STATUS

Employment in India – An Improving Picture

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This paper is a short summary of some recent research that Tirtha Das and I have conducted on the employment situation in India. We find that job growth has been strong in 2017-18 – around 13 million jobs - and would to like discuss some of the policies that may have led to this expansion. Some of the (seemingly) outsized employment gains in FY18 might be due to the fact that the previous year employment levels were below normal – two successive droughts, and major economic reforms (demonetisation and GST).

Below, I attempt to answer some of the questions relating to the important question of employment.

Estimate of Employment

There is great uncertainty with regard to the status of job creation in the last four years. This uncertainty has been caused by the lack of a large scale NSSO (National Sample Survey Office) survey on employment – the last such survey was in 2011-12. The NSSO survey is the "gold standard" for India.

The lack of data on such an important topic is unfortunate. The Union government has recognized the problem and starting October 2018, there will be a large-scale quarterly employment survey in urban areas and an annual employment survey in rural areas.

The NSSO survey is normally conducted every five years. Household interviews for the NSSO survey for 2017-18 covering the period July 2017-June 2018 have just been completed. It is possible that preliminary results from this survey will be made available by the end of calendar 2018. Until then, the discussion will be based on "private" estimates based on employment reforms, macro-activity etc.

Job Growth in India – Historical Record

India has not had robust employment generation, at least since 2004-05. Between 1999-00 and 2004-05, jobs increased at a rapid pace of 2.4 per cent a year, or an average annual job gain of 9.7 million jobs. GDP growth averaged 5.6 per cent a year.

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Coincident with NSSO data (2004-5 to 2011-12) GDP growth averaged the highest ever, CAGR of 7.8 per cent a year (as also inflation – CAGR of 7.4 per cent). However, total new jobs increased by only 11 million in this seven-year period.

For the period post 2011-12, there were several factors arguing against "robust" employment generation. The first two years of the period – 2014-15 and 2015-16 – were drought years, only the fifth time in the last 150 years that two successive droughts have occurred. Droughts are not conducive to economic growth, nor conducive to agricultural (rural) employment.

The next two years the weather was normal, but two major economic reforms were undertaken – demonetisation and GST. Both reforms have several objectives; in the main, they have had a considerable effect on direct tax compliance (demonetisation) and indirect tax collection (GST). Both these reforms introduce uncertainty, and hence, in the short-run, affect economic growth, and employment generation.

The present government also inherited a broken state banking sector; NPAs at a decadal high and close to 8 per cent for state owned banks. Again, reform of banking is non-growth enhancing in the short run.

Finally, as if growth diminishing factors were not present in abundance, the Indian economy witnessed the largest increase in real policy rates post 2014. In May 2014, the monetary policy repo rate was at 8 per cent and CPI inflation was at 8.3 per cent i.e. a real policy rate of -0.3 per cent. The average real policy rate for fiscal year 2017-18 was 2.5 per cent, the highest observed in India since the start of the repo regime in FY2005 (when the real policy rate was 2.1 per cent), and the third highest in the world in FY18 (behind Brazil and Russia).

Jobs Needed

Ten to twelve million is the most often cited figure for the number of jobs needed to keep the unemployment rate constant. We find that this conclusion has not been valid since 2004-05 when the "required" rate was 10.2 million jobs a year. By 2011, this requirement was reduced to 8.3 million; and in 2017, the requirement is only 7.5 million. For 2022, the requirement is further lowered to 6.9 million.

Employment Expansion Policies

The present government has undertaken some reforms specifically geared towards employment – e.g. the emphasis on road construction (a labor-intensive activity); the MUDRA initiative (provision of loans to small entrepreneurs); and wage subsidies to employers hiring new workers (the government pays for the employee contribution to provident fund).

GDP growth in construction may have been a major driver of

growth in FY18. GDP growth of 5.8 per cent in construction in FY18 was the largest in the last six years. The acceleration in construction GDP in FY18 was the highest in the last twenty years This construction activity is estimated to have alone added between 1.7 and 3 million jobs in FY18.

'Private' Estimates of Job Growth

As of now, three estimates of job growth exist. The first estimate is by a private data company, Centre for Monitoring Indian Economy (CMIE), in collaboration with the Bombay Stock Exchange (BSE), has been publishing monthly All India employment estimates since January 2016.These data point to a 3 million *decline* in jobs from May 2017 to April 2018.

The second estimate is contained in a joint paper by Pulak Ghosh (Professor, IIM Bangalore) and Soumya Ghosh (Group Chief Economic Adviser, SBI). In their paper "Towards Payroll Reporting in India", they estimate the first ever payroll-based estimate of employment change in India. Establishment payrolls contain employee contributions to provident fund or social security payments (EPFO). Their first estimate of job gain was in March 2018 when they estimated that 7 million non-farm sector jobs were created; their latest estimate (July 18, 2018) is that a *minimum* of 10 million jobs were created in FY18.

The third estimate is provided by Tirtha Das and me – we estimate job growth of 12.8 million in FY18. Our estimate incorporates macro data (e.g. GDP growth in construction as discussed above), EPFO data (for 18-21 year olds), labor force surveys in 2014 and 2015 and CMIE data pertaining to unemployment in 2016 and 2017.

Demography In India's Favour

Both the demographic dividend and high population growth are now part of history. The national fertility rate is now at replacement levels (2.1 children per woman) and the population growth rate has declined to just 1.1 per cent a year, from a 1.8 per cent level two decades earlier.

The size of the young 15-24 age group is expected to increase by only 2.5 million over the next five years (from 236.2 million in 2017 to 238.7 million in 2022). Even with the more expansive definition of the young (15-34 years), the increase is only 11.7 million over the next five years, compared to an increase of almost twice this rate between 2012 and 2017.

There has been a rather robust expansion of educational enrollment. Between 2004-5 and 2011-12, about 40 million more went to school or college (age group >=15 years). Over the next six years, it is estimated that education enrollment increased from 101 million in 2011-12 to 112 million in 2017.

While labor force participation rates of women in India have declined, the decline is misunderstood. For two reasons. First, about half of the decline is explained simply by the fact that more women are attending school (and college); and second, while labor force participation rates for women have declined, male participation rates have also declined, and at about the same rate. The labor force participation rate for women, for ages greater than 24 years, has stabilized since 2009. Increased educational attainment of females should lead to an increase in their labor force participation, and employment, in the future.

References

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