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The role of labour market and sectoral policies in promoting more and better jobs in low middle income countries: Issues, evidence and policy options: The case of India

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Employment and Labour Market Policies Branch

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Preface

The primary goal of the ILO is to work with member States towards achieving full and productive employment and decent work for all. This goal is elaborated in the ILO Declaration 2008 on *Social Justice for a Fair Globalization*,[1] which has been widely adopted by the international community. Comprehensive and integrated perspectives to achieve this goal are embedded in the Employment Policy Convention of 1964 (No. 122), the *Global Employment Agenda* (2003) and – in response to the 2008 global economic crisis – the *Global Jobs Pact* (2009) and the conclusions of the *Recurrent Discussion Reports on Employment* (2010 and 2014).

The Employment Policy Department (EMPLOYMENT) is engaged in global advocacy and in supporting member States in placing more and better jobs at the center of economic and social policies and growth and development strategies. Policy research and knowledge generation and dissemination are essential components of the Employment Policy Department's activities. The resulting publications include books, country policy reviews, policy and research briefs, and working papers.[2]

The *Employment Policy Working Paper* series is designed to disseminate the main findings of research on a broad range of topics undertaken by the branches of the Department. The working papers are intended to encourage the exchange of ideas and to stimulate debate. The views expressed within them are the responsibility of the authors and do not necessarily represent those of the ILO.

Azita Berar Awad
Director
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[1] See http://www.ilo.org/global/about-the-ilo/mission-and-objectives/WCMS_099766/lang--en/index.htm

[2] See http://www.ilo.org/employment

Foreword

Promoting productive employment is a major challenge for emerging and developing economies and a key component of their socio-economic development agenda. Strong and effective labour market institutions, legislation and policies are critical for creating productive and sustainable jobs, and thereby supporting development and decent work goals. Sectoral policies are also important for supporting structural transformation from lower-value to higher-value products. This translates into better wages and more decent jobs. Well-designed and effective labour market and sectoral policies will also contribute to achieving the Sustainable Development Goals (SDGs), especially Goal 8 "to promote inclusive and sustainable economic growth, employment and decent work for all".

The International Labour Organization (ILO) has been conducting research on labour market institutions and providing technical support to member States for a number of years. It has also acquired a knowledge base in sectoral policy analysis to assess the job-creation potential of specific policies, as specifically called for by the 2014 International Labour Conference resolution to support member States devise comprehensive employment frameworks to "promote employment, enhance productivity and facilitate structural transformation processes." (ILO, 2014: 7(b)).

While India has achieved high economic growth rates in recent years, this has not been matched by equal advances in decent work and employment creation. This study highlights the lack of structural transformation and the slow growth in productive jobs. In the case of women, the labour market trends even pointed to decreasing workforce participation. The author examines the effectiveness of labour market and sectoral policies in addressing these problems, notably the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) public works programme and the "Make in India" sectoral policy. Moreover, to strengthen the inclusiveness of such policies, the author recommends specific measures aimed at the poor, such as better financial inclusion, expanded social protection, the public provision of basic social goods and active labour market policies (ALMPS). These would help expand opportunities in the formal economy, provide workers with a basic livelihood through social protection floors, preserve the employment relationship and allow for targeted interventions during economic downturns to minimize the economic and social costs.

This paper was authored by Professor Jayati Ghosh, Professor of Economics at Jawarharlal Nehru University in New Delhi. It was presented and discussed at the *ILO Employment Symposium* held in New Delhi on 15 December 2015.

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Abstract

This paper examines the impact of labour market and sectoral policies in India on employment creation and decent work objectives. In spite of high levels of economic growth, India has not undergone structural transformation and more than half the work force remains concentrated in agriculture, where productivity is low. Other noteworthy trends are the declining workforce participation rate of women, along with significant youth unemployment and underemployment. The paper assesses the effectiveness of two employment strategies: (i) the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) public works programme and (ii) the "Make in India" sectoral policy. It also discusses issues arising from the persistence of the informal economy, and challenges the prevailing views about the nature of the labour market and skills mismatch problems in India. It concludes with policy recommendations to address the decent work deficit, notably by (i) tackling informal working conditions; (ii) adopting active labour market policies; (iii) strengthening social protection floors; and (iv) providing financial inclusion for small producers.

Key words: economic growth, employment policy, gender, India, informal economy, labour market policies, public works, sectoral policies, skills mismatch.

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Abbreviations

ASER	Annual Status of Education Report (India)
BPL	below poverty line
CSO	Central Statistical Office (India)
DMICDC	Delhi-Mumbai Industrial Corridor Development Corporation (India
FDI	foreign direct investment
FIRE	finance, insurance and real estate
GDP	gross domestic product
IAS	Indian Administrative Service
ICT	information and communications technology
IT	information technology
JNNURM	Jawaharlal Nehru National Urban Renewal Mission (India)
MGNREGA	Mahatma Gandhi National Rural Employment Guarantee Act (India)
NDA	National Democratic Alliance (India)
NIMZ	National Investment and Manufacturing Zone (India)
NSS	National Sample Survey (INDIA)
NSSO	National Sample Survey Organization (India)
PPP	public-private partnership
PS	principal status (NSSO definition)
UPS	usual principal status (NSSO definition)
SS	subsidiary status (NSSO definition)
TRIPS	Agreement on Trade-Related Aspects of Intellectual Property Rights (World Trade Organization)
UPA	United Progressive Alliance (India)
WPR	work participation rate

1. Introduction

This paper considers the extent to which employment patterns in India have been affected, both positively and negatively, by sectoral and labour market policies. One important focus of the study is whether the current configuration of these policies can respond effectively to a number of employment challenges facing India.

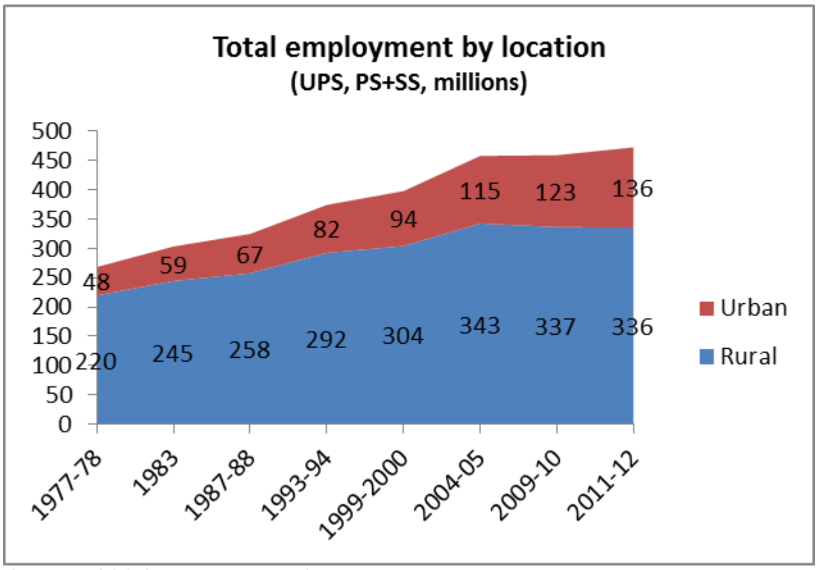
Obviously, such policies operate within a broader context. In the Indian scenario, the inability of rapid economic growth to generate good quality jobs, the persistence of a large pool of surplus labour and the dominance of informal activities have been an important feature of the Indian development trajectory over the nearly seven decades since independence. The Indian growth process has been marked by the relative absence of structural change and the inability of more rapidly expanding output to shift people out of low productivity activities into higher value ones. Furthermore, the recent rapid growth in the 1990s, and even more so since the early 2000s, was founded on and exacerbated existing social inequalities. Private wealth accumulation has relied upon these inequalities, which create segmented labour markets that keep wages of certain social categories low, and on types of exclusion that allow large scale displacement and dispossession without adequate compensation. The associated boom has required debt-driven bubbles to provide domestic demand, since the incomes of the masses have not risen in tandem. Such a strategy, however, is inherently unsustainable. This growth process has reached the limits of its viability, and is facing constraints posed by economic, social, political and environmental challenges. Therefore, sectoral and labour market policies must also be considered in relation to the extent to which they are able to counter these broader macroeconomic processes.

The paper is structured as follows. Section 2 describes the nature of the employment challenge in India, and identifies some key issues that have emerged in the recent past, in terms of employment trends and labour market patterns, including the persistence of informal work, the declining workforce participation rate of women and significant youth unemployment and underemployment. Section 3 considers the engines of economic growth in the context of inadequate structural diversification and the impact on labour market policies, in particular the question of whether service-led growth can substitute for manufacturing at this stage of India's development. Section 4 assesses some recent sectoral strategies for increasing employment, in particular the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) and the more recent initiatives to increase industrial employment, including the National Manufacturing Policy 2012 and the current "Make in India" campaign. Section 5 considers issues around informal work in India. Section 6 takes up the debate around labour market reforms and their significance for increasing employment, including a discussion of the so-called "empty middle" that is widely assumed to persist in Indian industry. Section 7 deals with the issue of employability and skills development, and considers various initiatives of past and current governments in this regard. Finally, in conclusion, Section 8 provides some policy recommendations in the light of this analysis.

2. The nature of the employment challenge in India

The most important feature of employment patterns in India over the past two decades is just how limited and slow employment growth has been in the aggregate, over a period when aggregate output was growing relatively rapidly. Indeed, it is evident (Figure 1) that total employment – in terms of usual status of work, principal and subsidiary activities as defined by the National Sample Survey Organization (NSSO) – actually grew faster when the economy was growing more slowly, and tapered off significantly in the period since 2004-05, with rural employment actually showing a decline in absolute numbers and urban employment growing by only 2.5 per cent annual compound rate between 2004-05 and 2011-12.

Figure 1. Total employment* by location (millions) (1977-2012)



Source: NSSO (various issues – a).

*Note: As defined by usual status (UPS), principal and subsidiary (PS+SS) activities[1]

2.1 Informal versus productive employment

The definition of employment used by the NSSO is quite loose,[2] in that it includes all kinds of informal, irregular, insecure, and part-time work (although it is still restrictive enough to exclude the economically crucial unpaid work performed within households). Even with this loose definition, employment expansion has been muted at best. What is worse is that the quality of the new employment generation has been poor. As shown in Figure 2 below, employment in the organized sector[3] has barely increased through all the years of relatively rapid income growth. In recent years, private organized employment has increased somewhat more rapidly to counteract the effect of the decline in public

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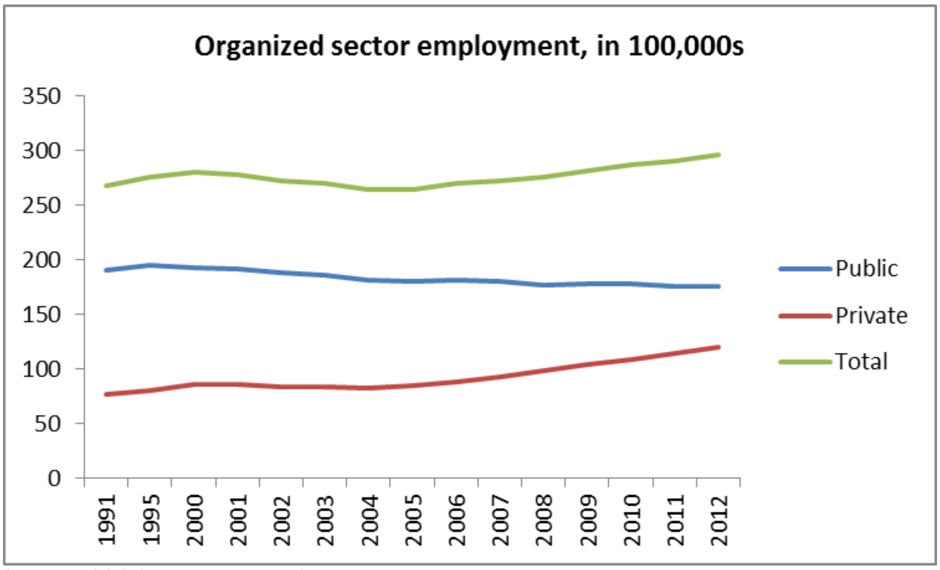
[1] In the National Statistical Survey (NSS), Usual Principal Status (UPS) is defined as the employment activity on which a person spent a relatively longer time during the 365 days preceding the NSS round. Usual Status is a combination of Principal Status (SP) and Subsidiary Status (SS) which captures subsidiary activities and consequently persons who are underemployed or engaged in minor employment activities.

[2] In the early NSS rounds conducted by the NSSO, until the 22nd Round (1967-68) the term “work” was defined in general terms as any activity resulting in the production of goods and services. Thereafter, from the 32nd (1977-78) to the 49th (Jan.-June 1993) rounds, the NSS shifted to the concept of “gainful activity”, which was defined as any activity pursued for pay, profit or family gain or, in other words, any activity which adds value to the national income. While normally these would be activities that result in production of goods and services for exchange, the NSS also included within this category of gainful work, all the agricultural activities in which a part or the whole of the agricultural production was not sold but used for own consumption. However, domestic work by family members is not considered as “work”. The NSS also attempts to capture work done as “principal” or “subsidiary” activity, according to the “usual status” (that is over the previous year), “current weekly status” (on an average day of the reference week) and “current daily status” (on the reference day).

[3] The organized sector is used to refer to enterprises or places of work where the terms of employment are regular and employees are assured of regular work. (However, there can be casual or informal workers even in such a setting). They are registered by the Government and expected to follow existing labour laws and regulations, such the Factories Act (1948) and Minimum Wages Act (1948).

employment. However, much of this increase has actually been in the form of informal and contract workers within the organized sector. NSSO surveys suggest that informal jobs in the organized sector accounted for around 45 per cent of total organized employment over 2009-10 and 2011-12, up from 43 per cent in 2004-05 (Chandrasekhar and Ghosh, 2015: Table 3). While the organized private sector in all non-agricultural activities has been heavily reliant on informal workers, who dominate and account for more than their workforce, that proportion has remained largely stable and even declined slightly in recent years. However, the public sector has more than doubled its reliance on informal workers since the mid-2000s, to the point where nearly a quarter of all workers in the public organized sector were informal in 2011-12. In organized manufacturing industry, the share of contract workers increased from around one fifth to one third over the decade of the 2000s (Chandrasekhar and Ghosh, 2015: Figure 16).

Figure 2. Organized sector employment (100,000s) (1991-2012)

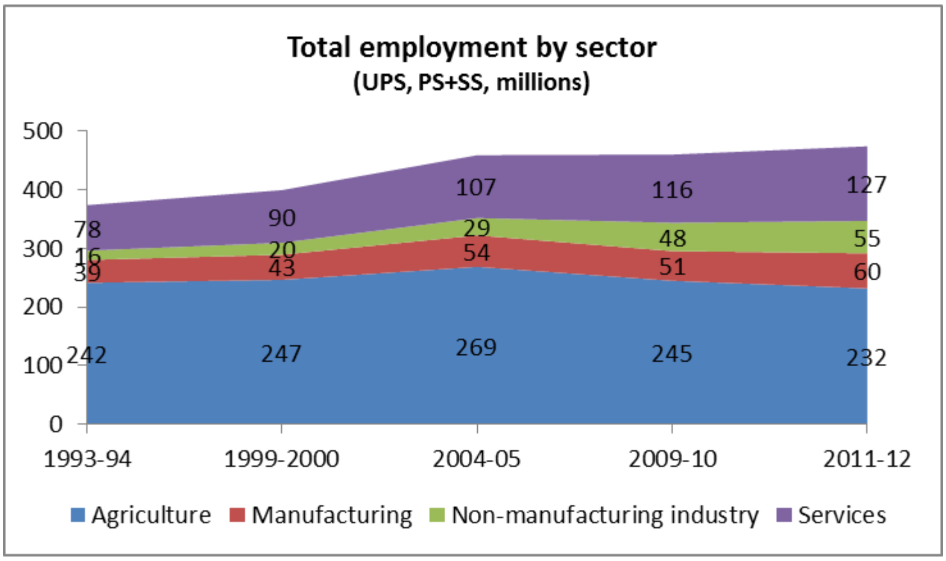


Source: NSSO (various issues – b).

This has been combined with inadequate and disappointing structural transformation in terms of insufficient movement of the workforce out of low productivity activities into higher value added work. As Figure 3 on p. 4 indicates, the persistence of low productivity employment has been evident in the continuing significance of primary activities in total employment and the domination of low productivity service activities, accounting for the bulk of non-agricultural jobs. While the share in gross domestic product (GDP) of agriculture and allied activities fell from around 55 per cent in 1960-61 to less than 18 per cent in 2011-12, the corresponding share of employment declined much more slowly over the entire period, from 72 per cent in 1960-61 to 48 per cent in 2011-12 (Figure 4 on p. 4). Meanwhile the share of manufacturing has stagnated at low levels of both output and employment – in 2011-12 it accounted for only 14.4 per cent of GDP and 12.6 per cent of the workforce.

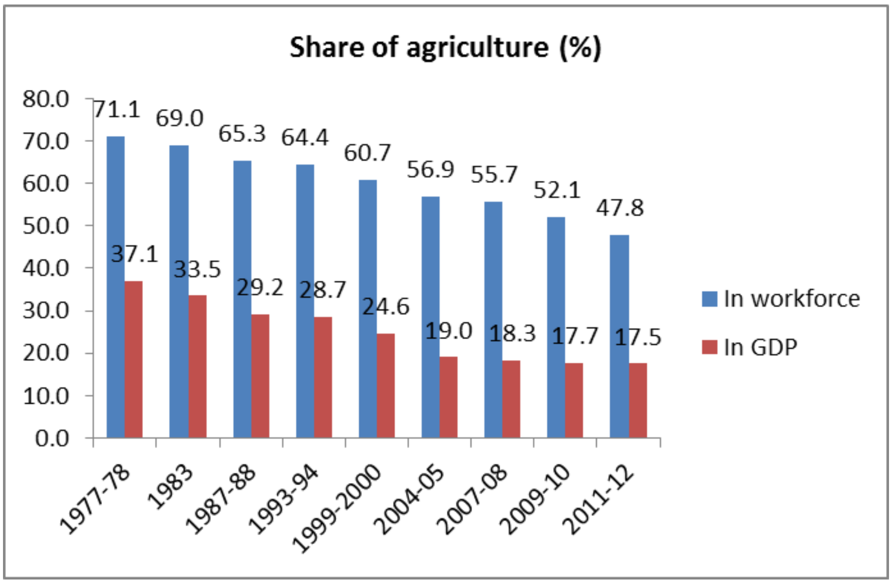
The latest survey shows a slight acceleration in the diversification of the Indian economy, in particular with an expansion of employment in the secondary sector. The changes in employment elasticity of output growth by sectors suggest, at least in the most recent period, that manufacturing, along with non-manufacturing industry (driven by construction), has experienced significantly more labour use.

Figure 3. **Total employment* by sector (millions) (1993-2012)**



Source: Based on Mehrotra et al. (2014): p. 50, Table 1.
*Note: As defined by usual status (UPS), principal and subsidiary (PS+SS) activities

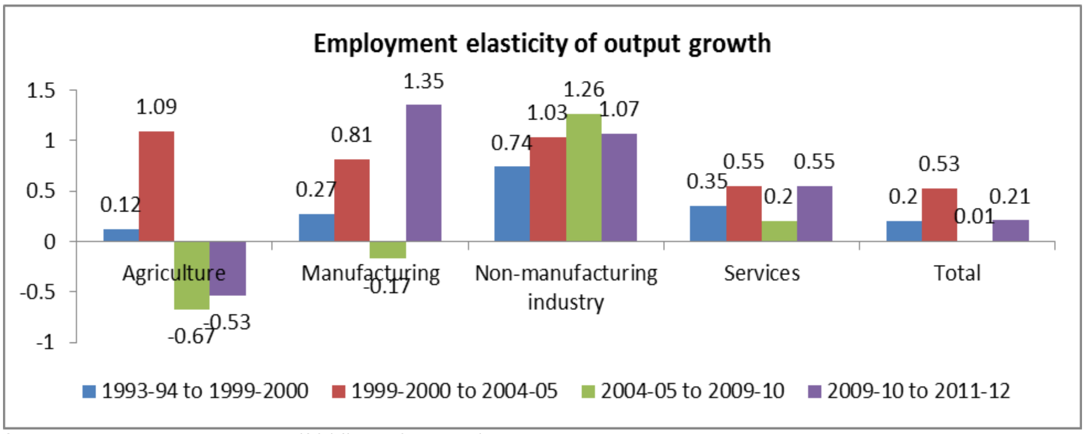
Figure 4. **Share of agriculture in workforce and GDP (%) (1977-2012)**



Source: Own calculations based on NSSO (various years – a) and CSO (2014).

However, the other side of employment elasticity is labour productivity, and therefore employment elasticities of output growth that are greater than unity should not necessarily be celebrated, as they point to worsening labour productivity in sectors where this is not always justified (see Figure 5 below). This is the case with manufacturing, where the increase in labour use per unit of output could even point to some technological regression in the form of the proliferation of small low productivity enterprises rather than modern manufacturers using the latest technology (as has been found for textile and apparel sectors, see Sen (2012)). Even within sectors that are perceived as more dynamic, the majority of workers persist in low productivity activities, with only a small minority in each sector involved in highly remunerated and high productivity work.

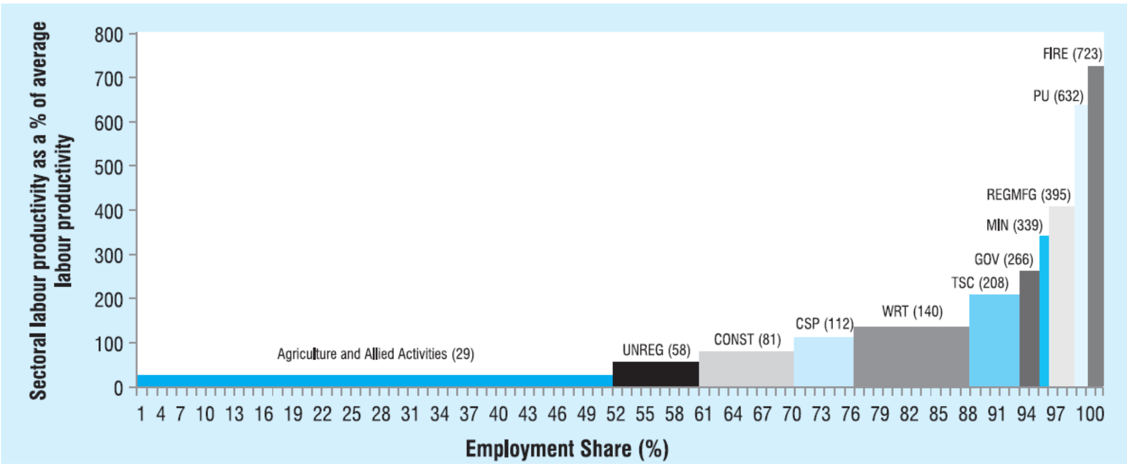
Figure 5. Employment elasticity of output growth (1993-2012)



Source: Based on Mehrotra et al. (2014): p. 50, Table 1.

Figure 6 provides some evidence of this. The most rapidly expanding activities in terms of GDP share, such as finance, insurance and real estate (FIRE), IT-related services and telecommunications, which together now account for nearly 20 per cent of GDP, still employ less than 2 per cent of the workforce. Figure 6 considers different sectors in terms of their labour productivity (as a percentage of the average labour productivity in the economy as a whole) and share of employment, in the year 2009-10.[4] It is clear that the sectors with very low productivity relative to the average (agriculture and allied activities along with unregistered manufacturing), together account for the bulk of the workforce: more than 60 per cent.

Figure 6. Productivity and employment share in 2009-10 (%)



Source: Hasan et al. (2012) as cited in Ministry of Finance (2013): p. 32.

2.2 Women in the labour force

The other important feature of employment in India over the past two decades is the low and declining workforce participation of women. Unlike most other cases of rapid economic growth that have been observed historically, recognized work participation rates of women have not only not increased, but have actually declined. This is significant for

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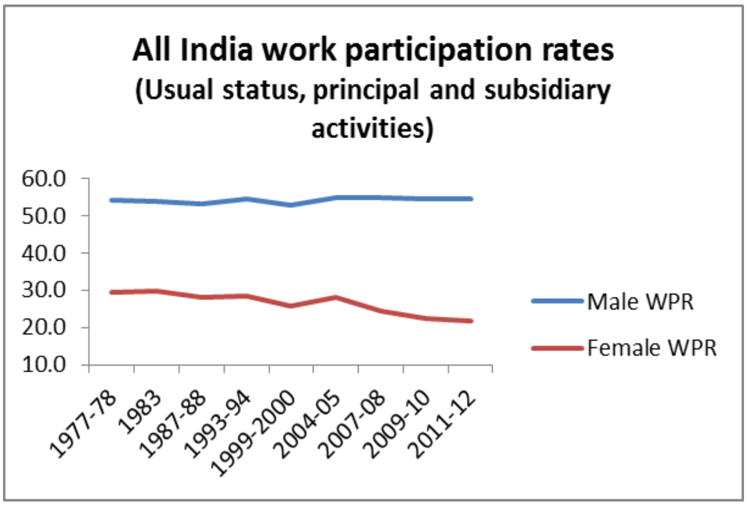
[4] It should be noted that estimates of "productivity" for several service activities provided in Figure 3 (p. 4) – particularly those for finance, insurance and real estate (FIRE) sector – are dubious at best, since they simply reflect unsustainable asset price bubbles and associated remuneration, rather than increases in real output.

several reasons. It is now generally accepted that most women work, even when they are not recorded as “workers” by official and other data gatherers. The tasks associated with social reproduction and the care economy are largely (though not solely) borne by women, but in many societies these are not counted among economic or productive activities. Similarly many women are engaged in what is otherwise recognized as productive work, but as unpaid household helpers who are therefore only marginally seen as workers in their own right. The general invisibility of women’s work is itself a mostly accurate reflection of their status in society: where women’s official work participation is low, this is typically a sign of less freedom and mobility of women, lower status and less empowerment. Indeed, where more women are active in the labour market and are employed (especially in formal activities), the share of unpaid work tends to come down and even the unpaid labour performed by women is more likely to be recognized and valued. This is why looking at the extent, conditions and remuneration of women’s work is often a useful way of judging the extent to which their broader status in society has improved.

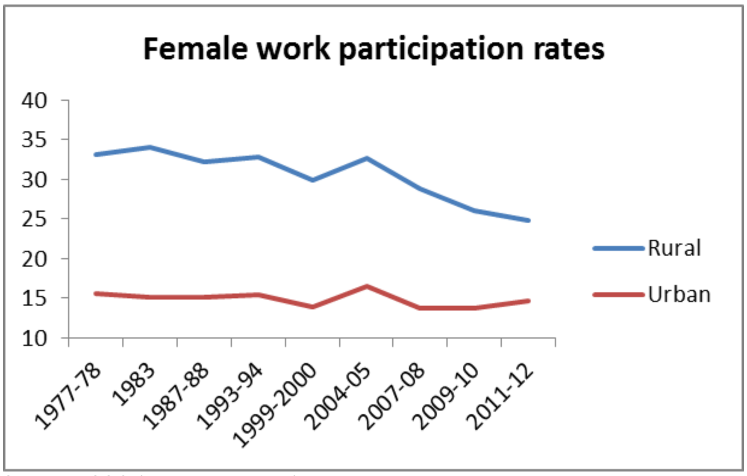
Female work participation rates (WPRs) in India have historically been significantly lower than male rates, and are among the lowest rates to be observed even in the developing world. What is more surprising is that, despite three decades of relatively rapid GDP growth, these rates have not increased, but have actually fallen in recent times. The gap between male and female WPRs (for the 15+ years age group) has grown, as male rates have remained stable and female rates have declined from their already very low levels (see Figure 7). The decline is particularly acute for rural women (see Figure 8 on p. 7). The sharp decline in 2009-10 (compared to 2004-05, which showed relatively high female WPRs) was dismissed as a statistical aberration when it first emerged in the National Sample Survey (NSS) large survey. However, the subsequent large survey in 2011-12 revealed a further decline, implying that there is a real tendency at work that has to be understood and explained. In urban areas, women’s work participation rates have been very volatile (possibly reflecting the vagaries of the sample survey) but nonetheless, overall, very low and with a mildly declining trend.

Figure 7. All India work participation rates* (%) (1977-2012)



Source: NSSO (various years – a).
*Note: As defined by usual status (UPS), principal and subsidiary (PS+SS) activities

Figure 8. Female work participation rates* by location (%) (1977-2012)



Source: NSSO (various years – a).
*Note: As defined by usual status (UPS), principal and subsidiary (PS+SS) activities

Obviously, such low and declining rates reflect a variety of economic, social and cultural factors (Chaudhary and Verick, 2014; Ghosh, 2009; Himanshu, 2011; Kapsos et al., 2014; Mukherjee, 2012; Srivastava and Srivastava, 2010). Chaudhary and Verick (2014) argue that the decline can be explained by factors that include "increasing educational enrolment, improvement in earnings of male workers that discourages women's economic participation and the lack of employment opportunities at certain levels of skills and qualifications discouraging women to seek work" (p. 14). Kapsos et al. (2014) find that lack of employment opportunities for women, which are in turn driven by the widespread occupational segregation, are also important.

It is widely believed that the decline in work participation rates of both males and females is chiefly because of increasing participation in education, which is to be welcomed. It is certainly true that female participation in education has increased in both rural and urban areas, and especially so since 2007, which is indeed a welcome development, even though enrolment rates still remain low compared to other countries at similar levels of per capita income. However, this increase still does not explain fully the total decline in female labour force participation, which has been significantly greater in rural India,relative to the increase in those engaged in education, and, to a lesser extent, in urban India. Also, the decline is clearly evident even for the age group 25 to 59 years, where there is little indication of increasing involvement in education. It is worth noting that labour force participation rates (which include workers and the openly unemployed seeking, but not finding, jobs) closely track the work participation rates, to the point that open unemployment rates of women have been falling because of declining labour force participation. It may be that the "discouraged worker" effect is particularly strong for women, or it may reflect other social causes that inhibit engagement in recognised work.

Much of the decline in work participation has been among self-employed workers, including (but not only) those involved in agriculture. The growing mechanization of agriculture has played a role in reducing demand for women's work. In addition, changes in ecological conditions have led to declines in many rural activities earlier performed mainly by women, such as the collection of minor forest (non-timber) produce. It should further be noted that women's displacement from agricultural activities and increased informalization are likely to be associated not only with a real decline in women's participation rates but also a greater degree of undercounting of their participation rates. The undercounting of women's work in rural India may be particularly marked because of the growing phenomenon, noted in various press reports, of seeking brides from other areas in regions with very low female sex ratios, as these women are then used as unpaid drudges performing work in homes and fields.

Other changes, such as the growing difficulty of collecting firewood and water, have increased the time that has to be devoted to unpaid labour. Indeed, such labour, in the form of not just various economic, but unrecognised, activities, such as procuring essential items for household consumption, but also the care economy generally, is likely to be an important reason for the withdrawal of women from the labour force (Mukherjee, 2012). This is confirmed by the strong inverse relationship between work participation and involvement in what the NSS surveys classify as domestic work (Code 92: "looking after children, taking care of the sick and the elderly, preparing food and other tasks associated with home management.") and expenditure-saving activities (Code 93: "expenditure-saving activities geared mainly towards household consumption, such as maintenance of kitchen gardens, and orchards, taking care of household poultry and cattle, free collection of firewood, fish etc., husking of paddy, grinding of food grains, preparation of cow dung cakes, fetching water, making baskets and mats for household use, sewing, tailoring, weaving, and tutoring children and so on.").

Most women, especially those classified as "non-workers", are engaged in these activities, which are clearly economic activities even when they are not socially recognized as such. It is also clear from the NSS surveys that the greater proportion of women who engage in these tasks do so because "there is no one else to do this for the household", which suggests that the requirement to engage in such unpaid domestic labour can constrain the possibility of women engaging in outside work for remuneration. It is clear that in addition to broader socioeconomic processes, state action has a critical role to play in affecting the extent to which such unpaid work is required. The lack of basic infrastructure and amenities, such as piped water or cooking fuel, obviously adds to the time required to procure or collect firewood or water for household use. The lack of social provision of care services including medical care increases the burden of care work that falls on household members.

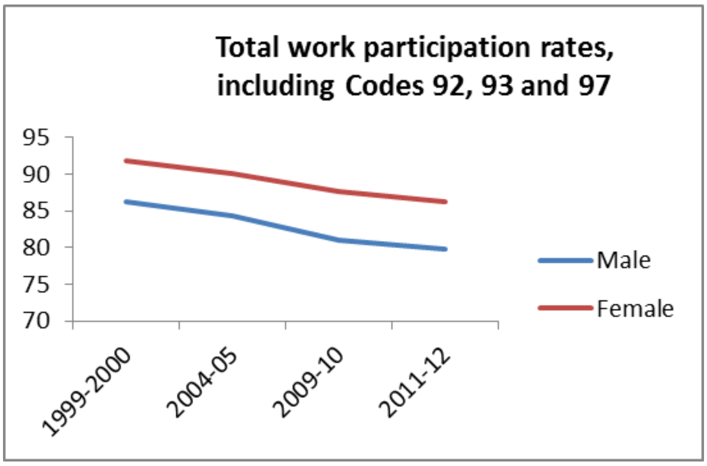
Social perceptions about women and their capacities are also important factors. It is ironic but true that mechanization has tended to displace women workers, particularly in agriculture and construction. Just as some activities become *less* arduous and physically taxing, women who were previously engaged in such work are replaced by male workers. But there is really no physical reason why women should be less able than men to drive tractors and harvester-threshers or to operate construction machines. Rather, it reflects the persistence of archaic attitudes towards women and the work that they are fit to perform.

However, it is also likely that women themselves may wish to quit the labour force when there is no pressing need, simply because the paid work that is available for most of them is so arduous, taxing and poorly paid, and often distant from home and so requiring long commutes. Indeed, this is why it has been noted that much of women's work participation in India is of the "distress" variety, engaged in when the household is very poor or when there is a natural calamity, economic shock or other decline in household income (Himanshu, 2011; Srivastava and Srivastava, 2010). Since paid work is not so readily available, and what there is tends to be both difficult and with low remuneration, as well as being associated with the dual burden of paid and unpaid work, it is not implausible that some improvement in household income levels could result in reduced pressure on women to seek outside employment.

This point needs much more emphasis, because the treatment of Codes 92 and 93 as within the category "not in the labour force" implicitly suggests that such people are not engaged in activities that are socially necessary. Yet both these codes encompass activities that are absolutely essential for society. It is impossible to imagine either households or society functioning if these activities are not performed, which means that they should therefore be characterized not only as work, but essential work. To the extent that domestic and care services generally are provided privately within households, they obviously do not enter the national product, but on the other hand the national product could not be generated without such activities.

Indeed, once we include Codes 92, 93 and 97 (referring to "others including beggars, prostitutes, etc.") in the definition of work, then the decline in women's work participation is no longer evident: rather it is simply that there is apparently a shift from paid, or at least recognized, work to unpaid work. Figure 9 provides some evidence of this by looking at the different elements of work separately for males and females (all for the age group 15+ years) by rural and urban location. The data relate to usual principal activity status over the survey periods since 1999-2000. Once such work is factored in, and other paid but unrecognized work (the category "others") is also included, the work participation rate for all women in India has been consistently higher than for men. In short, many more women work than men. In 2011-12, across both rural and urban areas, the total female work participation rate (albeit declining over the decade) stood at 86.2 per cent, compared to 79.8 per cent for men. This is a very different picture from the conventional one that sees most women in India as "not working". Further, there is less evidence of a significant decline in female work participation in recent times. Indeed, the decline in male work participation now appears to be greater than that for women, although the decline in both can be explained mainly by increasing involvement in education.

Figure 9. Total work participation rates*, including Codes 92, 93 and 97 (1999-2012)



Source: NSSO (various years – a).
*Note: As defined by usual status (UPS), principal and subsidiary (PS+SS) activities

Gender discrimination operates in other ways to segment labour markets, but it also operates along with other forms of social discrimination that are endemic to Indian society. Thus, caste, community and ethnic divides are also evident, and affect both work participation as well as the nature of the work and the remuneration received. Tables 1 and 2 indicate how, for "regular work", workers receive very different average rates of daily remuneration based on gender and other social categories, even after accounting for levels of education. (Similar results are also evident from wage rates for casual work.) It is evident from the table that gender "trumps" other forms of social discrimination in terms of generating larger wage gaps, and this is confirmed by decomposition analysis (Chakraborty, 2015). Location (rural/urban) is clearly an important determinant of wages. However, other social categories also show substantial gender gaps even within rural or urban areas.

Table 1. Daily wage rates of rural regular wages/salaried employees aged 15-59 years, across education and social group (2011-12)

Educational Level	Male					Female				
	Others	ST	SC	OBC	Muslim	Others	ST	SC	OBC	Muslim
Illiterate	212	233	219	202	242	138	120	90	114	82
Literate below primary	255	304	233	240	197	192	131	126	115	103
Primary and middle	272	315	232	239	264	118	185	116	121	144
Secondary and higher secondary	413	506	370	372	469	256	387	177	238	256
Graduation and above	635	654	528	573	657	465	582	400	389	471

Source: Chakraborty (2015), unpublished work for PhD calculated from NSSO (2013 – a).

Table 2. Daily wage rates of urban regular wages/salaried employees aged 15-59 years, across education and social group (2011-12)

Educational Level	Male					Female				
	Others	ST	SC	OBC	Muslim	Others	ST	SC	OBC	Muslim
Illiterate	246	228	228	239	197	121	118	135	109	108
Literate below primary	254	246	232	243	186	145	199	153	122	103
Primary and middle	272	604	249	239	230	159	243	138	132	146
Secondary and higher secondary	424	509	389	356	371	371	498	295	290	301
Graduation and above	864	774	651	626	687	669	590	461	471	485

Source: Chakraborty (2015), unpublished work for PhD calculated from NSSO (2013 – a).

3. Engines of employment growth

3.1 Growth and structural transformation

Following Kuznets (1973), modern economic growth has generally been seen to be associated with a high rate of structural transformation in the economy, including a shift from agriculture to non-agriculture and subsequently from industry to services, as well as a shift from self-employment to wage employment in companies. Kaldor (1966; 1967) introduced the idea that structural change was not only a result of growth but, in effect, a cause of it, with the causality running from manufacturing growth to GDP growth, and thence to growth of labour productivity. In terms of demand, this is because non-agriculture (manufacturing and services) has higher elasticity of demand for its products than agriculture. On the supply side, two processes cause manufacturing to play a special role, even relative to services. The first is Verdoorn's Law, whereby the growth rate of productivity in manufacturing industries rises with the growth rate of manufacturing output (but with a coefficient less than unity, so as to ensure continued employment growth in manufacturing). So productivity growth is higher in manufacturing than in services, and tends to have a greater impact on aggregate output and productivity. A corollary of this is that the growth of manufacturing is faster than that of aggregate output and therefore the share of manufacturing in ouput increases. The second process is a Lewisian mechanism[5] of employment growth in industry increasing the rate of productivity growth in other sectors.

Either way, growth and structural change (in terms of the composition of both output and employment) are closely intertwined. Indeed, this is the essential process of development, whereby industrialization generates not only higher per capita incomes but also less inequality, as noted by Galbraith (2008). However, even a relatively "slow-acting process of structural change" has not always operated in traditional (or even augmented) Kuznets' fashion. While the share of agriculture in output has generally tended to decline, this has not always been accompanied by a commensurate decline in employment in agriculture, as evident from Kum (2008). It is possible to identify five types of economies with varying degrees of structural change and economic transformation, which in turn have implications for poverty reduction: (i) cases where countries have successfully made the transition to manufacturing, such as the East Asian developmental states; (ii) cases of high but stalled levels of manufacturing that have produced dualist labour market regimes, as in some countries of Latin America and in South Asia; (iii) cases where services drive the current growth path; (iv) agrarian low-income economies; and (v) mineral rich economies. These differing processes can be illustrated with specific examples.

3.2 India's experience

The experience of India is somewhat unique. For most of the post-independence period, increases in per capita GDP were significantly lower than in the Republic of Korea and even Mexico. Per capita income increased relatively slowly until the mid-1990s, and faster thereafter. The share of the primary sector in GDP declined from 55 per cent in 1960 to 16 per cent in 2014, although in a cyclical fashion that reiterated the continued dependence of Indian agriculture on the vagaries of the monsoon. However, employment in the primary sector continued to dominate total employment throughout this period. It fell from 72 per cent in 1960-61 to around 48 per cent in 2011-12, a very slow decline over half a century. The share of manufacturing in GDP increased only marginally, and was still below one-fifth at the end of the period, suggesting that the Kaldorian process of aggregate output dynamism being generated by this sector has not occurred in India. Further, the share of manufacturing in total employment has barely changed at all, rising from 10 per cent to only 12 per cent over this entire period.

This obviously means that the more recent period of faster growth in India is one that has been dominated by services, which have accounted for nearly 70 per cent of the incremental GDP between 1991 and 2013-14. By 2011-12, the services sector employed just above one quarter of the workforce to produce more than half of GDP. The question of the extent to which this can be called service-led growth is still moot, however. The phenomenon of rapid expansion of the service sector rather than manufacturing at relatively early stages of development, and the associated "premature de-industrialization", has been much discussed. Dasgupta and Singh (2006) note that this need not always be a

[5] Lewis' (1954) framework analyzes a developing economy as comprising two sectors: (i) a labour-intensive agricultural sector dependent on traditional technology, and (ii) a capital-intensive industrial – usually urban – sector dependent on modern technology. Workers move from the rural to the industrial sector, drawn by higher wages. In turn, this induces wage and productivity growth in the other sectors to retrain workers while remaining competitive.

pathological sign, and that the service sector may also play a role as a positive engine of growth through the mechanism of raising productivity because of the rapid technological progress in the "new services". The IT industry in India is cited, in this context, as a contrast to the more pathological de-industrialization that occurred in Latin America in the wake of the Washington Consensus policies that led to the abandonment of industrial policy.

Chandrasekhar (2007) provides a somewhat different interpretation. He accepts that services growth – especially that of modern services such as communication, financial, information technology (IT) and IT-enabled services – has not been accompanied by a proportionate growth in employment, reflecting an increase in labour productivity. This makes India's trajectory more acceptable from the productivity angle, even if not the most advantageous from the point of view of unemployed and underemployed workers in a labour-surplus economy. Moreover, technological changes and developments have made a number of services exportable through various modes of supply, including cross-border supply through digital transmission. Thus, in the case of IT and IT-enabled services in India, the expansion of output is driven by the expansion of exports, with positive balance of payments implications.

However, despite rapid growth, the absolute size of the sector in India remains small, and India was and remains a small player in the global market, taking into account both domestic supply and exports. The contribution of the business services sector which includes both software services and IT-enabled services, and is the driver for export-led services growth in India is even smaller, having risen from 2.6 to 3.3 per cent of GDP between 1985 and 1995, and then to 4.3 per cent in 2005. In fact, the share of business services in total valued added revenues in market oriented services fell from close to 50 per cent in 1985 to 36 per cent in 2005. This is not to suggest that the software and IT-enabled services boom has been the prime driver of growth in India. Rather, the vast mass of differentiated but largely low productivity unorganized services still accounts for half of GDP and most of the employment in the services sector.

This makes the argument that services are reflective of a new dynamism in India that much less convincing. Instead, the more recent pattern of growth in India is apparently based on a newly emerging form of dualism. As the manufacturing sector experiences some degree of jobless growth, as companies shed workers to gain cost efficiencies and automation of menial jobs drives down the need for more workers, IT and IT-enabled services companies are hiring and leveraging technology to grab the worldwide outsourcing market. India's software thrust of the last decade was essentially the export of lower end software and IT-enabled services facilitated by the availability of cheap skilled labour. Thus, it has been, in large measure, a technology-aided extension of the earlier waves of migration by service-providers of different descriptions: doctors, nurses, and blue-collar workers of various kinds. An expansion of that kind cannot be self-sustaining. Moreover, while this can continue to provide a source of employment for more skilled labour for some time, it still provides employment to less than one per cent of the workforce, and therefore cannot be seen as any kind of solution to the basic problem of inadequate economic growth and employment in the aggregate. This suggests that genuine structural transformation of an economy still requires industrialization, and this remains a necessary stage that cannot simply be bypassed.

In that context, clearly, the Modi Government's emphasis on industrialization is relevant. However, it is in effect a continuation of the National Policy on Manufacturing 2012 proposed by the former United Progressive Alliance (UPA) Government, albeit the new policy has been publicized with much more fanfare. The point is that such industrialization actually requires specific industrial policies as well as commercial policies, which are often sectorally directed. It cannot rely only on creating a generally "favourable environment" for investors to ensure industrialization. It also typically requires active state engagement with the creation and provision of basic infrastructure, which also cannot be left to market forces or the whims of private investors.

4. Recent employment strategies

Two strategies that are explicitly designed to encourage more employment are considered briefly here. The first is a direct strategy that requires increasing public employment, albeit of a casual nature, and is based on legislative provision. The second is a strategy oriented towards increasing employment in manufacturing, through policies that indirectly affect private employment. This is supposed to occur through policy changes rather than new laws.

4.1 The MGNREGA

The Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), one of the more historic pieces of recent legislation in India, enshrines an active labour market policy designed to provide public employment for a specified number of days to rural households. Passed in 2006, by 2008 the Act had been progressively implemented in the rural areas of all districts. It commits the Government to providing 100 days of work per rural household in public works to be organized by local authorities. It is based on two interlinked concepts. First, it ensures livelihood security to rural residents by providing at least 100 days of guaranteed wage employment in a financial year to every household whose adult members volunteer to do unskilled manual work. Second, it utilizes the programme for the mobilization of existing surplus labour in rural areas so as to unleash productive forces and generate more economic growth. Importantly, both of these features are complemented by a rights-based approach, whereby employment is seen as a citizen's right that must be delivered by the State.

4.1.1 Structure

The programme works as follows (MORD, 2013a). Adult members of all rural households willing to do unskilled manual work must apply for registration with the local authority, the *gram panchayat* (the lowest level elected body). Each household is entitled to 100 days of employment per year, although, in practice, the programme has provided only 40-50 days of employment per household each year so far. The registered household is issued a job card. Based on a written application for work, employment is guaranteed to be provided within 15 days. Failing this, the State is supposed to pay an unemployment allowance (of half the wage rate) to the beneficiary. At least one third of the beneficiaries under the Scheme must be women, although, in practice, women have accounted for around half the employment. Facilities such as crèches for children, drinking water and shade for rest are supposed to be provided. Material costs (including wages of skilled and semi-skilled workers) cannot be more than 40 per cent of the total costs. Contractors and use of labour-displacing machinery are prohibited.

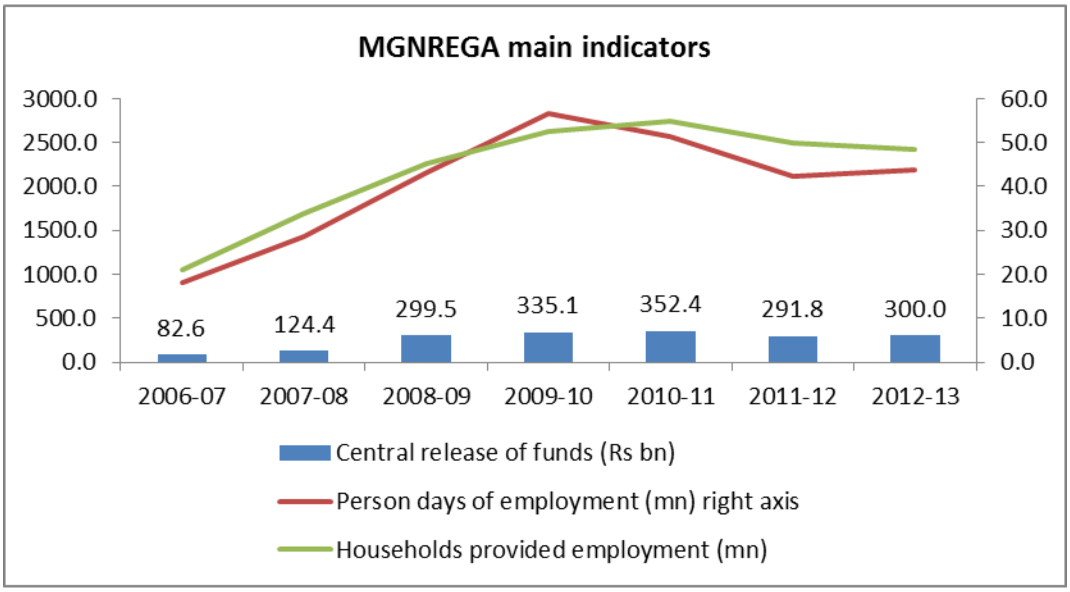
Wages are published nationally and were recently indexed to inflation. Male and female wages do not differ under the scheme, unlike the wide gender wage gap in most of rural India, and this explains some of the attraction for women workers. However, piece rate wages (based on some physical measures of work outcomes) have been found, in many instances, to restrict wages to below the legal minimum. While wages are meant to be paid on a weekly basis, cases of late payment are widespread. Since 2008, wages are mostly paid through bank/post office beneficiary accounts, so as to reduce leakages and ensure transparency. This has the additional benefit of financial inclusion of such workers, bringing the poor into the ambit of the organized financial sector, providing a secure formal savings route and, in some cases, better access to credit.

The *gram sabha* (meeting of all adults in the village) is supposed to be responsible for all plans and decisions regarding the nature and choice of works to be undertaken, based on a list of "permissible works". The works undertaken relate to village roads, water conservation and water harvesting, irrigation canals and renovation of traditional water sources, flood protection and drought proofing, land development and work to improve the fertility of private lands belonging to small and marginal farmers and other deprived categories.

The Act was passed amid much enthusiasm, but also bitter resistance from actual and potential employers who feared that it would cause wages to rise and thereby affect the profitability of farming and other rural activities, as well as migrant-dependent work such as construction. Partly because of such resistance, the programme was effectively stifled after only a few years of operation. The peak years of the MGNREGA in terms of both financial and employment indicators were 2009-10 and 2010-11, and since then there has generally been a decline. There are some states – Tripura, for example – that have continued to show improvement, but this has been against the tide, and possible only because of a very determined state government.

Figure 10 shows that the release of funds by the Central Government rose continuously until 2010-11, but since then have levelled off and even declined in nominal terms. In real terms, adjusted for inflation, the decline is even sharper. Total expenditure rose substantially until 2009-10, but since then has been more or less flat; with a small decline in 2011-12, but overall no increase, which again suggests a decline in inflation-adjusted spending. The gap between release of central funds and total expenditure needs to be further examined. This possibly reflects continued spending by some state governments anticipating the eventual (and statutory) reimbursement from Central Government. Even at its peak, total spending under the programme did not account for even one per cent of GDP; currently, it accounts for less than 0.5 per cent. 2009-10 was the peak year, in which more than 2.8 billion person days of employment were generated under the MGNREGA, benefiting some 54 million households. Thereafter, however, employment created under the programme has fallen back to levels seen three or four years earlier.

Figure 10. MGNREGA main indicators (2006-2013)



Source: Author's calculations based on MORD (2013b).

4.1.2 Employment impact

It is only in terms of the participation of women workers that ratios improved continuously during the years of implementation of the programme. Women's share of work days increased from 41 per cent in 2006-07 to 52 per cent in 2012-13, although that could simply reflect the fact that women workers' days of employment remained largely stable while male employment fell. The share of work days of scheduled caste workers increased from 25 per cent in 2006-07 to 31 per cent in 2010-11, but subsequently fell, to only 22 per cent in both 2011-12 and 2012-13. The share of scheduled tribes in total employment fell throughout the period from 36 per cent to only 17 per cent. However, this shift may reflect the nature of the implementation, since the programme was originally implemented in backward districts where there is a preponderance of scheduled tribe populations. Their share could, therefore, be expected to fall as the programme was extended to cover all the districts of India. Nevertheless, insofar as both scheduled castes and scheduled tribes are disproportionately represented among rural poor households, their current participation in the MGNREGA is below par.

By mid-2012, around 15 million work projects had been undertaken, of which about 60 per cent were complete. Of these works, 19 per cent related to rural connectivity, such as village roads; 25 per cent to water conservation and water harvesting; 14 per cent to irrigation canals and renovation of traditional water sources; 13 per cent to flood protection and drought proofing; 13 per cent to land development; and 14 per cent to work done on private land (land belonging to small and marginal farmers, scheduled castes, scheduled tribes, households below poverty line (BPL) and beneficiaries of land reform).

Clearly, as a 'self-targeted" scheme, this programme combines the benefits of universal access with greater focus on the poor. Moreover, beyond the usual attributes of social protection of providing a degree of livelihood stability and poverty reduction, it generates other positive supply side effects and thereby enables sustainable increases in productivity and output. Thus far, the evidence suggests that the programme has indeed provided a crucial alternative source of employment and wages in rural economies where most workers are not able to access even minimally decent work for the greater part of the year (NSSO, 2011). It has proved to be especially attractive to women workers, even though the work is physically arduous and essential legal requirements such as workplace crèches are frequently not available, simply because it offers wages mostly on a par with male workers (Arulselvam and Deepika, 2013; Sudarshan, 2009; Verma, 2011). It has been important in improving income opportunities for single women and female-headed households (Khera and Nayak, 2009) and providing more autonomy to women within their families (Dheeraja et al., 2010).

The programme has played a positive role in stabilizing rural wages and in reducing gender wage gaps in much of rural India (Berg et al., 2012; Drèze and Sen, 2013; Ghosh, 2013; Khera and Kukreja, 2013; MORD, 2012). Its significance as a built-in stabilizer and in consumption smoothing has been noted (Ghose, 2011; Jha et al., 2012; Liu and Deininger, 2010; Ravi and Engler, 2015). This was evident during the 2008-09 global economic crisis, when urban migrant workers who lost export-oriented employment were able to rely on some form of stable wage income generated by their families in their rural places of origin. It has, to some extent, reduced the severity of short-term distress migration, which had become a pervasive feature of rural India in the period just prior to the implementation of the programme (Kareemulla et al., 2009; Kumar and Prasanna, 2010; Mistry and Jaswal, 2009). All this has also had an impact in terms of poverty reduction among participating households (Babu and Rao, 2010; Bordoloi, 2011; Esteves et al., 2013; IDWYC, 2010). The multiplier effects of increased wage incomes on local economic activity have been noted to be quite large (Hirway et al., 2009; MORD, 2012).

In states where it has been implemented seriously and efficiently, it has not only provided a boost to local wage incomes and markets, but also assisted in easing supply conditions by providing and improving minor irrigation works, improving soil quality, and so on (IDYWC, 2010; Kumar and Chandra, 2010; MORD, 2012; Verma, 2011). Studies have found multiple benefits from digging wells and related activities, including increases in multi-cropping with higher value crops and rising agricultural value added, diversification of local diets and greater access to sources of drinking water and other water for household use (Aggarwal et al., 2012; Esteves et al., 2013).

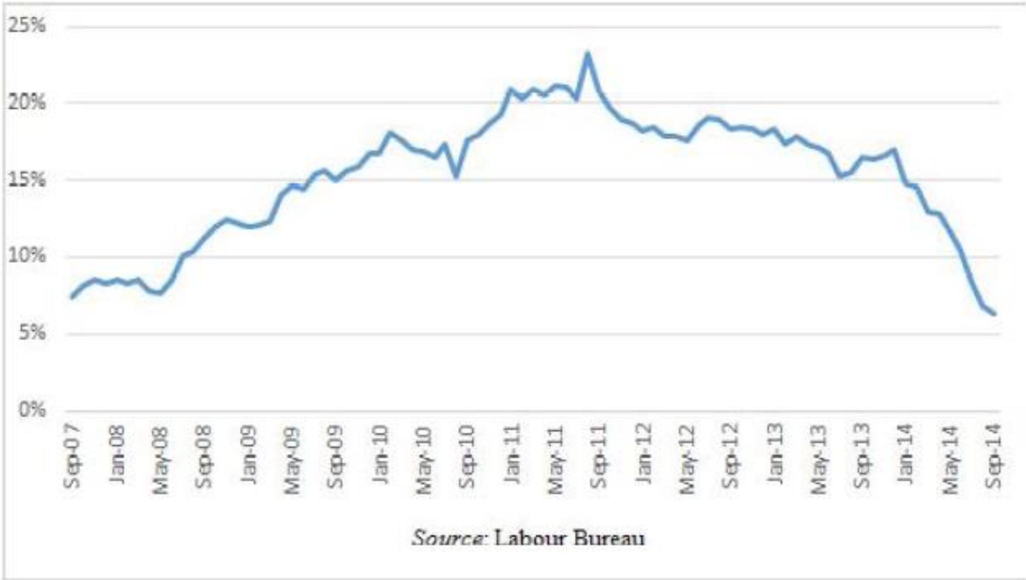
4.1.3 Challenges

Some problems are evident, even acute, in some states. These include corruption, although probably actually less than in many other Government programmes that get less publicity; inadequate implementation, whereby most of the rules guiding the programme are ignored; failure to ensure the right to work because the application for work is often not registered until a work site is opened up; and delayed wage payments. The functioning of the programme in different states has been criticized for its inaccurate, and sometimes false, muster rolls, inadequate supervision at worksites, and most of all, leakages reflecting corruption in different forms (Comptroller and Auditor General, 2008). Some states have clearly performed better than others in this regard (Reddy and Upendranadh, 2009). As well as the political will, the ability to use new information and communications technology (ICT) methods effectively to ensure greater transparency and accountability, and to reduce leakages in socially sensitive ways, has also played a role. Also, not all defective implementation is because of corruption. Sometimes, even the most well-intentioned local authorities are not able to develop a useful and relevant pipeline of works in the required timeframe, because of lack of capacity and shortage of technical planning staff (Mukherjee and Ghosh, 2013).

Implementation is still far from truly gender-sensitive. The absence of crèches on most worksites, the lack of flexibility with respect to hours, and inadequate attention is paid to tasks suitable for pregnant or lactating women, as well as the insufficient number of female supervisors who actually monitor and run the worksites, are all problems. The use of piece rates based on some physical measures of work output that lead to lower payment for women, and the occasional reliance on unpaid labour of women (e.g. the use of pairs, one to lift and the other to carry loads, counted as one labour unit which, in effect, renders women’s work invisible) are also serious concerns (Gupta, 2009).

One factor in poor implementation of the programme is relatively low awareness of all its features, not only among intended beneficiaries, but also among elected representatives and officials responsible for it (Tyagi, 2008). In particular, there is a lack of awareness about work on demand, unemployment allowance and redress mechanisms (MORD, 2012). There is also the inevitable problem of resistance from local elites, since both public functionaries and potential employers may be reluctant to disseminate information about a programme that codifies the rights of citizens and increases workers’ bargaining power. This has been exacerbated by fears of labour scarcity that have dominated the perceptions of local and national private employers. However, it is likely that such fears are overplayed. Since MGNREGA works in most states mainly occur in the agricultural lean season (even though this is not a requirement and effectively contravenes the law), they are unlikely to affect labour supply for major crop farming operations (Srikantha Murthy and Indumathi, 2011). On the other hand, because the MGNREGA has, to some extent, had the effect of reducing labour distress, and, by strengthening workers’ bargaining power, has helped to stabilize, if not raise, rural wages (see Figure 11 below).

Figure 11. Wage rates in rural India (% change over previous year) (Sep. 2007- Sep. 2014)



Source: Ministry of Finance (2014).

It is evident that, by 2014, the MGNREGA was having a substantial impact, in increasing rural wages and reducing gender wage gaps, smoothing and stabilizing consumption of the poor, enabling better access to nutrition and other essential consumption, reducing extreme distress migration and providing opportunities for more household expenditure on health and education. In some areas, it has also played a positive role in improving rural connectivity, improving supply conditions in agriculture and creating more sustainable forms of irrigation and production. It has also served as a built-in stabilizer of the economy during downturns and has the potential to add to longer-run development possibilities. However, employer backlash combined with pressure from those seeking "fiscal consolidation" led to reduced public spending on various kinds of social protection and realization of socioeconomic rights. As a result, the reduction in spending on MGNREGA evident from 2010 onwards has been further intensified. The National Democratic Alliance (NDA) Government has actually restricted such spending further by reducing the financial flows for the programme from the central to state governments. At one stage, it even sought to restrict the programme to the poorest districts, before a public outcry reversed that decision. Nevertheless, albeit not stated officially, there has been a *de facto* compression of the programme.

This reduction in government spending and declining official interest in the programme has already had adverse effects on rural wages and employment generation. Unfortunately, this has been greeted with satisfaction rather than concern in official circles. For example, the Finance Minister's mid-year review of the Indian economy states that:

> A dramatic change seems to have happened to rural labour markets since 2012 because wage growth has plunged. A combination of softness in the economy and reductions in MGNREGA expenditures (declines of 3 and 36 per cent in the last two years) have played a key role. If these trends continue, rural wage growth can continue to decelerate, further moderating inflationary pressures. (Ministry of Finance, 2014: p. 10)

4.2 National Policy on Manufacturing and "Make in India"

The rather dismal record of employment creation during a period of rapid growth in the Indian economy has not gone unnoticed by the central government. The *Twelfth Plan* document (2012) identified many of the central problems: slow growth of total employment; the continued domination of primary sector activities among the workforce; preponderance of informal employment with low remuneration and precarious conditions, and so on. The MGNREGA was one broad-based response that dealt with public provision of rural employment, although to only a limited extent. The significance of encouraging viable manufacturing employment was also increasingly recognized. This was spelled out in the National Manufacturing Policy 2011, with the explicit aim of increasing the share of manufacturing in GDP to 25 per cent (from the current level of around 15-16 per cent) and creating 100 million more jobs in manufacturing within a decade, i.e. by 2022.

4.2.1 Structure

This Policy argued that inadequate physical infrastructure, a complex regulatory environment and inadequate availability of skilled manpower were the major constraints on the expansion of the manufacturing sector. However, there was no clear declaration that the challenge of infrastructure development would be tackled head on through expanded public investment. Rather, the focus was on public-private partnerships (PPPs) that were supposed to deliver the required infrastructure investment, through "appropriate financing instruments" including viability gap funding by the Government where required. State governments were to be "encouraged to adopt the instrumentalities provided in the Policy" – in other words, to adopt the same PPP model.

One important feature of this Policy is that it was envisaged to be "sector neutral, location neutral and technology neutral, except incentivization of green technology". So this was not really industrial policy in any meaningful sense, but was envisaged as an across-the-board set of incentives for all manufacturing activities in general. However, special incentives were to be provided to the following "verticals": employment-intensive industries, capital goods and strategic industries, industries in which India already enjoys a competitive advantage, small and medium-sized enterprises (SMEs) and public sector enterprises.

The specific set of policies envisaged under this overall Policy included the following:

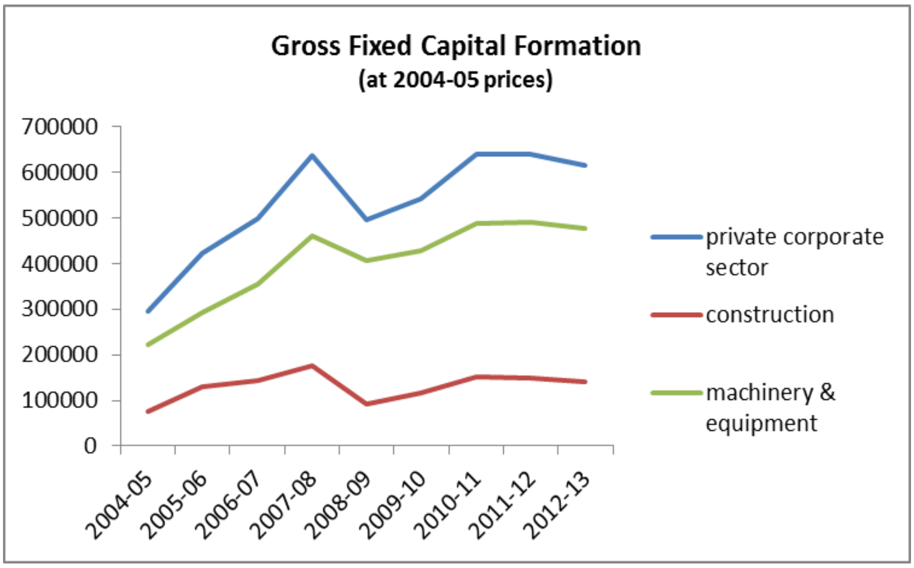
- Rationalization and simplification of business regulations;
- Simple and expeditious exit mechanisms for closure of sick units while protecting labour interests;
- Financial and institutional mechanisms for technology development, including green technologies;
- Industrial training and skill upgradation measures;
- Incentives for SMEs;
- Special focus sectors;
- Leveraging infrastructure deficit and government procurement, including defence;
- Clustering and aggregation through National Investment and Manufacturing Zones (NIMZs); and
- Trade policy.

Technological change was recognized to be a crucial aspect of encouraging manufacturing. Therefore, the Policy envisaged the following: incentives for indigenous development of technology in the form of tax concessions and government subsidies; partnerships between industries and government laboratories; preferential purchases by government agencies of indigenously developed products and technologies; joint ventures between foreign companies and Indian partners. There was also mention of "judicious development of an intellectual property regime to enable more collaborative innovation, as well as more indigenous innovation and improved access to environmentally friendly technologies." However, in this context, it was noted that "India will be very cautious about further expansions beyond the present Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) regime, which could have implications on development and ownership of technologies within the country." In reality, the focus was on accessing the latest technologies available internationally for frontline development. The huge technological disparities that exist within Indian manufacturing, and the low levels of technology (and sometimes even technological retrogression) evident among small and micro enterprises, should really be a major focus of technology upgradation, which would enable a rapid rise in aggregate labour productivity without major import or technology development costs. Sadly, this aspect continues to be missing, even in the newer forms of strategies to develop industry.

4.2.2 Employment impact

While the National Manufacturing Policy had many ambitious goals, the performance in its first two years of operation was not reflected in much change on the ground. Indeed, industrial investment, particularly private investment in manufacturing, continued to languish. As is evident from Figure 12, after rising sharply in real terms in the first few years of the UPA Government, notably until 2007-08, private investment (gross fixed capital formation) really did not maintain the previous pace. While it recovered from the dramatic fall in the wake of the global financial crisis, it barely overtook the previous 2007-08 peak in 2010-11. And since then it has actually fallen in real terms, precisely in the period when the Policy was supposed to be in operation.

Figure 12. Gross Fixed Capital Formation (at 2004-05 prices) (2004-2013)



Source: CSO (2014).

The "Make in India" initiative of the NDA Government that took office in May 2014 is being presented as a major new programme designed to facilitate investment, foster innovation, enhance skill development, protect intellectual property *and* build best-in-class manufacturing infrastructure. Essentially, what is being described as a "programme" is essentially a combination of new (or old but renamed) processes, combined with the expectation of certain types of infrastructural investment and emphasis on particular sectors, albeit the range of sectors selected is a very wide.

Much of the focus appears to be on streamlining procedures. Thus far, however, the changes have been rather limited in scope, largely oriented towards reducing complexity and increasing the speed and transparency of official decision making in areas that affect investors. For example, the application process for the Industrial Licence and the *Industrial Entrepreneur Memorandum* is now online 24/7 through the eBiz portal. Environmental clearances can also be obtained online. The validity of industrial licences has been extended to three years. State governments have also been requested to streamline their procedures and simplify and rationalize the regulatory environment, although how much progress has been made in this is not known. In addition, major components of the defence products list excluded from industrial licencing and dual-use systems with military as well as civilian applications have been deregulated. Rules on foreign direct investment (FDI) are being eased in the construction development sector: 100 per cent FDI is now permitted under the automatic route in construction, operation and maintenance in specified rail infrastructure projects. Efforts are in hand to bring the “Inspector Raj” under control: it has been announced that no inspection should be undertaken without the approval of the head of the department. Furthermore, for all non-risk, non-hazardous businesses, a system of self-certification is to be introduced.

These are all simplifying measures, but they do not really provide incentives for private industrial investment or promise enhanced public investment nor, indeed, do they amount to anything like an industrial policy. Much more is required if manufacturing is actually to be incentivized and if employment in manufacturing activities is to expand to any significant extent.

The Government’s approach, under the “Make in India” programme, is centred on the dream of “new smart cities and industrial clusters, being developed in identified industrial corridors with connectivity, new youth-focused programmes and institutions dedicated to developing specialized skills.” As a result, a new National Industrial Corridor Development Authority is being created to coordinate, integrate, monitor and supervise development of all industrial corridors. For example, five “smart cities” have been identified on the Delhi-Mumbai Industrial Corridor (Dholera, Shendra-Bidkin, Greater Noida, Ujjain and Gurgaon). These are all existing urban locations, and therefore new “master plans” cannot really be developed for these. Instead, there appear to be some proposals for waste management in these locations, along with mass rapid transit systems and other connectivity through the public-private partnership format. Many of these are no more than extensions of plans already outlined under the now discontinued Jawaharlal Nehru National Urban Renewal Mission (JNNURM) of the previous UPA Government.

The main focus, therefore, of the current “Make in India” programme seems to be to develop industrial corridors between major conurbations through the development of infrastructure along the connecting highway. This idea also is not new, and, once again, the usefulness of industrial clusters is something that has been well recognized by policy makers for quite some time. The main difference is the injection of the idea of new smart cities along these routes. For example, 24 new cities are envisaged under the Delhi-Mumbai Industrial Corridor Project. These new smart cities are being projected as paradise in the making: apparently they will be “transit-oriented, walkable and liveable cities” with interconnected road, rail and communication systems providing speed, access and worldwide connectivity. They will integrate land use in mixed zones to reduce commuter time, with multiple business districts to reduce congestion and affordable workers’ housing near the industrial zones. They will develop maximum access mass transit corridors and encourage cycling and pedestrian routes. They will also be “sustainable” cities through their recycling and reuse of water and solid waste and ensure energy self-sufficiency through the use of renewables. They will be created keeping in mind the needs of conservation of better agricultural land and protection of sensitive natural environments.

4.2.3 Challenges

How is this going to happen? Most importantly, where is the investment needed for this to come from? According to the stated policy, most of this is supposed to happen through private investment, which is expected to be attracted by the overall “investment-friendly” climate generated by easing of rules and relaxation of labour laws. The Government’s role seems to be rather basic, limited to providing the initial start-up investment in minimal infrastructure and generating the necessary publicity to attract private investors. For example, the Government of India has a 49 per cent stake in the Delhi-Mumbai Industrial Corridor Development Corporation (DMICDC), an autonomous body that will provide the basic infrastructure of the industrial corridor. However, it is envisaged that the bulk of the projects will be funded by private investors, who, presumably, will have to be provided with various incentives to do so.

As a result, much of the new policy seems, in essence, to be really no different from the earlier National Manufacturing Policy 2012, although it has certainly been launched with more fanfare and slick publicity. Despite the stated aims, there is a lack of any clear strategy for proactive trade and industrial policies. The underlying idea seems to be that all that is required to achieve these ambitious goals is further deregulation of the remaining licenses and permissions for private investment, including allowing the entry of more FDI into sectors such as defence and insurance, combined with loosening of environmental standards and easing of rules preventing easy access to cheap land.

Most problematically, the entire programme is to be achieved by incentivized private investment assisted by the hoary old strategy of relying on public private partnerships or PPPs. As it happens, the PPP model manifestly failed during two successive UPA Governments, especially with regard to crucial infrastructure spending, as, despite constant revision of the terms offered, it did not generate the expected private investment response. This was particularly the case with road infrastructure, which did not meet even half the expected targets over two successive Plan periods (Kasturi Rangan, 2014). It proved to be fiscally challenging, demanding more public spending as well as productively inefficient in terms of not meeting investment targets in crucial infrastructure areas. For example, actual investment in rural roads under the PPP model was a mere fraction of the planned investment (Planning Commission, 2012). The continued reliance on PPP, waiting for the private sector to respond to ever more blandishments, meant that the required roads were simply not built. Arguably, it would have been ultimately cheaper as well as more efficient and productive for the Government simply to invest directly in building those roads.

Indeed, in the current rather depressed economic environment, with a large overhang of corporate debt yet to be properly addressed, how effective such a strategy will be in achieving even a part of its ambitious goals, is far from clear. A more serious approach to the issue of industrialization would require first of all an assessment of the nature of existing manufacturing industry, its structure and performance, and the specific requirements of different categories of industry, especially small-scale enterprises. That would enable both a broad brush approach and a more targeted one to develop particular sectors.

5. Addressing informality

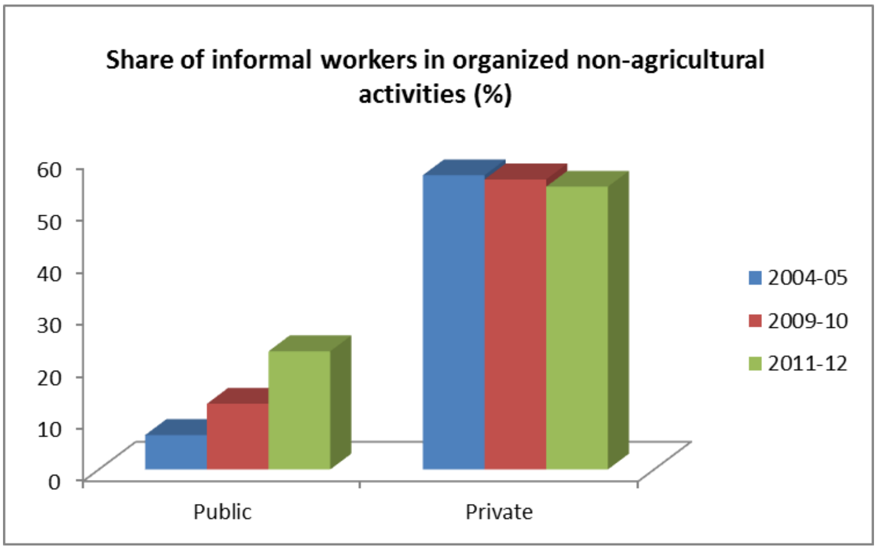
The persistence and even increase of informality in production and labour markets in India is often seen as an anomaly, given the relatively rapid growth of the economy in the past two decades. It is likely, however, that it is not competition but complementarity that explains the continued prevalence and even dominance of informal activities in both agriculture and non-agriculture, as the informal sector actually services the requirements of the formal economy directly and indirectly.

Workers in the informal economy have not been excluded from formal employment – they are deeply integrated into it. The perception that the informal economy exists because low wages allow it to compete with the formal sector in a host of non-agricultural activities is largely misplaced. In many instances, the informal economy is not only not in competition with the formal sector, but actually services its requirements, and low wages in the informal economy help sustain profits in the formal sector. Consider, for example, the software industry, which is generally seen as a shining example of hyper-modernity, an outlier of high productivity that is somehow separate from the vast sea of low productivity work that surrounds it. In actual fact, the ability of this industry to be competitive globally relies crucially on the very cheap support services, such as logistics, security, transportation, cleaning and catering, provided by companies or individuals that use workers on informal contracts far beyond the pale of labour protection. Similarly, the ability to hire highly skilled professionals in this industry at salaries clearly below global averages is dependent upon such workers' ability to access goods and services provided cheaply by India's informal workers.

This is equally true of other formal sectors. There is evidence of substantial increases in subcontracting by the formal manufacturing industry to more informal production arrangements since 2001 (Bairagya, 2010). The value chains in a number of important exporting industries in sectors as varied as readymade garments, gems and jewellery, automotive components, leather and leather products and sports goods, often coordinated by large, possibly multinational, corporate entities, provide evidence of the significant and increased contribution of informal activities to what is seen as formal sector production. These are only some examples of a wide and pervasive process of extremely close intertwining of formal and informal sectors, and the effective subsidization of the formal sector by low paid informal activities.

What is more, the direct dependence upon informal workers is not confined to private employers in the organized sector, but is increasingly common in the public sector as well. Figure 13 provides data from various rounds of the NSSO employment surveys to show this. While the organized private sector in all non-agricultural activities has been heavily reliant on informal workers, who account for more than half their workforce, that proportion has remained largely stable and even declined slightly in recent years. However, the public sector has more than doubled its reliance on informal workers since the mid-2000s, to the point where nearly a quarter of all workers in the public organized sector were informal in 2011-12.

Figure 13. Share of informal workers in organized non-agricultural activities (%) (2004-2012)

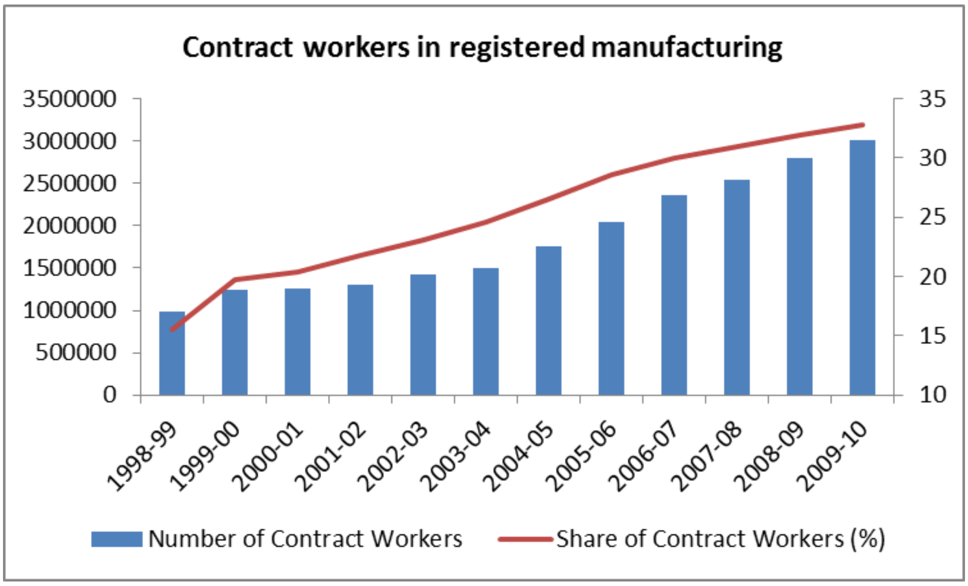


Source: NSSO (various issues – a).

There is yet another way in which informal workers, i.e. those without any effective protection under the law, are significant in formal economic activities, and that is through the growing use of contract workers. Contractualization of work has become a pervasive feature in all major areas of both the public and private sectors, and is particularly marked in mining, manufacturing industry and some services.

Data from the *Annual Survey of Industries* (CSO, various issues) on the use of contract workers in registered manufacturing (Figure 14) indicates that the period since 1998-99 has seen a steady and significant increase in both numbers and share of such workers. This is especially marked since the mid-2000s. In other words, during the period of economic boom when it might have been expected that there would be greater formalization of work, Indian manufacturing was growing more reliant on the use of casual contract labour with few legal rights.

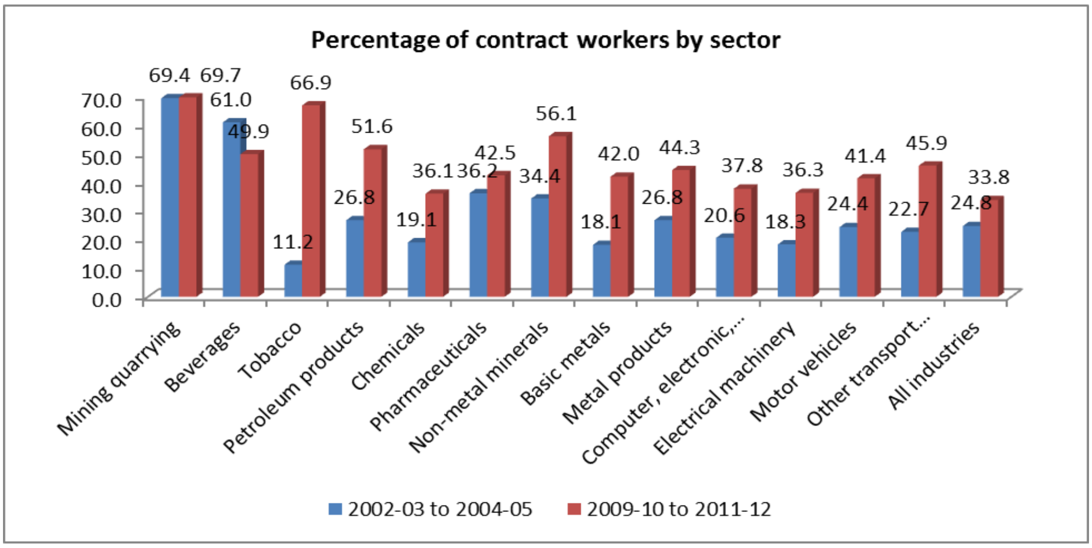
Figure 14. Contract workers in registered manufacturing (1998-2010)



Source: CSO (various issues).

This was obviously more marked in some subsectors within industry. Figure 15 shows the changing proportion of contract workers to total over the past decade in some sectors where their use has been relatively high, using three averages for the periods 2002-03 to 2004-05 and 2009-10 to 2011-12. Registered mining and quarrying activities are among those that have used and continue to use the highest proportion of contract labour, well above two thirds. But there is also some indication of dramatic increases in the relative use of contract workers in some other subsectors, most of all in tobacco, but also in the chemical products and non-metallic metals industries. The transport sector in general, both motor vehicles and other transport equipment, also shows sharp rises in the relative importance of contract labour, more or less doubling in some cases. For beverages, the proportion of such workers appears to have fallen somewhat, although half of all workers are still contract workers.

Figure 15. Percentage of contract workers by sector (2002-2005 and 2009-2012)



Source: Calculated from CSO (various issues).

6. Labour market reforms

6.1 The debate around labour law reform

There has been much discussion of the role played by labour laws in restricting employment in formal sector activities (Debroy and Kaushik, 2005; Deshpande et al., 2004) It has been argued that laws that protect labour, particularly as embodied in the Industrial Disputes Act (1947), have restricted labour mobility, led to excessive use of capital-intensive methods in the organized manufacturing sector and thereby adversely affected the sector's long-run demand for labour. Such views are also widespread within official circles, as exemplified by the arguments made in successive annual *Economic Surveys* published by the Indian Ministry of Finance, especially since the early 2000s. Various empirical studies, including econometric analyses based on state-level data, have sought to indicate that states that have been more "flexible" in terms of their approach to these laws, and to the labour market in general, have experienced superior employment outcomes (Besley and Burgess, 2004) and have also shown greater positive benefits of trade liberalization (Hasan et al., 2007).

There are several reasons to be sceptical of such an analysis, as has already been convincingly demonstrated by several studies (Anant et al., 2006; Bhattacharjea, 2006; Papola and Pais, 2007; Sharma, 2006). Certainly the empirical evidence is mixed at best and, in general, not clearly in favour of such an easy interpretation, especially in the recent past when there has been widespread prevalence of jobless growth in organized economic activities.

Among the various factors cited for this irrelevance of labour laws, one important one has been the relatively weak enforcement of the various laws designed to protect labour (Chatterjee and Kanbur, 2013; Deakin and Halder, 2015; Sen and Dasgupta, 2006). Clearly, Indian industry, and the organized sector in general (including, surprisingly, public employment of certain types), has proved itself to be adept at simply sidestepping labour laws through widespread use of subcontracting, where possible, and use of contract labour without workers' rights in other situations (as reinforced by firm-level data cited in Chaurey (2014)). So the frequently voiced complaints about restrictive labour laws appear to be not just misplaced, but even hypocritical, since they have clearly not prevented either public or private employers in registered economic activities from doing precisely as they please, simply by using contract workers. Indeed, as Papola and Pais (2007) argue persuasively, not just the Industrial Disputes Act, but various other regulations designed to protect labour in different ways, such as the Minimum Wages Act (1948), regulations on conditions of work and legal provisions with respect to social security, are generally honoured only in the breach by most employers in India, including, in many instances, public sector employers. In this context of excessively lax enforcement and, therefore, widespread irrelevance of such protective legislation, the argument that these represent obstacles to additional employment generation is deeply unconvincing.

6.2 The "missing middle" in India

But this is not the only empirical fallacy that needs to be considered when assessing the implications of labour laws and the potential for labour market flexibility in India. Discussions of Indian industry – and in particular, the implications of labour laws for employment especially in manufacturing industry – tend to take for granted the problem of the "missing middle". Simply put, this is the idea that industries in developing countries like India tend to be dominated by a large number of micro-enterprises and a few large firms, but disproportionately few SMEs. In terms of distribution, it is seen to be expressed in terms of a U-shaped curve, whereby small and very large enterprises would predominate over medium-sized enterprises in terms of number of factories, number of workers, or share of output.

Such a feature has typically been attributed to various institutional features, such as the difficulties of obtaining bank credit for expansion, and, even more importantly, the plethora of regulations, especially labour protection regulations and laws that restrict the ability of firms to hire and fire at will, which do not allow profitable firms to expand to medium size.

While this argument is advanced for many developing countries, it has a particular resonance in India, and is frequently used by those who argue for labour deregulation as a means of improving the operating conditions of manufacturing industry. In the Indian case, this argument is scarcely new. It was, for example, the central argument of a (1986) World Bank study. In that study, it was argued that barriers to both entry and exit are high for large firms, but significantly lower for small and micro enterprises. Most of these barriers were seen to result from industrial regulation and its mode of implementation.

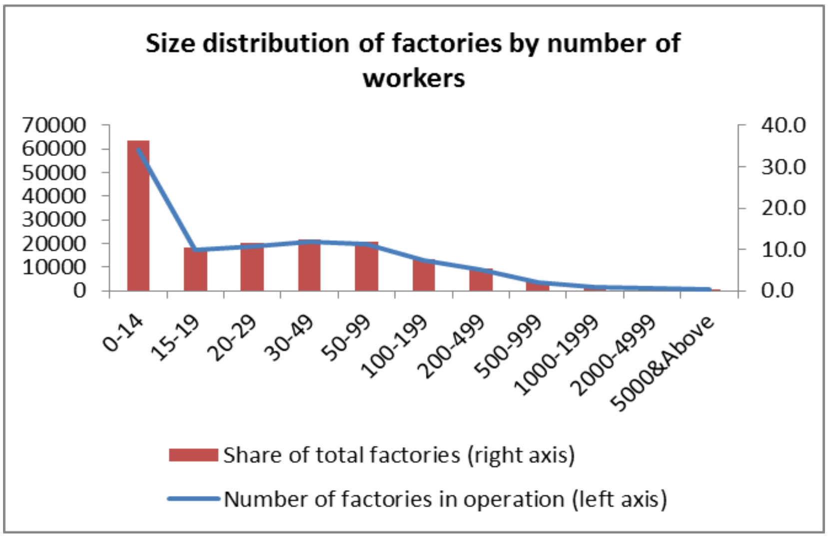
According to the World Bank, this resulted in notable losses in terms of potential efficiency and productivity gains for industry and for the economy as a whole. It was argued that "cross-country and Indian experience indicates that medium size firms often enjoy better labour relations and higher labour productivity than large firms, and respond more effectively to changing technological and market requirements. Their policy-induced absence has added an element of rigidity and contributed to the slowness of technological progress and structural change in Indian industry."

Arguments like this are heard very commonly today, and the need to encourage small firms to grow into larger ones by reducing the regulatory barriers to their expansion (including labour laws) is one of the cornerstones of the current government's approach to industrial policy. The "Make in India" strategy may presently seem to be more about words than action, but what policy action there is seems to be focussed on easing regulatory constraints and especially dismantling laws and rules that protect labour. The underlying perception is that such regulations need to be undone since they have contributed to the "missing middle" in Indian industry. Indeed, some recent studies (such as Ramaswamy, 2013) argue that the missing middle is the outcome of the threshold effects of labour regulations defined by employment size and fiscal incentives determined by turnover of small-scale enterprises.

So widespread is this notion in official circles that it is taken for granted as axiomatic in all policy discussions and analyses propagated by mainstream economists and journalists. So it is almost embarrassing to ask: *what* missing middle? As it happens, such official data as we have suggest that there is no such thing! Whether in terms of share of workers or share of output, the distribution of factories by number of workers suggests the opposite of a U-shaped distribution, with the medium-sized factories accounting for the bulk of both. Surely it cannot be that those in charge of directing policy for industrial development in the country have failed to notice this rather obvious feature emerging from the official data? But surprisingly enough, that is exactly what seems to be the case.

Figure 16 below shows the number of factories according to the *Annual Survey of Industries* (CSO, various issues), for the latest year 2011-12. It is evident that, while microenterprises employing less than 15 workers are certainly the largest in number, accounting for more than one third of the total number of factories, thereafter the distribution proceeds along 'expected" lines, that is the number of factories decreases as the size of employment in the factory increases, in a fairly regular fashion. The only sharp discontinuity is between the smallest two categories, that is, less than 15 workers and between 15 and 19 workers, where the number of factories drops sharply. But this merely suggests that really tiny enterprises dominate in number, which is no surprise. There is no evidence of any sharp drop in number of enterprises related to the point at which labour laws are supposed to kick in, for example the sections of the Industrial Disputes Act that stipulate conditions (like government permission) for firing workers from companies employing more than 100 workers.

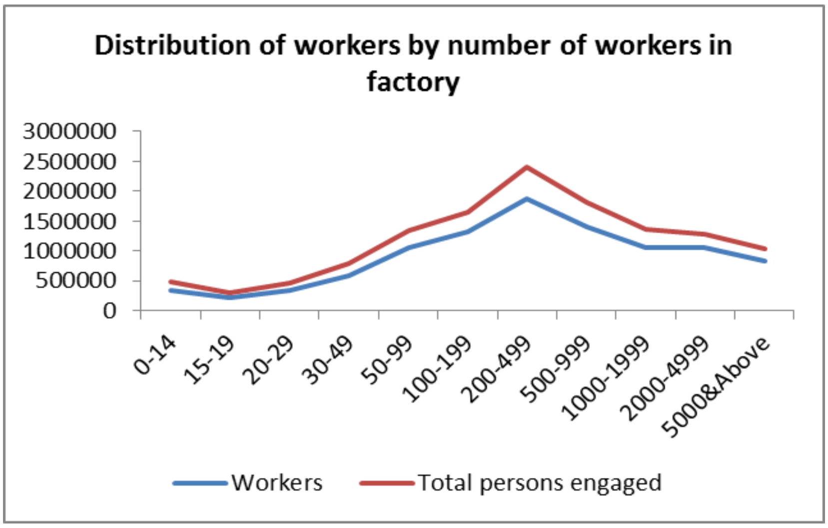
Figure 16. Size distribution of factories by number of workers in 2011-12



Source: Calculated from CSO (various issues).

Indeed, as Figures 17 and 18 indicate, it is the medium-sized firms that actually dominate in both employment and output. Figure 17, which shows the distribution of workers across different factories by employment size, points to a very healthy inverted-V shape, rather than the U-shape posited by proponents of the missing middle. As a result, firms employing from 100 up to 500 workers account for 45 per cent of total employment in registered manufacturing!

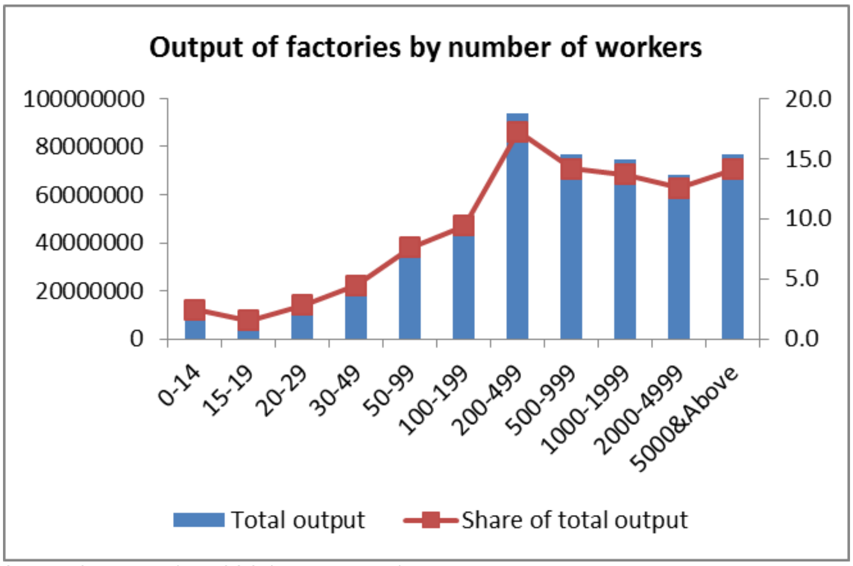
Figure 17. Distribution of workers by number of workers in factory in 2011-12



Source: Calculated from CSO (various issues).

Similarly, these medium-sized firms, those which, according to the World Bank, should have better labour relations and higher labour productivity, also dominate in total output (Figure 18 below). This shows that more than a quarter of manufacturing output in 2011-12 was provided by factories employing between 100 and 500 workers. If these official data are to be believed, then not only is there no problem of a missing middle in Indian industry, but both employment and output are substantially delivered by the most desirable medium-sized firms.

Figure 18. Output of factories by number of workers in 2011-12



Source: Calculated from CSO (various issues).

Incidentally, such an analysis is confirmed by other recent cross-country studies that include India. A study of India, Indonesia and Mexico (Hsieh and Olken, 2014), using data on the distribution of both formal and informal sector manufacturing firms, comes to very similar conclusions. It emerged that, while there are a very large number of small firms, there is no "missing middle" in the sense of a bimodal distribution. Instead, the fraction of firms of a given size declines smoothly with increasing firm size. They further examine the regulatory and tax notches in India, Indonesia and Mexico that are typically thought to discourage the growth of firms, and they find no economically meaningful bunching of firms near the notch points.

What all this suggests is that the focus on particular laws (such as those that constrain retrenchment in larger enterprises, for example) is actually a diversion from a more fruitful consideration of changes in labour regimes that could actually benefit both employers and workers. At present there are too many labour laws, but with too little coverage and close to zero implementation. Labour laws may well need to be streamlined, simplified and made applicable to a wider range of workers. They also need to be implemented more seriously and consistently, and that does not allow too much discretion to individual inspectors or particular public offices. It may well be that a strengthened and simplified regime of labour regulations will ultimately provide more coverage and better protection to workers. However, to expect that a further diminution of legal protection for workers will somehow magically generate more employment in the formal sector is little more than a pipedream.

7. Employability and skills mismatch

7.1 Past and present government approaches

One of the most commonly heard platitudes about the labour market in India is that it is characterized by a severe “skills mismatch”. And this in turn is presented as the chief problem of the labour market and the main cause of the high rates of open unemployment among the youth, as well as persistently low remuneration for those who are forced to remain in informal activities. This approach is summarized neatly in the official website of the Indian Government’s National Skills Development Corporation: “In rapidly growing economies like India with a vast and ever-increasing population, the problem is two-fold.

On one hand, there is a severe paucity of highly-trained, quality labour, while, on the other, large sections of the population possess little or no job skills."

It is obviously the case that the Indian labour force is on average relatively less well-educated or trained than that of many other countries at similar levels of per capita income. A significant part of the population of working age remains illiterate, and an even greater section has not even finished primary school. In any case learning outcomes for those with some school education remain extremely low and uneven, as the Annual Status of Education Report (ASER, various issues) surveys indicate, and in some states they have even regressed in the recent past. This reality is obviously recognized by the Government, but public spending on education, which has been historically low but increased slightly under the UPA Government, has since been cut under the current NDA Government. Without the provision of universal good quality schooling and opportunities for lifelong learning for adults, the fundamental skill imbalance, with inadequate skills among large sections of the labour force, will obviously persist. It is of great concern that the current government does not seem inclined to set aside sufficient public resources for this and has even cut the central allocation for such expenditure quite drastically.

For some reason, "skill development" is seen as much more feasible and has become the official policy of choice for dealing with problems of inadequate employment generation as well as low productivity. The matter is given greater urgency by the fact that the potential advantages of the "demographic dividend" provided by the population bulge that will generate a mostly youthful labour force could be transformed into social disaster if these young people are then unemployed. So it is not surprising that skill development has been among the favoured strategies of both the previous and current government.

Under the second UPA Government, this was described as a major national priority, such that a special council was created under the direction of the Prime Minister specifically to deal with it. The Prime Minister's Council for Skill Development set itself the target of developing 500 million skilled workers by 2022. This target was divided among 20 central ministries or departments, half of which were supposed to be directly involved in training programmes themselves, while the other half were supposed to fund external agencies to do the job. All this was to be overseen by the National Council on Skill Development and co-ordinated by the National Skill Development Board. In addition to the public skill development programmes, there was heavy emphasis on PPPs, with the promise of viability gap funding for enterprises and organizations that provide training.

As is usual with the Government of India, the spending under this head led to a proliferation of poorly coordinated training schemes and resulted in all sorts of duplication and working at cross purposes, despite the declared coordinating roles of the Council and the Board. And so, in typically Kafkaesque manner, another Committee was set up to examine why this had happened and what could be done about it. So we now have yet another official Report, in 2015, on "Dovetailing/Rationalisation of Central Government Schemes on Skill Development". After more than half a year of engagement with the problem, the Committee discovered that there is need for a common definition of skill development and extension work across all government schemes. They also found that it is necessary to link outcomes with skill development, and therefore to monitor and track the post-training record of the trainees. As it happens, all this is also contained in the National Skill Development Policy of 2009 – it is just that it was not implemented.

Now the NDA Government has declared a "new" official strategy for skill development, with its own separate Ministry responsible for coordinating it with the "Make in India" programme. The existing National Policy on Skill Development is to be revised, though thus far there is precious little information on how exactly this is to happen, or how to ensure that worthy aims are actually matched by equally worthy practice.

The indications so far are that the new policy will effectively be more of the same old policy. There is likely to be even greater emphasis on private sector participation, perhaps through even more viability gap funding – which is really no more than subsidies to the private sector by another name. Once again, the general idea seems to be that skill development is the panacea that will solve the many problems plaguing the Indian employment scene, and, when combined with the exhortation to "make in India", it will provide all the expected benefits of the demographic dividend and more.

But there are good reasons to be cautious about such premature euphoria. Of course, skilling and education are important and essential – there can be no argument on that score. But to see lack of skills as the problem holding up India's development, or inadequate education as the only reason for unemployment or poor quality employment, especially among young people, is really to miss the point. It is necessary to look a little more closely at the existing skill gaps to understand the precise nature of the problem, and the extent to which skilling alone can provide a solution to low aggregate productivity and poor quality jobs.

7.2 Analysing the skills mismatch in India

Three kinds of skill gaps have been identified as important in the Indian labour market (Sanghi et al., 2012; Unni, 2013):

The first is that of "over-education", when persons with tertiary education (degrees, diplomas and/or some sort of professional training) are hired for jobs that do not require such qualifications. A now classic example is that of signalman in the Indian Railways, a job that effectively requires only education up to Class V, but is hugely sought after by graduates (often with B.Tech. and MBA degrees) because it promises a regular salary with permanent employment, and is therefore rationed out among such over-qualified aspirants. This is not because these people have not been trained or are not skilled, but because the relative remuneration over the life-cycle is deemed to be better, even in such low-skilled occupations, and there are not enough skilled jobs to meet the demands of all the aspirants. Ultimately, this is a mismatch created by insufficiency of job openings for more skilled jobs – and therefore a failure of the much-glorified market mechanism at the macro level as well as in specific sectors.

The second kind – the skills mismatch in technical education – relates to the situation when people who have been provided technical education (say in engineering) end up in occupations that do not require those skills. This is well known: the phenomenon of young people with civil engineering degrees choosing higher-paid jobs in marketing, or doctors sitting for the Indian Administrative Service (IAS) examinations to join the elite bureaucracy, and so on. Once again, this is because market signals generate these perverse incentives, by making some professions significantly more lucrative or socially valued. Consequently, people with such professional or technical education choose activities that effectively waste those skills acquired at great expense, and also costly to society when this training has been publicly provided.

The third kind of skills mismatch is the "quality gap", when the skills that workers are supposed to possess according to their qualifications are found to be lacking by their employers. This, too, is quite evident in many places and activities. Surveys of employers, especially those in the corporate sector, regularly reveal that a majority of them are not confident that the existing educational institutions will generate the talents and skills that they require for entry-level workers. This is not about a lack of training *per se;* rather it is a comment on the nature of the training, which comes not just from specific and dedicated "training institutes" but from institutions of higher education more generally.

The uneven quality of our public educational institutions is well known and much decried. The common response to this is to demand more privatization, in the expectation that this will deliver better quality and more market-responsive education, even if it will cost more for the students. What is less generally understood is the extent to which our tertiary education system has already become privatized (with more than two-thirds of tertiary enrolment now in private higher education institutions) and the degree to which private higher education is equally, if not even more, plagued by problems of poor quality and insufficient standards. Further, the overt response to market signals has created huge private sector overcapacity in some areas of professional and technical education. This further reduces the probability of students eventually finding jobs that match their qualifications and their aspirations. So now we have a better understanding of the nature of the skills mismatch in India. It turns out that this is a result of three interlinked factors: not enough skilled jobs; perverse market signals and incentives causing people to shift to jobs that do not require the skills they were trained in; and poor quality higher education generating poor employability. These are not problems that can be solved with more training, especially if the training actually, albeit inadvertently, replicates them. Rather, the challenge of good quality employment generation requires a completely different approach, which sees skill development as part of a broader macroeconomic and development strategy that is systematically worked out. In a more rational society, this would point to the need for planning, for both education and job creation.

8. Conclusion: The way forward

It is evident from the earlier discussion that the current policy configuration does not augur well for either more rapid generation of good quality employment or economic diversification of the kind generally associated with “development”, and that more needs to be done. In order to improve labour market outcomes in countries like India, policy interventions should consider both supply and demand, including improving access to relevant education and training programmes, as well as promoting childcare and other institutions and legal measures to ease the burden of domestic duties, enhance safety for women, and encourage private sector development in industries and regions that would enhance job opportunities for women in developing countries (Chaudhary and Verick, 2014) .

8.1 Tackling informal working conditions

Given the fact that a large part of the Indian workforce is forced to work in informal conditions, with little to no labour protection of any kind, the strategy in India must recognise this reality and focus on ways to improve the wages and working conditions of such workers. There are five important elements of such a strategy:

1. Make the economic growth process more inclusive and employment-intensive. Direct resources to the sectors in which the poor work (such as agriculture and informal activities), areas where they live (relatively underdeveloped regions), expanding activities in which they can use their resources (unskilled labour) and producing outputs which they consume (such as food).

2. Ensure the greater viability of informal production by improving farmers’ and other small producers’ access to institutional credit, promoting their greater integration into supply chains and marketing that improves their returns, and supporting technology improvements that increase labour productivity in such activities.

3. Increases public employment that establishes a floor for wages (for example, in schemes such as that enabled by the Mahatma Gandhi National Rural Employment Guarantee

Act), improve the bargaining power of workers, and capitalize on opportunities for advancing gender equality.

4. Provide better social protection with more funding, wider coverage and consolidation, more health spending and more robust and extensive social insurance programmes (including pensions and unemployment insurance).

5. Focus on increased public delivery of wage goods and services (e.g. nutrition, housing, other infrastructure, health, education, even nutrition) financed by taxes on surpluses. This is important because several of these goods and services have significant implications in terms of reducing the unpaid labour performed predominantly by women. For example, access to gas and electricity can reduce the amount of time spent by rural women in collecting fuel wood; access to a piped water supply can reduce or eliminate the time spent collecting water; expansion of health services can reduce some of the unpaid work performed in the care economy.

The last point is often not recognized as a crucial element of a wage-led strategy, but it can be extremely significant. Furthermore, such a strategy can be used effectively even in otherwise capitalist export-oriented economies, as long as surpluses from industrialization and exports can be mobilized to provide wage goods publicly. Indeed, this has been an important and unrecognized feature of successful Asian industrialization from Japan to the East Asian newly industrialized countries and, latterly, China. The public provision of affordable and reasonably good quality housing, transport facilities, basic food, school education and basic healthcare all operate to improve the conditions of life for workers and, indirectly, therefore, to reduce the money wages that individual employers need to pay workers. This not only reduces overall labour costs for private employers, but also provides greater flexibility for producers competing in external markets, since a significant part of fixed costs is effectively reduced.

This strategy has numerous macroeconomic advantages. Apart from benefits in terms of reducing poverty, improving income distribution and the conditions of informal workers, there are positive implications for growth processes. It allows for more stable economic expansion based on increasing the home market, and need not conflict with more exports either. It encourages more emphasis on productivity growth, thereby generating a ‘high road’ to industrialization.

8.2 Active labour market policies

These in turn should be combined with active labour market policies, which can be described according to their programmatic nature or their target group (Kluve, 2010). The first category includes labour market services such as job-search assistance programmes (including job centres and labour exchanges that provide information on vacancies), counselling and monitoring and assistance with interview skills. A necessary feature of well-functioning labour markets in general, these can assume new roles in periods of crisis and employment stress. Obviously they need to be refined to cater to the specific needs of disadvantaged groups such as women workers and those from deprived social categories. The second category is training and apprenticeships, which help unemployed persons to improve their vocational skills and increase their employability. These have often been found to be particularly effective for women re-entering the labour market, with vocational training (technical or manufacturing skills, for example) being typically more effective than general training (such as language skills or general computer training). The third category is that of employment incentives to private agents. These are typically short-term measures designed to allow the unemployed to build up work experience and prevent atrophy of skills. These include measures that provide incentives to change employer and/or worker behaviour regarding private sector employment. Wage subsidies (in the form of direct subsidies to employers per person employed or grants to workers for a short period) are the most common such incentives, designed to encourage employers to hire new workers or to maintain jobs that would otherwise be lost. Incentives to workers are usually targeted at long-term unemployed or those from disadvantaged groups. Subsidies for private employment also include self-employment grants and start-up incentives, including not only financial support but also technical assistance. Women tend to be disproportionately excluded from such incentives, which support the case for affirmative action in this respect. The fourth category of policies covers direct employment programmes in the public sector, focused on the direct creation and provision of public works or other activities that produce public goods or services. The Indian experience indicates that, because the programmes typically offer low (minimum) wages, they are especially attractive to women workers, who have been employed in these schemes well beyond the 30 per cent of jobs reserved for women.

8.3 Social protection

Social protection measures are not just useful to protect labour but can have positive employment effects, both directly and indirectly, through their multiplier effects. A number of countries have found that moves towards ensuring greater labour protection can have positive effects on employment, wages and productivity. In addition to measures that protect labour, it is necessary to consider the advantages of generalized social protection. In this context, the concept of the social protection floor is both useful and directly relevant. The 2011 International Labour Conference defined social protection floors as "containing basic social security guarantees that ensure that over the life cycle all in need can afford and have access to essential health care and have income security at least at a nationally defined minimum level. Social protection floor policies should aim at facilitating effective access to essential goods and services, promote productive economic activity and be implemented in close coordination with other policies enhancing employability, reducing informality and precariousness, creating decent jobs and promoting entrepreneurship." (ILC, 2011: 9)

The Bachelet Report (SPF Advisory Group, 2011) on the Social Protection Floor emphasized the role of social protection measures in cushioning the impact of the crisis among vulnerable populations, serving as a macroeconomic stabilizer fuelling demand and enabling people to better overcome poverty and social exclusion in both developing and developed countries. It can be seen as an integrated set of social policies designed to guarantee income security and access to essential social services for all, paying particular attention to vulnerable groups and protecting and empowering people across the life cycle. It includes guarantees of: (1) basic income security, in the form of various social transfers (in cash or in kind), such as pensions for the elderly and persons with disabilities, child benefits, income support benefits and/or employment guarantees and services for the unemployed and working poor; and (2) universal access to essential affordable social services in the areas of health, water and sanitation, education, food security, housing, and others defined according to national priorities.

This approach is quite different from the old social safety net approach favoured by the Bretton Woods institutions, whereby social protection was supposed to provide relief to poor and vulnerable groups during structural reform or austerity measures. These measures were generally temporary, fragmented and targeted at the poor. In the past decade, there has been growing awareness that this kind of needs-based strategy is unproductive, and so in many countries there has been a shift to a rights-based approach to social protection, with guaranteed basic social rights as a prerequisite of citizenship. Instead, the point is to universalize access to benefits in health, pensions, unemployment, childcare and primary education. So instead of a residual and temporary approach, the social protection floor becomes a full and permanent component of the development strategy for inclusive growth. It is easy to see how a universal rights-based approach, instead of a selective needs-based one, will contribute more towards reducing poverty, containing inequality, sustaining equitable economic growth and encouraging women's greater empowerment and autonomy for women.

Most significantly, social protection benefits can improve access to labour markets. Social protection measures can be accompanied with training and other measures to improve employability, because social protection measures generate spending through enhanced multiplier effects. Some of the direct ways in which social protection measures can be combined with active labour market policies include: job search and vocational guidance measures; facilitating apprenticeships and other ways of creating labour market exposure; skills development; and assistance in advancing in or completing formal education. This strategy also has great macroeconomic significance. It increases the presence of countercyclical buffers that reduce the negative effects of periods of economic downswing. Because of its positive multiplier effects, it actually provides a positive way out of the downward cycle of fiscal austerity and social unrest that seems to be a common problem in many countries.

8.4 Financial inclusion for small producers

Small producers and household-based enterprises require particular attention, to ensure not only access to better technology and to expanding markets, but also to institutional credit on reasonable terms. This is true of cultivators as well as other small non-agricultural producers. The policy emphasis on improving productivity should not be confined to the formal sector. Rather, access to new and better technologies and other means of increasing productivity is likely to have an even greater positive impact when it occurs in activities that have hitherto been low productivity. Since agriculture continues to dominate in employment in many, if not most, developing countries, it is particularly important to focus on raising land productivity and improving the viability of cultivation. This requires a range of measures to ensure sustainable production that can adapt to climate change and other ecological challenges. Here it is particularly important to incorporate women farmers, who are typically excluded because they usually lack land title in their own name, and are often not even recognized as farmers.

One of the most important issues is lack of access to institutional credit. The unfortunate tendency for formal financial markets to exclude small producers, especially women producers, has had the effect of dramatically increasing costs for women, making it harder for them, not only to compete effectively in markets, but also to secure minimum viability. It is essential to ensure a steady flow of credit, and even enhanced credit, to small enterprises, and women in particular, who are excluded from this even in normal times. Given the nature of credit markets, this may require credit subsidies. In practice, however, it has been found that these can be relatively inexpensive in fiscal terms, while providing a wide range of economic benefits.

Nevertheless, it is important to provide a caveat concerning something that has been widely touted as an alternative to the provision of institutional credit: microfinance. It would be wrong to see microcredit and other forms of microfinance as effective substitutes for the greater spread of institutional credit on normal commercial terms. As noted in Ghosh (2012), the focus on group lending does allow for financial integration in the absence of collateral, and therefore plays a role in consumption smoothing (especially in poor households). Because it has been predominantly provided to women, microfinance has played a role in empowering women within households and communities. Moreover, the group orientation has, in some cases, allowed for the development of cooperative methods and social and political mobilization among women. However, this does not mean that microfinance is the same as the kind of financial inclusion that ensures access to institutional finance. Most significantly, it does not allow for productive asset creation or promote flourishing economic activities. Of course, despite the benefits of institutional finance, the high interest rates, short gestation periods and coercive methods increasingly used to enforce repayment militate against its usefulness in poverty reduction and asset creation. Proper financial inclusion in institutional finance, not reliant on microfinance, is likely to require some form of subsidy. Central banks and regulatory regimes will need to take a creative and flexible approach to ensure that banks of different types, commercial, cooperative and development, reach excluded groups such as women, small and medium-sized enterprises, self-employed workers, peasants and those without land title or other collateral.

In all of this, the institutional arrangements for the design and delivery of labour market and sectoral policies are important. The lack of a coordinated and cohesive approach can result in chaos or merely prove ineffectual, as the policies in one ministry or department are inadvertently undermined by contradictory policies elsewhere. Successful trade and industrial policies for development, diversification and employment generation therefore require concerted action and a concerted vision, rather than fragmented and isolated measures that are unlikely to have much impact. Clearly, therefore, a great amount needs to be done in terms of changing government strategy and revamping official procedures, not only in terms of policy making, but above all in implementation. Such changes also require an overarching and systematic vision, something that seems little in evidence at present.

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