Employment in India: Aggregate Demand and Structural Transformations

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Section I

Employment and GDP - GDP in India: Growth rate and Sectoral contribution - Agriculture, Manufacturing and Services.

Growth of aggregate output can ensure development with opportunities for employment for the majority only when growth is matched by jobs for all and can provide a level of living which is at least above the basic minimum which is needed for subsistence. Growth of GDP, to achieve above, needs to be matched by facilities of employment to ensure a distribution of income which can meet the goal of an universal basic minimum living for all in the country.

Dispelling, for the time being the current controversy over the GDP growth figures, one can consider India as a high growth economy; with average growth rates peaking to 8.5% over 2005-06 to 2011-12 and to 7.4% over the last fiscal year of 2017-18. But one also can observe the prevalence of poverty and inequality which has been continuing along with the rising income enjoyed by the rich and the middle income groups in the country; a pattern which negates the developmental implications of growth. Much of above is related to an absence of employment opportunities as well a lack of initiatives from the state to provide social benefits. The paradox which results consists of an absence of development despite the impressive growth rates of the GDP which has been experienced by the economy over the last few decades.

The sharp uptrend in the GDP growth of India is visible in Chart 1 which records a 9.7% growth rate in the pre-crisis year of 2007, followed by a dip in next two years and then another peak rate at 10.2% reached in 2010. The subsequent years also chart a steady path of recovery, with the growth rate rising from 5.6% in 2012 to 7.6% in 2017.
The record currently puts India as the country having the highest GDP growth rate in the world.

Chart 1

Source:
IMF, World Economic Outlook Data Base
October 2016

Chart 2
GDP : The sector-wise contribution :1950-2014
Chart 2 provides the information on the contribution of the three major sectors to the GDP. The long term pattern, traced back to the post-independence years, shows tendencies for the service sector contribution to outstrip that of industry as well as agriculture by mid seventies, with the share of the service sector attaining 50% or above of the GDP during the following years. Agriculture, which contributed more than half of GDP during the earlier years, provides only 20% or less in recent years. Not much has been forthcoming from industry as well, with its share rising very modestly from a range between 10% to 15% after independence, to a little above 20% in recent times.

Indian economy has not moved along a path of Kuznets type structural transformation in terms of which industry takes over from agriculture as the major mainstay of the economy. Instead, the service sector has come to the forefront as the main contributor of GDP. The pattern also deviates from the Lewisian absorptions of surplus agricultural labour to industry as can be expected in terms of the model.

The structural changes as have taken place in the Indian economy, in terms of the contribution of the different sectors to the GDP, gets reflected in the employment opportunities as well as the levels of living for those who have jobs and the rest. The next section of the paper deals with the pattern of employment in India as has emerged with the above structural changes.

Section II. Employment in India: Data, Magnitude and Pattern

With four-fifths or more of India’s working population engaged in the informal sector, statistics on employment has remained rather incomplete, both in terms of the number employed and the quality as well as the nature of those jobs. Of the three major official sources of statistics on employment which include the Annual Survey of Industries (ASI), the Annual Household Survey of the Labour Bureau (LB) and the National Sample Survey Office (NSSO), the first two cover data only for units offering employment to ten or more workers. The NSSO covers more comprehensive
employment data on both organised and unorganised sector but with data released on a quinquennial basis.

Comparing the respective growth rates, of GDP to that of employment - the respective CAGRs over 1993-94 to 2011-12, as calculated from NSSO data, have been at 6.0% and 1.1%. The employment elasticity at 0.18 as calculated has also been subject to a steady decline since 1972-73 when such elasticity was at 0.57%.\(^1\) In terms of a more recent estimate the respective CAGR of GDP and employment over 2011-15 have been at 6.8% and 0.6 %, and the employment elasticity of output at 0.08%. Above was much lower than such elasticity at 0.18 for 2009-11.\(^2\)

As for unemployment, data as available from the NSSO indicates a rise in unemployment from 18 to 27 people per 1000 between 2004-05 to 2011-12.\(^3\) A similar picture of rising unemployment emerges from the official Labour Bureau(LB)\(^4\), providing estimates of unemployment at 38 and 50 per 1000 persons for 2011-12 and 2015-16. However, much of employment as above was not remunerative enough in providing wages which could meet even subsistence. Nor did those offer benefits as normally comes with formal jobs.

Dearth of employment opportunities, along with the steady drop in social sector benefits from the state, have been responsible for the situation where large sections of people in India remain in poverty. To explain poverty in the midst of the moderate to high GDP growth rates, as prevail in India, it is important to consider the structural pattern in the sources of employment in different sectors of the economy. As reported in the 68\(^{th}\) Round Survey of Employment and Unemployment by the NSSO, agriculture has continued to remain the largest provider of jobs, at 48.9% of aggregate employment in the economy during 2011-12. In contrast the service sector, while contributing more than 50% of GDP in recent times, was providing only 26.9% of aggregate jobs during the same fiscal year. Industry, contributing 22% of the GDP, provided as little as 13.6% of aggregate jobs offered during the year. Jobs have also been forthcoming from construction, a labour-intensive activity, at 10.6% of aggregate employment in 2011-12.\(^5\)

The disproportionately large share of agriculture in terms of its contribution to jobs matches the primary role of the informal sector in India. As indicated by the NSSO 68\(^{th}\) round in its latest figures for 2011-12, jobs as are offered in the informal sector
have mostly been of a temporary nature, offering no written contract and not even benefits or leave facility. There has also been a steady rise in the category of self-employed and casual workers among those reported as employed - mostly in an informal capacity - in the rural area.\textsuperscript{6} Interestingly, a study relating to 1999-2005 on employment mentions a rise in rural employment during those years - while agriculture, the main provider of jobs, was having a low growth rate at around 2.2\% over 2000-05. The paradox, as explained, was indicative of distress sales of labour by the poverty-stricken farming community.\textsuperscript{7}

As it has been pointed out, the short-lived spurt in rural employment for over a decade between 2000 and 2012, has mostly been with construction work.\textsuperscript{8} The boom, however, ended over the following years, as estimated by the Labour Bureau in 2015-16. However, employment data, as reported, conceal the state of underemployment or disguised unemployment which is common in the informal sector, and especially with the rural economy.

Jobs available beyond agriculture include those with industry and services. Jobs in the industrial sector, as provided, lie between the organised (formal) and the unorganised (informal) outlets. Of the two, the organised sector, which relates to the registered factories, provides less than 12\% of aggregate employment in the country. Again, of those employed in the formal sector, as per the Labour Bureau Report 2015-16, more than 4/5\textsuperscript{th} are on a purely contractual basis – which offer no benefits as are normal with formal jobs. Jobs as above in the organised manufacturing sector have a large component which are offered on a contractual basis - which deprives them of benefits if any, as well as continuity in terms of job contracts. Proportion of workers employed on a contractual basis in manufacturing has in recent times been 30\% in 2014, which is a steep climb from 15\% on 2000.\textsuperscript{9} Citing more evidences, 52.2\% of workers employed \textit{in the formal sector} itself are employed in a contractual informal capacity during 2002-10, with similar ratio at 42.0\% during 1999-2000.\textsuperscript{10} In terms of the data source provided by the Labour Bureau, jobs between the organised and the informal industry fell sharply by 2.8 mn over the two fiscal years ending 2015-16.\textsuperscript{11}

As for the large informal and unorganised sector, both in the rural and urban areas, it provides the destination, in most cases, for those not having jobs in the formal sector.
Even the formal job contracts in the industrial sector go with large-scale casualization and short term contracts. Use of outsourcing, both in the domestic as well as along the gross value chain networks have been common in industry, especially for labour employed on an informal basis. Above went in with a rise in capital and skill intensity in new technology which have been in use. Those among workers who lost jobs with new technology, and the new entrants seeking entry to the work force, have been pushed out to the less attractive as well as insecure jobs in the informal sector.

The pattern of the sectoral shift and the structural change in employment deviates very sharply from what can be expected in terms the Lewis model of labour surpluses and their absorption in the industrial sector. Agriculture, while providing fewer jobs as output expanded, shifted out people to the unorganised industry and service related activities. (employment elasticity of output, as calculated, has been a negative (-) 0.08 over 1999-2000 and 2011-12). With absorption of labour much higher in construction industry and utilities (having respective employment elasticities at 1.17 and 1.03% over the two years as above) it can be inferred that those losing jobs in agriculture were somehow absorbed in the ever-expanding zones of informal work in the economy. Those losses of jobs in agriculture, as analysed, were largely related to the cuts in public expenditure (on subsidies, capital expenditure etc) which earlier used to be earmarked to agriculture. Organised (or formal) industry, showing little signs of growth in recent times, had very little to offer as jobs to those displaced and/or the new entrants. Above was especially true for the much sought after decent jobs in the formal sector of industry with fair compensation and job security.

On the whole the evolving pattern of employment in India has been one of an expanding mass of jobs in the informal sectors of both industry and services - often at wages lower than subsistence, offering little job security. Jobs as above also include
under-employed units with self-employed or own account activities. Little of the above structural changes conform to the Lewisian idea of industrial expansion by utilising unlimited supplies of labour in the primary sector.

Job availability in organised industry is also adversely affected by technology. Above is related to the fact that growth rates have been higher for capital as well as the skill intensive products as compared to the average industrial growth in the country. 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, Rupees one crore worth of real fixed capital (in 2015 prices) supported jobs around 90 persons in the organised manufacturing sector. By 2010, the number had fallen to 10.

Services, providing more than one-half of the GDP, have a marginal contribution as provider of jobs. Data available from the Labour Bureau indicate that of an aggregate 140-150 mn jobs in the Services sector during 2015, only 26 mn were with the organised sector. The remaining jobs, mostly in petty production units and self-employment, contained large numbers facing disguised unemployment - which can be described 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 in the organised sector also include the Information technology-Business Processing Organisations (IT-BPO) with units which have been promising in terms of their growth. Their contribution to jobs was, however, rather marginal as can be expected with the use of capital and skill intensive technology in those sectors. Growth in the services sector was 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. Interestingly, the share of those activities in GDP has continued to rise even with declining GDP growth rates. The remaining activities in the services sector including trade, transport and community services had a smaller role in the overall performance of the sector as a whole. However, growth, as above, of the FINREBS failed to contribute much in terms of employment or real activity.

It can thus be concluded that unlike what can be expected in terms of the Kuznets model, the sectoral pattern of aggregate output or employment in India has not moved
sequentially - from agriculture to industry and then to the tertiary sector. Instead there has been a phenomenal increase in the share of services (the tertiary sector) from about 35% of GDP in early seventies to 55% or above by 2014-15. (Chart 2). Contribution of the Services sector, especially of the fast growing FINREBS within it, as mentioned above, has similarly been rather significant.

Facts as above relating to the slow growth in jobs - and that too with the majority of the employed labour force denied of sustainable wages and benefits as well as job security¹ - unfold an underlying paradox of high GDP growth with unemployment, underemployment, and the related poverty. To interpret and to provide an explanation, one needs to analyse and interpret the underlying factors; which we try to provide in the next section.

**III. Interpreting the structural shifts in the pattern of employment in India: A Post-Keynesian approach**

Several factors can be held responsible for the present state of the Indian economy - with the major part of the country’s population subject to poverty, under (disguised) employment as well as unemployment. Following the Keynesian tradition, a scene as above can be analytically related to a deficiency of aggregate demand in the economy. From above perspective the limited employment opportunities can be related to the policy moves for austerity in the domestic economy. However, there have also been the structural changes in the economy which remain no less important as explanations for the current state of employment. 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 can interpret the specific pattern of sectoral changes in the Indian economy - which has resulted in a mass of under-utilized and un-utilized labour force, facing a life ridden with poverty. Nor are those models capable of explaining the stellar performance of the services sector, in terms of contribution to the GDP but with its nominal contribution to employment.

To complete an explanation of the dismal state of employment and poverty in countries like India, the Keynesian framework on aggregate demand needs to incorporate the structural changes causing the sectoral shifts in the economy over time. An attempt is made in the following pages to identify the causal factors behind the shifts in the sectoral composition of output and the resulting dismal scene of employment in the country. In this one needs to highlight, over and above the broad contours of the austerity measures (which has been the guiding principle behind official monetary and fiscal policy in India), the underlying facets which include the cuts on social sector expenditure and capital expenditure in the official budget largely as result of the rising share of interest payments in aggregate fiscal spendings. Reallocations as well as the squeezes in public expenditure as above had been in consonance to the mainstream monetarist prescriptions for achieving financial stability with tight reins on inflationary price movements. As per mainstream doctrines, inflationary price rise is considered to be responsible for disruptive price expectations which deter long-term investment and growth in the economy.

It has, however, been observed that as opposed to arguments as above, austere fiscal monetary policies in most cases have been instrumental in generating contractionary effects in economies. It may also be mentioned here that the argument on fiscal austerity is essentially a variant of quantity theoretic premises which, by assumption, overlooks the role of money as an asset to hold and speculate on assets beyond the real economy; especially when the future is uncertain.

With monetarism and its austerity package, use of tight credit policies has been a tool to monitor and contain inflation. The implicit arguments which also disapprove fiscal spending and the related budget deficits originate from the “treasury view” in support of the mainstream arguments in support of “sound finance”. The common goal behind has been similar in targeting inflation. Incidentally, the strategy suits the high-powered financial community which hold a large part of their surpluses in the form of financial assets. Indeed, one can identify the global financial community (which include the multilateral financial institutions like the IMF, the World Bank and the BIS) in alliance with the ruling state in most economies as keen followers of the monetarist

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package. In addition, for developing countries (like India) which manage their exchange rates to cope with the footloose flows of portfolio finance from abroad, the problem often boils down to facing what has been described in literature as the “impossible trilemma”\textsuperscript{18}. The trilemma has been one with the managing of the exchange rate as well as the domestic price level of the country in the face of free movements of overseas capital - especially when the latter turn volatile. For example, situations where capital inflows are far in excess to what is needed to finance the current account deficit - the exchange rate the country may overshoot to levels which are unacceptable from the point of view of export competitiveness as well as sustainability of debt in local currency. The central bank, in such situations, usually intervenes in the market with direct purchases of foreign currency - which automatically adds on to official reserves and high powered money. The related expansions in credit supply, considered as potentially inflationary in the monetarist lexicon, gears up further actions by the bank - to control credit with hikes in interest rates by the tightening of credit from commercial banks. Steps as above, while consistent with inflation targeting, may not meet the credit requirements of the real economy. Thus the direction of monetary policies under monetarism is essentially predetermined by the pace of financial flows from overseas, which in absence of capital controls, remain as one of the imponderables for the domestic policy makers.

Sectoral shifts in the GDP and the related changes in employment in India have also been influenced by the pace of de-regulation which has contributed much to nurture the high profit – high risk speculation in markets - ranging between equities, real estates, currencies and commodities. Much of above can be related to the sporadic growth of the FINREBS as a major component of the GDP which, as already mentioned, contributes little to employment.

To narrate the different aspects of the austerity measures in India under monetarism\textsuperscript{19}, one comes across the Fiscal Responsibility and Budget Management Act (FRBMA) of 2003 with a pledge on part of the state to limit the country’s fiscal deficit to 3% or less of the GDP by 2008. While the exigencies related to the global financial crisis led to a temporary relaxation of the target, FRBMA has been continuing as a restraint to the fiscal deficit. As is well-known, cuts in public expenditure can deepen contractionary effects on the economy since expenditure of the private sector can also get dampened
as a consequence. Consequences as above follow from the circularity of the income-expenditure flows in an economy, as in the Keynesian tradition.

The FRBMA also made it mandatory for the government to finance fiscal deficits, if any, by using public borrowings in the capital market rather than from the Reserve Bank, as the practice used to be earlier. Borrowings as above have led to considerable liabilities as interest payments earmarked in the budget. The process, between a general cut in fiscal spendings and the rising interest payments, did squeeze other expenditure as remained under heads of capital expenditure and subsidies. With items of expenditure like defence subject to strategic concerns and rather inflexible, and with interest payments as obligatory, the consequence was one where the on-going reductions in fiscal spending could take place only by slashing down the much needed capital expenditure and social sector expenses by the state.  

The pattern as above reflects itself in the widening gap between the fiscal deficit and the primary deficit as proportions of the GDP in recent years. As explained above, the widening gaps as above over years indicates how fiscal austerity in India was at cost of capital expenditure and social benefits which contribute to aggregate demand. We provide, in the following charts, some details of the related cuts on the specific items.

Chart3

Source: Reserve Bank of India. HandBook of the Indian Economy Mumbai, 2018
Chart 4

Expenditure in Central Budget

Source: As in Chart 1

Chart 5

Growth rates: Real per capita public social spending in rural sector

Source: Author’s calculation on basis of statistics in Indian Public Finance Statistics, Ministry of Finance and Handbook of Statistics, RBI, various years.

Chart 4, as provided above, well indicates the incidence of austerity measures at cost of social benefits and capital expenditure in the country’s budget. Chart 5 gives an account of the consequent reductions in real per capita public social expenditures in rural areas.

As for monetary policy under the austerity package, the move also limited the policy options of monetary authorities in India by using interest rates solely for inflation targeting. The goal has contributed to upward rigidities in bank rates in India over time.
along with the curtailing of credit, especially for the sensitive sectors like the poor and the small/medium enterprises (SME). In particular, the compliances with the Bank of International Settlement (BIS), which instituted the globalized norms for risk-adjusted credit, have intensified the state of financial exclusion in India, especially for the poor and the SME in the country. Such situations, contributing to recession as well as unemployment in the economy have continued, despite the economy achieving high growth rates in recent years.

Monetary policy in India has also been subject to further compulsions arising out of a possible run on the exchange rate as a result of short term capital outflows. With free capital flows and the goal of managing the exchange rate, interest rates have often been set at levels which ensure both of above. As we already mentioned above, the issue, described as an “impossible trinity”, speaks of the impossibility of having an autonomous monetary policy in such situations. Monetarism, which normally is clubbed with free market prescriptions including free capital flows, thus introduced a double bind to autonomy in interest rate policies in India. This is because situations as above have had a ratchet effect in the fixation of the interest rates, both as a tool to achieve austerity and to comply with the impossible financial trinity of capital mobility and managed exchange rate. Monetary policy, bereft of autonomy due to the compulsions of continuing with the current capital flows and the managing of the exchange rate, thus leaves out other responsibilities of generating employment via expenditure in the domestic economy by offering credit at reasonable rates.

Little space has thus been left under monetarism, for the government of India and the Reserve Bank of India, to consider goals (like real expansion and employment) which are beyond financial stability. Policymakers in India have been generally keen to satisfy the investors or more generally, the financial sector, both domestic and foreign. This has been to ensure that the investors do not lose the real value of their financial assets as a result of inflation in the domestic economy. In all above growth, not to speak of distribution, has remained with a lower priority both for the two wings of the government, viz., the treasury and the central bank.
Structural changes in the Indian economy and the related sectoral shifts in output as well as employment had also much to do with the pace and direction of changes in economic policies. In particular, the de-regulation of the financial sector played a major role in mobilising financial activities in the arena of the FINREBS with rising speculation as mentioned above. Above generated a climate for a rapid pace of financialisation in the economy where the higher returns on speculation led financial assets provided better incentives for investments. Little of those assets and related activities were linked to generation of employment and output in the economy.

Section IV Summing Up

To sum up, use of the mainstream economic policies which has initiated fiscal-monetary austerity as well as de-regulation of finance and financialisation with speculation-related related transactions has squeezed the pace of expansion for the real economy. A major impact of above has been the dismal state of employment and job creation in the country. To explain the situation one needs to rely on the Keynesian aggregate demand analysis along with an analysis of the structural aspects of changes in the economy, much of which can be related to implementation of policies consistent with mainstream prescriptions.

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EndNotes


2 See Sunanda Sen “Financialisation, Speculation and Instability” forthcoming in PhilMader, Daniel Mertens and Natascha van der Zwan in International Handbook of Financialization (Routledge 2019)


4 Labour Bureau, Report on Fifth Employment-Unemployment Survey 2015-16 Chandigarh cited by Vinoj Abraham, “Stagnant Employment Growth: Last three Years may have been the worst” Economic and Political Weekly September 23, 2017


Also Vinoj Abraham, “Employment Growth in Rural India: Distress Driven”? Economic and Political Weekly April 18, 2009

8 Kanika Mahajan and R Nagraj, “Rural Construction Employment Boom during 2000-12: Evidence from NSSO Surveys” Economic and Political Weekly 30 December 2017

9 Azim Premji, op. cit 19

10 K P Kannan and Jan Breman, The Long Road to Social Security, OUP Delhi 2013 p2


13 Radhicka Kapoor,” Creating jobs in India” ICRIER Working Paper no 286 September 2014

14 One crore is equivalent to ten millions

15 Azim Premji, op. cit p19

16 Azim Premji University, State of Working in India 2018: State of Sustainable Employment, pp82-83

https://cse.azimpremjiuniversity.edu.in/ pp82-83


Paul Krugman (1999-10-10). "O Canada – a neglected nation gets its Nobel." *Slate (magazine).*


We mention here that the primary deficit is calculated as fiscal deficit less the interest payments as are paid in the budget.

For details of the impact of Basel II norms on credit to poor and the see Sunanda Sen, “Basel Norms in India and Brazil” in Ricardo Gottschalk (ed) *Basel II and Developing Countries* Palgrave Macmillan 2011