

India's top agenda: jobs - The paradox of Indian labour regulation is that it serves to protect less than 10% of the total workforce

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For India, jobs are job one. The country is blessed with a young and growing workforce. A recent Goldman Sachs report said India is likely to add 110 million new workers to its labour force over the next 10 years. The number of people in their 30s and 40s, the peak age for employment, will likely increase by about 120 million over the next two decades. Thus, India will be one of the few countries that will enjoy a long period of decline in its dependency ratio (the number of people outside working age divided by the number of people in the working age group) from now until about 2050. It's this period of dependency ratio decline that's often referred to as the "demographic dividend".

During the demographic-dividend years of a growing economy, growth in the number of productively employed people contributes to gross domestic product (GDP). The simple mathematics of GDP growth is that trend growth in an economy is the sum of labour force growth and productivity growth. A full 4-5% points of a trend-line GDP growth of 7.5-8% (more than half, that is) could come from labour force growth.

This blessing could easily become a curse. The key is that people joining the workforce procure gainful employment.

That's when the picture turns murky. India's current workforce is about 500 million people (the number is an estimate, because the counting is rather poor). Only about 35 million of these are in the so-called organized sector - with benefits and protection. Of this 35 million, about 20 million are government employees. The celebrated Indian corporate miracle has so far provided a dismal 15 million formal jobs in total.

Add to this a minefield of near-obsolete, labyrinthine labour regulation. The Factories Act, 1948; Apprentices Act, 1961; Employment Exchanges Act, 1959; Employees' Provident Fund Act, 1952; Payment of Wages Act, 1936; Payment of Bonus Act, 1965; the Contract Labour Act, 1970; the Mines Act, 1952; and the Inter-State Migrant Workmen Act, 1979; make up only a partial list. The paradox of Indian labour regulation is that it serves to protect less than 10% of the total workforce.

The market has, of course, made adjustments to counter this complex web of regulations. Nearly 90 million people function as temporary labour. Large numbers in construction, retail and, increasingly, other service industries are provided through contract employment. Regulation forces this labour to be largely informal and therefore devoid of protection such as pension and health benefits, and often even a minimum wage.

India is only just waking up to the problem. The nub is that high unemployment or, at least, under-employment is likely to coexist with labour shortages. That implies that both demand for labour and supply of suitable skills will have to go hand-in-hand.

Here is a four-point agenda to tackle the problem:

1. On the demand side, the most important objective is to have consistent, high economic growth with equality of access and opportunity. No single, centralized, magic bullet is going to address the employment issue. A decentralized, economy-wide business-by-business creation of job opportunity is the best way to more jobs.
2. Adopt a holistic approach to simplifying regulation in the labour market. A piecemeal approach serves merely to band-aid old legislation. The objective of regulation has to shift from providing "protection" to 10% of the labour force to providing opportunity and effective basic protection to the remaining 90%.
3. Make the corporate bond market functional. The link between markets for corporate debt and for jobs is that a dysfunctional bond market stymies growth in large-scale infrastructure and manufacturing. India skipped the secondary stage of economic development (employment-intensive manufacturing) and leapt straight to the tertiary stage (services-intensive). It will need to be the first developing country to make a trip back to the secondary stage in order to generate large-scale employment. A functioning corporate bond market - with liquidity, adequate maturity of instruments and hedging capability - is required for the \$1 trillion of investments that the 12th Plan, starting in 2012, anticipates.
4. Use all creative means to increase the number of skilled workers in India. The National Skill Development Mission has an objective of putting 500 million people through skill development and retraining by 2022. The primary agent for this is the National Skill Development Corp. (NSDC), a public-private partnership company formed in 2008. In its first two years of operation, NSDC has provided funding to ideas that will accomplish about 2% of the task. At that speed, it will need a drastically different approach.

India has matured to a stage where our problems are now cross-disciplinary. The employment issue cuts across many ministries. It may be time to restructure our cabinet to focus on issues (employment, financial inclusion, social security), rather than focus on functional verticals (finance, law, human resources, heavy industry). We have quite a job to do.

PS: Education is important for tomorrow's jobs, skills and employment access for today's.

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