, thus, considered creation of productive employment as an explicit goal and accordingly attempted to place employment at the core of the development strategy. Despite this underlying effort, Indian economy experienced a sharp deceleration in the employment growth in the 1980s with a mild acceleration in the GDP growth (Sundaram, 2001a and 2001b; Bhattacharya and Sakhivel, 2004b).

With the onset of economic reforms in early 1990s, Planning Commission of India, having experienced serious failure in employment front in the preceding decades, considered employment generation as one of India's key targets in 1992 and accordingly set an objective of 'employment for all' by 2002 (Planning Commission, 1992). This target was integrated into the plan strategy through overall and sectoral priorities.

India witnessed a reasonably higher growth rate of GDP (around 6 percent) during the 1990s. Interestingly, however, the country failed miserably in transmitting the successes of growth to employment as employment growth rate remained as low as 1.1 percent only. A much lower growth during the earlier decades had been accompanied by about 2 percent growth in employment (Bhattacharya and Sakhivel, 2004b; Sundaram, 2001a and 2001b). In the wake of growth failing to create employment, a renewed urgency to focus on employment appeared to have set in by the end of the 1990s, presumably with the realization that faster economic growth by itself is not sufficient to tackle the problem. Two committees (a Task Force in 1999 and a Special Group in 2001) were appointed by the Planning Commission in quick succession to examine the trends in employment generation and to suggest a strategy for the creation of employment opportunities to attain the goal of employment for all within a specified time. The following remarks of the Task Force merit mention.

> There is widespread concern that the acceleration in GDP growth in the post-reform period has not been accompanied by a commensurate expansion in employment. Public sector employment is expected to fall as the public sector withdraws from many areas. There are fears that the processes of internal liberalization and globalization, inevitable though they may be, are creating an environment, which is not conducive to expanding employment in the organized private sector. Existing industrial units are shedding excess labour in order to remain competitive and new technology, which is essential to ensure competitiveness, is typically more automated and therefore not job-creating. The net result of these forces, it is feared, could be a very slow expansion in employment opportunities in the organized sector, with a rise in unemployment rates and growing frustration among the youth. The problem is perceived to be especially severe for educated youth, who have high expectations about the quality of employment opportunities that should come their way (Planning Commission, 2001: Report of the Task Force on Employment Opportunities, p. 1).

Following the recommendations of the Special Group and the Task Force (Planning Commission, 2002), the tenth plan introduced a number of special programmes relating to different sectors including agriculture and related activities, small and medium enterprises, rural non-farm sector and social sector. Policy changes were brought in to stimulate the promotion of labour-intensity sectors including construction, tourism, communication and information technology (IT) and financial services. It was argued that this reorientation would not necessarily involve heavy additional investment but mostly a reallocation of funds and choice of appropriate technologies. In view of the growth failing to benefit the poor, the 11th plan has adopted a strategy of ‘inclusive growth’, wherein employment creation occupies a pivotal place (Planning Commission, 2006).

1.4 Problem Statement

It is clear from the preceding discussions that in India, several alternative development strategies have been in vogue in about six decades of economic planning. However, the country seems to have failed to link growth to employment on several counts. Although puzzling for a labour-rich country, it is a fact that growth in India has not been very job-intensive (Purfield, 2006). To add woes to the worries, there are evidences of inter-sectoral and inter-state inequalities in the employment content of economic growth. In the face of the challenges of globalization, there are also new questions about the ability of the country to adjust to structural change and to foster a more dynamic and competitive environment that encourages enhanced productivity while guaranteeing creation of new employment (Papola, 2008).

It is, in this context, imperative to examine how growth and employment have evolved together over time in India and identify the factors that affect the employment intensity of growth in the country. It is also equally pertinent to comprehend the ability of different sectors to adjust to structural changes. The present study, thus, aims to examine the trend of employment intensity of growth at the aggregate and across three main economic sectors (primary, secondary and tertiary) in India. In addition, it seeks to identify the macroeconomic factors that determine the employment intensity of growth at the aggregate and across broad sectors. The findings of the study would help develop suitable policy implications for probable solutions.

From the policy prospective, employment growth may be considered more important than employment intensity of growth. Excessive focus on employment intensity may at times be misplaced. As the present study attempts to find out the employment content of economic growth, it relies upon the employment intensity of growth. However, it takes sufficient caution while interpreting the results.

1.5 Organisation of the Thesis

The remaining part of the thesis is organized as follows. Chapter 2 reviews the literature on the basis and importance of the employment-output linkage as well as its trends and determinants. In chapter 3, concepts related to the issue are defined and econometric models needed to analyze the data are presented. Chapter 4 examines the trends of employment intensity of growth at the aggregate as well as for the major states and three broad sectors of the Indian economy to trace out the pattern of the employment-output nexus and structural patterns over the years and accordingly, draws implications thereon. On the basis of the past trend, employment elasticity of India is also forecasted. The relationship between macroeconomic determinants and employment intensity of growth is examined in Chapter 5. Chapter 6 summarizes the findings and concludes the study drawing implications thereon. It also outlines the major contributions of the work and scope for future work.