Budgetary Sops Will Do Little to Fix Unemployment and Poverty in India*

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The recent interim budget clearly reflects concerns that a majority of India’s people, especially in the agricultural and informal sector, have experienced hardship despite the on-going and relatively high growth in the economy.

Palliatives designed to lessen these hardships include an annual grant of Rs 6,000, which is to be paid in three instalments to farmers owning land upto two hectares. Palliatives for the poor also include a rather unworkable plan of a contributory pension scheme of Rs 3,000 per month for workers in the informal sector. In addition to these two steps, the budget also offers substantial tax relief to the tax paying middle income persons.

Leaked data shows that unemployment, as calculated by the National Sample Survey Office (NSSO), is at a record high of 6.1%. The urban unemployment rate it appears to be even higher than its rural counterpart and the urban female labour force is in a worse position when compared to males. Altogether, it provides a scary picture which has not been accepted by official agencies.

Official denials, however, should not provide an excuse to sideline or even ignore the relevance of unemployment as an indicator of poverty and a lack of inclusive development.

Underemployment is an even trickier problem. It does not require much to observe that those reported as ‘employed’ often have jobs which extract a premium in terms of work pressure but hardly provide enough for subsistence.

At the same time, those who are identified as unemployed or have few options other than to rely on the scanty resources of the family, usually borrowed at stiff rates from village moneylenders. Finally, beyond those reported as unemployed, both in the rural and urban areas, there remain those who reluctantly withdraw from the labour force to swell the ranks of the unnamed participants in the informal sector in various capacities.

Instead of expecting any solution to help poverty, even as a temporary palliative in the form of budgetary announcements, one needs to consider the expanse of poverty in the country.

None of the sops – which include the cash dole-outs for small land-holders (as proposed in the recent temporary budget) or the promised pension scheme for those with jobs in the informal sector or even one-time debt relief for farmer loans – can provide a lasting and effective solution to poverty experienced by the major sections of people in the country.

What then can explain the dearth of employment opportunities and the related trap of poverty in India? Much of above can be related to a lack of aggregate effective demand in the economy and the consequent slag in production of output and related employment demand. This can be traced to the shortfall in public expenditure, which in turn is restricted by the budgetary limits on fiscal deficits set by the Fiscal Restraint and Budgetary Management Act (FRBMA).

Reduced fiscal spending is further impacted by interest liabilities in the budget on official borrowings from the markets, which replaces the earlier pattern on deficit spendings. As a consequence much of capital expenditure as well as social sector spendings in the budget have been subject to reductions. However, explanations of jobless growth as observed in the Indian economy needs to incorporate, along with the fiscal austerity and cuts in aggregate spending, the structural changes in the sectoral pattern of growth in the economy over the last couple of decades.

To enumerate joblessness in the face of the rather rapid growth rate of GDP, as calculated in a report from Azim Premji University of Bangalore, the cumulative average growth rate (CAGR) over 1993-94 to 2011-12 has been at around 6%, while the corresponding CAGR for employment in the economy as a whole, stands at a mere 1%.

During the more recent years between 2011 to 2015, the respective CAGR for GDP and employment are calculated at 6.8% and 0.6%. The employment elasticity of output (real GDP), as provided in the same report, seems to have gone down from 0.18% of 2011 to 0.08% in 2015.

The shrinking pace of employment growth relative to and despite the high growth in the GDP, needs further inquiry. One notices that the reduced job availability in organised industry is also adversely affected by technology. As it has been observed, capital-output ratios went up in the majority of industries between 1999 and 2012, a trend which has been continuing since then. Thus in the early 1980s, Rs 1 crore worth of real fixed capital (in 2015 prices), as calculated in the same report, supported jobs around 90 persons in the organised manufacturing sector, and by 2010 the number had fallen to 10.

Joblessness in industry is also related to the fact that growth rates have been higher for capital as well as in skill-intensive products as compared to the average industrial growth in the country. While formal jobs as are generated in organised manufacturing, and provide 12% or less of aggregate jobs, much of those are outsourced or on a contractual basis.

As a consequence, the labour force relies on sources of jobs in agriculture and services. It is of further concern that there has been a drop in labour absorption as jobs provided in agriculture, especially when organised industry provides little relief in terms of job opportunities.

Services, providing more than one-half of the GDP, have a rather marginal contribution as a provider of jobs. Data available from the Labour Bureau indicate that of an aggregate 140-150 million jobs in the services sector during 2015, only 26 million were with the organised sector. The remaining jobs , mostly in petty production units and self-employment, contained large numbers facing disguised unemployment – which has been described in the report mentioned above as 'surplus'. As estimated, the service sector accounts for 55% of such 'surpluses' as defined above, which in the aggregate was around 11% for employment in the country as a whole.

Services, which remain as the major component of GDP, include the Information Technology-Business Processing Organisations (IT-BPO) with units which have been promising in terms of their growth. However, their contribution to jobs has been rather marginal, as can be expected with the use of capital and skill intensive technology in those sectors. Growth in the services sector is concentrated in activities related to finance, real estate and business services (FINREBS) , shares of which , both of the service sector and of the GDP, have escalated over time. Even more surprisingly, their share in GDP has continued to rise even with declining GDP growth rates. Much of the above growth can be related to the pace of financial deregulation which picked up over last few years. However, growth of the FINREBS failed to contribute much in terms of employment or real activity. The remaining activities in the services sector including trade, transport and community services, while more labour-intensive, had a smaller role in the overall performance of the sector as a whole.

The disparate performance of the three major sectors of the Indian economy narrate a process of structural changes over recent years. The pattern, traced back to the mid-seventies, shows tendencies for the contribution of the service sector to outstrip that of industry as well as agriculture, attaining a share which has been 50% or above of the GDP since late 1990s. Agriculture, which contributed more than 30% of GDP during the early years of the seventies, continues to provide only 20% or less in recent years.

Not much has been forthcoming from the slow growing industrial sector as well, with its share to GDP rising very modestly from a range between 10% to 15% after Independence, to a little above 20% in recent times.

While structural transformations of economies have generally been associated with the Kuznets or the Lewis pattern of sectoral shifts in output and employment, none of the two models can interpret the specific pattern of structural changes in the Indian economy. The pattern in India tells a story of structural change which is different in terms of the sequential changes in the economy, with agriculture giving way to industry and then the latter to services.

There is one major consequence of these structural changes, with agriculture as well as industry providing little relief in terms of gainful employment and the service sector with its nominal contribution to employment. It is India’s large informal and unorganised sector, both in the rural and urban areas, which provides the destination for those who seek better jobs.

The pattern has resulted in a mass of underutilized and un-utilized labour force, facing a life ridden with poverty, the redressal of which lies beyond the use of palliatives and sops as tried in the current budget.

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