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Unemployment crisis in India: is employment policy to be blamed?

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India has a widening and deep rooted employment problem. Its record on the employment front has been quite dismal despite achieving an impressive rate of economic growth in the last three decades. India faces major employment challenges, particularly incomplete structural transformation marked by the shift from agriculture to services, leapfrogging the manufacturing sector. In addition, there is a demographic challenge – an expansion of the working age population - a decent-work deficit and a low female participation rate. The latest Periodic Labour Force Survey (2017-18) reveals a grim story of 'job-loss growth', with 9 million jobs lost between 2011/12 and 2017/18, despite annual growth of 7%. The contraction of employment was led mainly by agriculture followed by manufacturing. The unemployment rate stood at 6.1%, the highest in the previous 45 years.

Given the very large informal economy in India- around 93% of the workforce are engaged in the informal sector, according to the government's Economic Survey of 2018-19, it is disappointing that employment policy has never been a top priority in economic policy. Employment concerns and policy initiatives have always focused on poverty alleviation, livelihoods and micro-enterprise development.

During the initial years of planning, it was expected that industrialization-based growth would be able to generate adequate employment. During the 1950s and 1960s, employment generation was perceived as part of the overall process of economic growth and not as an explicit goal nor independent of economic growth (Planning Commission, 2011). However, by the mid-1970s it was realised that economic growth alone could not generate adequate employment. During the 1970s and 1980s, various poverty-alleviation and employment-generation schemes were implemented. These policies were seen as part of poverty alleviation programmes where employment was considered as a means to achieve stated objectives. However, government pursued expansionary fiscal policy up to the 1980s, which included expansion in rural development expenditure and state procurement of crops at prices covering the cost of production. This led to expansion of rural employment faster than its labour force till the early 1990s.

With the initiation of economic reforms in the 1990s, it was expected that the economy will move on to a trajectory of higher economic growth which would lead to a faster growth in employment. However, while economic growth accelerated, employment conditions did not improve. Employment was generated mostly in the informal sector with no social security benefits and low earning levels. Macroeconomic policies under the new regime advocated for fiscal austerity, low public investment and expenditure deflation. The outcome was 'jobless growth' which India experienced in reform years.

Under the United Progressive Alliance, the Congress-led regime of 2004 to 2014, employment policy for informal workers was mainly pursued as a part of social policy. Some of the important initiatives taken by the government on the employment front included the Mahatma Gandhi National Rural Employment Guarantee (MGNREGA) Act of 2005 and the Unorganised Workers' Social Security Act of 2008. Even the Right to Education Act of 2009 is a measure which could support employment in future. These rights-based polices did have some positive outcomes (for example, the MGNREGA played a positive role in reducing gender wage gaps, promoting social inclusion and increasing rural wages) but failed to solve the perpetual employment problem.

Employment Policy Since 2014

In 2014, the Bhartiya Janta Party came into power and the focus of employment policy since then has been on self-employment: people are encouraged to be 'job-creators' instead of 'job-seekers'. A number of hyped policy initiatives were rolled out but failed to make any dent in the employment crisis:

Make in India, a high profile policy initiative aimed to increase the manufacturing share in GDP from 16 % to 25 % by 2020, emphasized 'ease of doing business' in order to promote foreign investment in India. This policy is just a relaunch of the previous government's National Manufacturing Policy in 2011. So far, actions taken are primarily restricted to improving the business environment through measures such as less onerous taxes and regulations plus building infrastructure, according to the 2014-15 Economic Survey. Although these measures are important, manufacturing's share of GDP remains only 16.4% in 2017/18 and it registered a negative employment growth between 2011/12 and 2017/18.

Skill India is again a rebranding of the National Skill Policy launched by the previous government. The aim was to provide skills to youth which would help them secure employment. One

of the most publicised schemes under the mission was PMKVY (Pradhan Mantri Kaushal Vikas Yojna). Even after the poor performance of the scheme, government announced PMKVY 2.0 for 2016 to 2020 and the results remain disappointing. The ministry has answered in the upper house of parliament that the placement rate under the scheme is only 21% (Jadhav, 2019).

The Start-Up India initiative was taken to promote bank finance and employment generation for start-up ventures. A report by the IndUS Entrepreneurs Delhi-NCR with consulting firm Zinnov shows that the pace of new start-ups has slowed over the last two years, particularly in the Delhi-NCR regions. According to the report, in 2015 around 6679 new start-ups were founded across India, which declined to 5875 in 2016, to 2036 in 2018 and further to 800 in the first half of 2019.

A similar scheme launched in 2016 was Stand-Up India. to promote entrepreneurship among people from so-called scheduled castes and tribes (socially deprived groups) and women. Banks are required to provide loans between around US$13 000$ and US130 000)to at least one borrower per bank branch from a scheduled group. We do not have the latest data regarding the progress of this scheme but there were reports which suggested that it was falling short of targets (*Financial Express*, 2019).

Another scheme to promote self-employment was the Pradhan Mantri Mudra Yojana launched in July 2015. Under the scheme, a beneficiary can get a loan up to US$13000 to set up an enterprise in the non-farm and non-corporate sector. The labour ministry's report on the Mudra scheme shows that only 20% of the beneficiaries sampled had taken a loan to start a new business while the rest just expanded their existing enterprises. Also, during April 2015 and December 2017 only 11.2 million new jobs had been created under the Mudra scheme.

India does not have any comprehensive employment policy until today, although from time to time government has implemented various schemes and programmes aimed at generating employment. The problem with this piece-meal approach is that it considers employment generation as a residual of growth instead of treating it as an economic policy priority. Under this broader perspective, the strategy of th previous government focused on a rights-based approach, as evident in the implementation of MNREGA and the Right to Education Act. However, employment policy since 2014 focused on promoting self-employment. So far, all these rebranded and new schemes undertaken by the present government on the employment front have failed to produce adequate employment opportunities. This is because of a misplaced premise of all the policies: they consider unemployment as a supply side problem, caused by lack of capital and skills. Thus it is assumed that providing cheap credit and imparting skill will generate employment opportunities. Instead, unemployment in India is related to the problem of inadequate demand, arising from an intense agrarian crisis and inappropriate policies such as demonetization and imposing a Goods and Services Tax.

Comprehensive policy needed

Thus, a comprehensive, well-calibrated employment policy is a need of the hour to boost domestic demand and hence create a virtuous circle of higher employment and growth. Some of the areas on which India's employment policy should focus are expanding formal sector jobs, boosting labour-intensive manufacturing, ensuring greater viability of micro and small enterprises, strengthening the MNREGA programme, and expanding public employment. This last is crucial for three reasons: first, it is associated with strong positive multiplier effects that can generate employment in other activities; second it creates public services such as education, health, and infrastructure, which can improve the worker's conditions and thus reduce the overall labour costs of private firms; third, it sets the floor for wages and strengthens workers' bargaining power.

However, such a strategy requires resources to finance large government spending. As Ghosh (2019) argues, financing is matter of political will and funds can be raised by reducing tax exemptions, particularly to big corporates, and ensuring tax compliance. Further, increased public expenditure on productive areas generates multiplier effects on rising incomes and therefore, will also increase public revenues.

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