

Creating high-quality jobs to be Narendra Modi government's big test

By: Tadit Kundu | Mint | July 13, 2017

Pace of job creation has been robust in first two years of Modi government, survey suggests, but most of the jobs were likely to have been in informal sector.

In a recent discussion at the Reserve Bank of India, Niti Aayog vice-chairman Arvind Panagariya dismissed as bogus claims that India's economy has expanded without creating jobs. Yet, job creation continues to be one of the major challenges for the Narendra Modi government—not necessarily the number of jobs being created but rather their composition.

The lack of good data on the Indian labour market means that the debate on job creation is shrouded in a fog of confusion.

Take the issue of how many jobs India needs to create to absorb the annual increase in its labour force. The headlines are misleading. The working-age population, i.e. those in the age group of 15 to 59 years, is rising by around 12 million every year. However, not everybody entering this age group is looking for a job. Some are getting educated. And many women in rural India are withdrawing from the labour force as family incomes rise.

So, the annual increase in the Indian labour force—or those seeking work—is likely to be around six million.

The estimate of six million additional workers assumed that the female labour force participation has stayed constant at 24.7% since 2011-12, the latest year for which credible employment data is available from the National Sample Survey Office (NSSO). In other words, only around a quarter of Indian women in the working age group is employed. Even if we assume women's participation to have further reduced in recent years, as suggested by a 2016 survey conducted by People Research on India's Consumer Economy (PRICE), the annual addition to the workforce is likely to reach six million by around 2020.

India needs to create 6 million new jobs every year—and not 12 million as is commonly assumed.

Has the job creation in recent years been adequate?

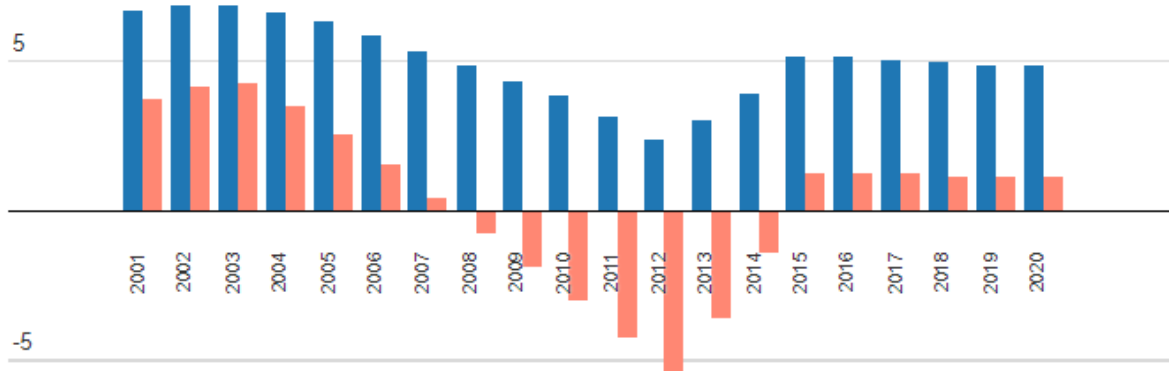
The political risks from weak job creation are clear. For example, public anxiety over the apparent lack of jobs is worse than what it was during the second term of the United Progressive Alliance government, according to a recent survey conducted by the New Delhi-based Centre for the Study of Developing Societies (CSDS).

In this context, it is more useful to focus on urban job creation, because people steadily moved out of agriculture during the middle years of the UPA government. Available data suggests that the size of the rural labour force, i.e. those seeking work, shrank substantially between 2010 and 2012. On the other hand, urban job demand remained steady.

India needs to create six million new jobs annually

Estimated annual increase in India's labour force* (millions)

■ Men (aged 15-59 years) ■ Women (aged 15-59 years)



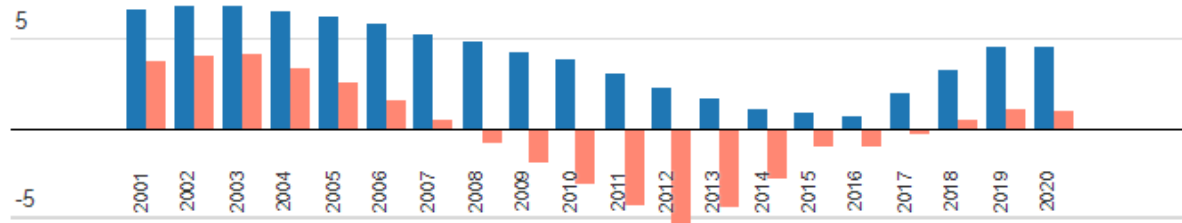
*includes only those seeking employment (including self-employment); estimated using World Bank's population projections and labour force participation rate (LFPR) estimates from available surveys

Source: NSS 55th, 61st and 68th rounds and Mint calculations • [Get the data](#) • [Created with Datawrapper](#)

Even if we assume a lower participation of women in labour force, the six million jobs requirement remains intact for coming years

Estimated annual increase to India's labour force* (millions)

■ Men (aged 15-59 years) ■ Women (aged 15-59 years)



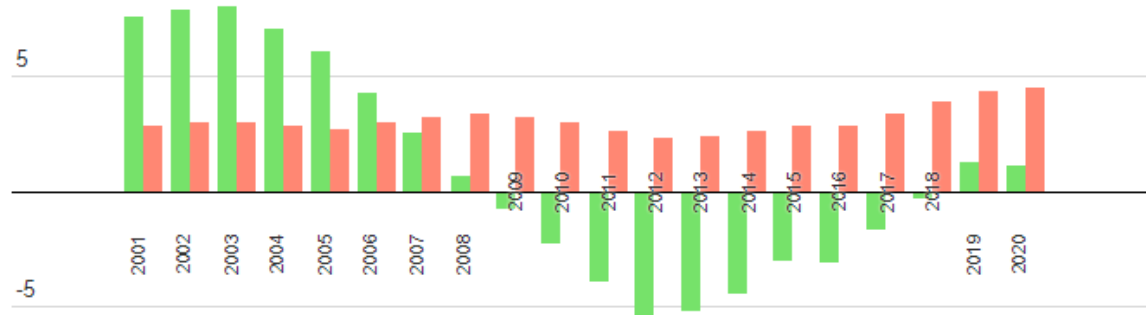
*female labour force participation rate (LFPR) is assumed to have fallen to 22.4% (for women aged 15-59 years) in 2016 (according to PRICE survey) and stay constant thereafter, down from the female LFPR of 24.7% in 2011-12 (according to NSSO)

Source: PRICE (2016 survey), NSS 55th, 61st and 68th rounds and Mint calculations • [Get the data](#) • Created with [Datawrapper](#)

People moved out of agriculture between 2004-05 and 2011-12

Estimated annual increase to India's labour force* (millions, 3 year moving averages)

■ All rural (aged 15-59 years) ■ All urban (aged 15-59 years)



*female labour force participation rate (LFPR) is assumed to have fallen to 22.4% (for women aged 15-59 years) in 2016 (according to PRICE survey) and stay constant thereafter, down from the female LFPR of 24.7% in 2011-12 (according to NSSO)

Source: PRICE (2016 survey), NSS 55th, 61st and 68th rounds and Mint calculations • [Get the data](#) • Created with [Datawrapper](#)

The official data needs to be updated. Reliable employment-related data from the NSSO is available only till 2011-12, the last quinquennial 'thick' survey. A 'thick' NSS round refers to the large-scale household-level survey on consumption expenditure and employment-unemployment situation, generally conducted every five years. The need for timely and reliable jobs-related data has been acknowledged by the Niti Aayog, which has set up a committee to look into the matter.

In the meantime, we can assess the jobs situation from a couple of recent household surveys, which do not always suggest similar trends. The Labour Bureau's annual surveys till 2015-16 suggest a decline in employment between 2013-14 and 2015-16, i.e. roughly the first two years of the Modi government, as noted by Himanshu, associate professor at Jawaharlal Nehru University, in a recent piece for Mint. Apart from the household-level survey, the Labour Bureau's Quarterly Employment Survey (QES) also suggests a decline in employment. However, the credibility of the QES data, which are often self-reported by the firms, remains doubtful, as discussed in a previous Plain Facts piece.

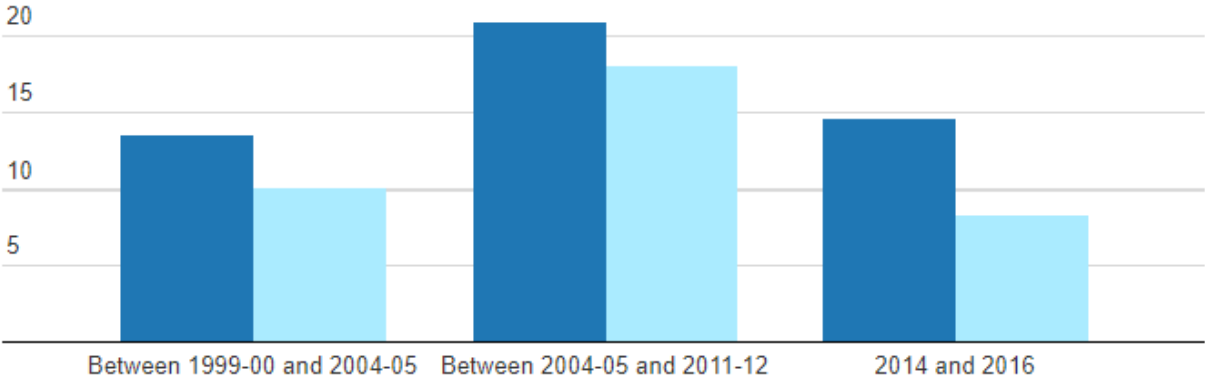
On the other hand, a recent report by McKinsey Global Institute (MGI) said that 'gainful employment' increased for 20 million to 26 million people between 2014 and 2017. This means the Modi government created gainful employment at an annual pace of 7 to 8 million in its first three years, by far exceeding the six million requirement. However, the MGI report has used data from various government schemes to reach its employment estimate, in the absence of more recent household-level or establishment surveys. The report itself cautions that its jobs growth number might be an overestimate owing to possible double-counting and other data-related issues.

On the other hand, a slightly more recent survey by People Research on India's Consumer Economy shows that job growth has been swift under the Narendra Modi government although—and this is the crux of the problem—most of it has likely been in the informal sector.

Jobs growth was respectable in the first two years of Modi Govt: survey

Total new (net) urban jobs created* (millions)

■ Total urban jobs ■ Urban jobs for males



*Estimated by combining the worker to population ratios (WPR), for population aged 15-59 years, from the relevant surveys, with population projections

Source: PRICE surveys (2014 & 2016); NSSO surveys (1999-00, 2004-05 and 2011-12) • [Get the data](#) • Created with [Datawrapper](#)

However, bulk of new urban employment has been in casual labour

Net change in the number of jobs by type (millions), between selected years



**estimated change in the number of jobs between the NSS 68th round (2011-12) and PRICE 2016 survey*

Source: People Research on India's Consumer Economy (PRICE), NSS reports and Mint calculations • [Get the data](#)

The results of the Household Survey on India's Citizen Environment & Consumer Economy (ICE 360° survey) suggest that the annual pace of urban jobs creation was seven million between 2014 and 2016, exceeding the growth in labour force. This translates into a faster pace of job creation compared to the UPA years between 2004-05 and 2011-12.

The above inference is based on data from two household-level surveys, which were conducted in 2014 and 2016 by the independent not-for-profit organization, People Research on India's Consumer Economy, headed by two of India's best-known consumer economy experts, Rama Bijapurkar and Rajesh Shukla. The sample size, i.e. the number of households covered by the 2016 survey was 61,000, while the 2014 survey covered 20,195 households. While the data shared by PRICE provides information on the "usual principal status" of respondents, it must be noted that the focus of the PRICE survey was to collect data on household consumption rather than employment.

However, apart from the headline number on total jobs creation, the details are not much to cheer about. PRICE data suggests that regular salaried jobs actually declined between 2014 and 2016 in urban India, while employment as casual workers swelled.

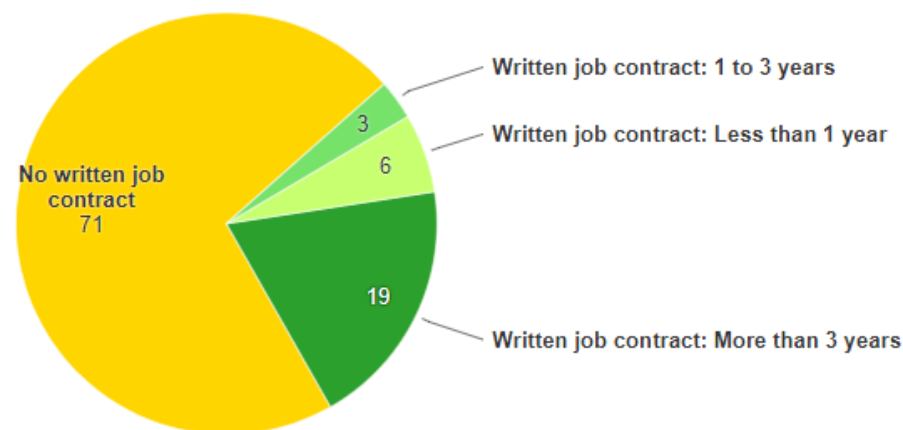
Thus, India's labour market continues to be afflicted by the trend towards informalization. Around 90% of India's workers were in the informal sector in 2011-12, said a note by the International Labour Organization (ILO) last year, using data from the NSSO.

The increasing informalization of India's workforce could be attributed to two diverging trends – the increasing importance of the unorganized sector and the use of contract labour even in the organized sector. Data from the recent PRICE surveys suggest that not much has changed between 2011-12 and 2016 as most of the workers who earned wages continued to work without formal contracts.

Insecure jobs: Even among salaried workers, written job contracts are a rarity

Nature of job contract (in %)

Urban Rural



Source: ICE 360^o survey (2016) • [Get the data](#) • Created with [Datawrapper](#)

As noted in a previous Plain Facts piece, there are pitfalls of increasing casualization of labour, with potential adverse impact on economy's productivity growth. Casual workers are deemed to be at a disadvantage in picking up skills.

Thus, the challenge is to create employment opportunities not only for those joining the working-age population every year, but also those who want to move to better, more secure and perhaps more fulfilling jobs. India needs to offer high-quality employment opportunities to those who want to move out from agriculture—as was done by many Asian countries over the past five decades.

This is the first of a two-part series on India's jobs challenge. The next part will examine how easy or difficult it has been for Indians of various backgrounds to make the transition from agriculture and casual labour to other occupations.