

Executive summary

India is one of the world's fastest growing economies. To be a stable and prosperous democracy, this growth must be accompanied by the creation of meaningful, secure and remunerative employment. Realising this goal requires a grounded and comprehensive overview of the state of labour markets, employment generation, demographic challenges and the nature of growth.

The State of Working India (SWI) brought out by the Centre for Sustainable Employment (CSE) at Azim Premji University is envisioned as a regular publication that delivers well-researched, analytically useful information on India's labour market, by bringing together researchers, journalists, civil society activists, and policymakers interested in labour and employment issues. The report is based on the research of CSE staff, as well as on background papers which are available online.

SWI conceives of India's ongoing structural transformation as composed of two processes - movement of workers from agriculture to non-farm occupations (the Kuznets process) and from informal activities to formal ones (the Lewis process). But it adds crucial considerations of social equity and ecological sustainability to this standard framework. In the 21st century, Lewis and Kuznets have to meet Ambedkar and Gandhi.

In this Executive Summary we highlight key findings and end with some reflections on employment policy.



1. Growth creates fewer jobs than it used to.

A 10 per cent increase in GDP now results in less than 1 per cent increase in employment.

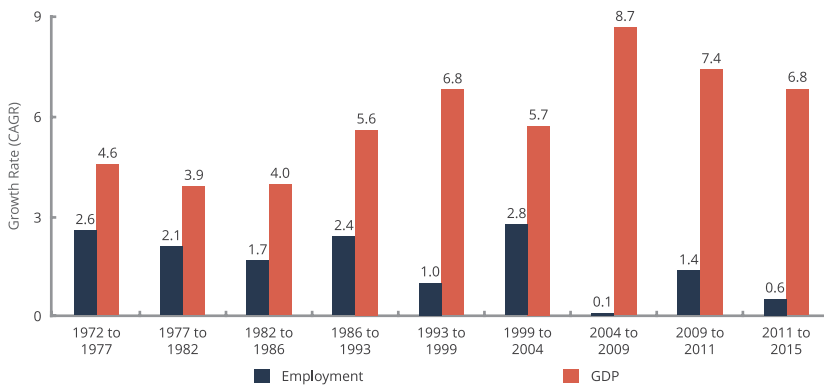
Even as GDP growth rates have risen, the relationship between growth and employment generation has become weaker over time. In the 1970s and 1980s, when GDP growth was around 3-4 per cent, employment growth was around 2 per cent per annum. Since the 1990s, and particularly in the 2000s, GDP growth has accelerated to 7 per cent but employment growth has slowed to 1 per cent or even less. The ratio of employment growth to GDP growth is now less than 0.1 (Figure 1).

Between 2013 and 2015, total employment actually shrank by seven million. More recent data from private sources show that the absolute decline has continued past 2015. A recent study claims, to the contrary, that the economy generated 13 million new jobs in 2017. Unfortunately, this optimistic conclusion depends on selective use of data and unjustified assumptions (Box 2.1).

As a result the rate of unemployment among the youth and higher educated has reached 16 per cent.

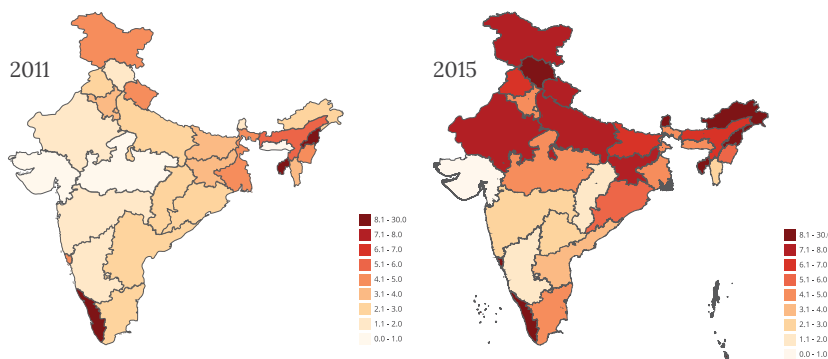
It used to be said that India's problem is not unemployment but underemployment and low wages. But a new feature of the economy is a high rate of open unemployment, which is now over 5 per cent overall, and a much higher 16 per cent for youth and the higher educated. The increase in unemployment is clearly visible all across India, but is particularly severe in the northern states (Figure 2).

Figure 1: Growth Creates Fewer Jobs than It Used To



Sources and notes: 1972-2011 from Misra and Suresh (2014); 2011-15 our calculations

Figure 2: Unemployment Has Risen in Almost All States across India



Sources and notes: NSS-EUS 2011 and LB-EUS 2015. Employment is defined as per usual principal status. Scale indicates per cent values. Note that the following outlying states have been placed in the top bracket: 2011- Kerala (9), Tripura (14.5), and Nagaland (25.6). 2015 - Nagaland (8.5), Arunachal Pradesh (8.9), Goa (9.6), Himachal Pradesh (10.6), Kerala (12.5), Sikkim (18.1) and Tripura (19.7). See Appendix Table A2.1 online for data.



2. Wages are rising but they continue to be well below the Seventh Central Pay Commission minimum.

Adjusted for inflation, wage rates have grown in most sectors at 3 per cent per annum or more.

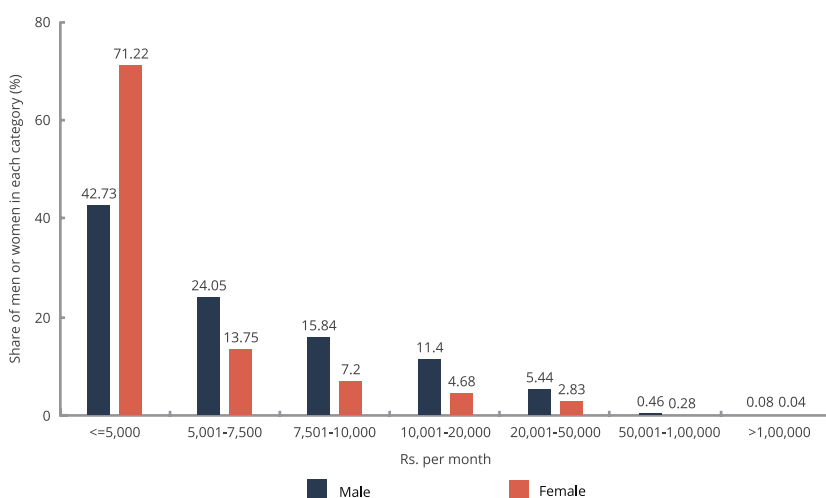
Between 2010 and 2015, wages, adjusted for inflation, grew at 2 per cent per annum for organised manufacturing, 4 per cent for unorganised manufacturing, 5 per cent for unorganised services, and 7 per cent for agriculture (for the last, growth has collapsed since 2015). Since 2000, real wages have grown at around 3-4 per cent in most sectors, with the exception of agriculture. As this rate real wages double every two decades.

But 82 per cent of male and 92 per cent of female workers earn less than ₹10,000 a month.

India's low earnings problem continues despite wage growth in the recent past. Nationally, 67 per cent of households reported monthly earnings of up to ₹10,000 in 2015. In comparison, the minimum salary recommended by the Seventh Central Pay Commission (CPC) is ₹18,000 per month. This suggests that a large majority of Indians are not being paid what may be termed a living wage, and it explains the intense hunger for government jobs (Figure 3). Even in the organised manufacturing sector 90 per cent of the industries pay wages below the CPC minimum. The situation is worse in the unorganised sector.

A field study in West Bengal shows that even multiple informal occupations do not fetch women a living wage. For example, one woman undertook tailoring, brick kiln work, daily labour, and mid-day meal cooking to earn ₹2700 a month while another performed brick kiln work, daily labour, sand mining, and agricultural work to earn ₹6800 (Box 5.1). Another study in Rajasthan shows that skilled stone cutters earn significantly less than the already low state minimum wage, for highly hazardous work in an export-oriented industry (Box 4.3).

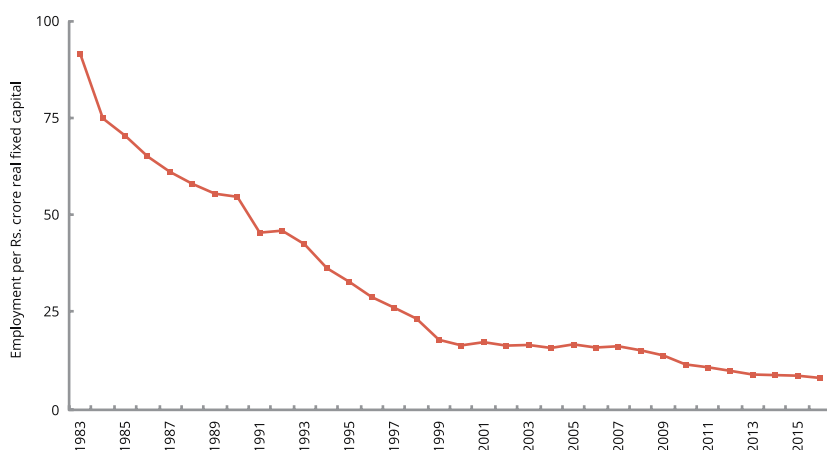
Figure 3 : 82 per cent of Male and 92 per cent of Female Workers Earn Less than Rs. 10,000 a Month



Sources and notes: LB-EUS 2015.

3. There is a slowdown in the replacement of workers by machines but work is becoming more precarious in the organised manufacturing sector.

Figure 4 : The Labour-Capital Ratio Has Reached a Floor in Organised Manufacturing

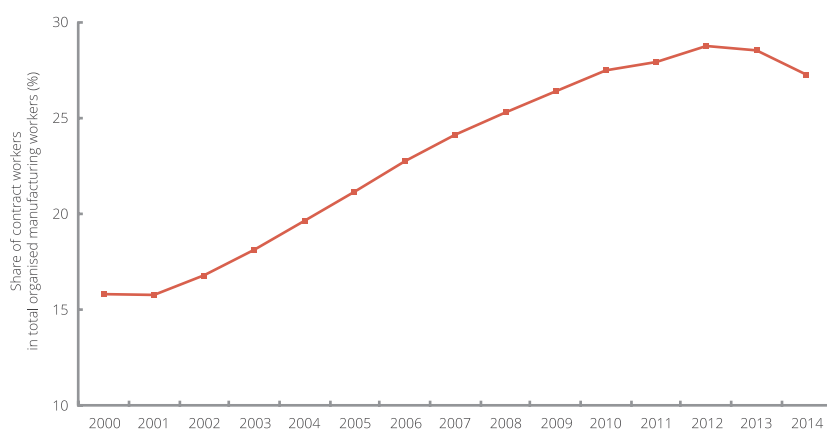


Sources and notes: ASI NIC 2 digit (EPWRFITS) various years. Labour-capital ratio = Number of employees / Real fixed capital.

Number of jobs supported by one crore rupees of fixed capital in organised manufacturing has leveled at around 10.

In the early 1980s, one crore rupees of real fixed capital (in 2015 prices) supported around 90 jobs in the organised manufacturing sector. By 2010, this had fallen to 10 (Figure 4). Moreover, increasing capital intensity has been a feature of nearly every manufacturing industry, whether it is relatively more capital intensive or labour intensive. However, this ratio is no longer falling as rapidly, coinciding with the rise in employment in this sector. The last ten years have been good for the sector, and most industries have performed well on either the wage or the employment front. A few big employers, like knitwear, plastics, and footwear, have posted strong employment growth as well as strong wage growth.

Figure 5 : Contract Workers Have Increased Sharply in Organised Manufacturing in the Past Two Decades



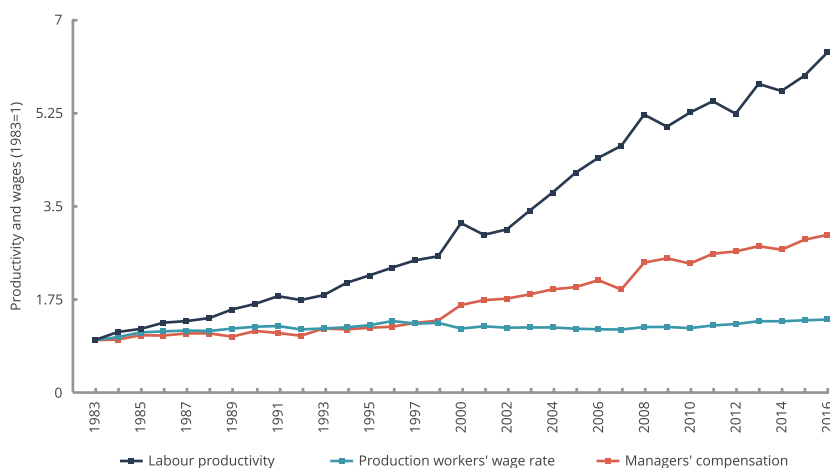
Sources and notes: ASI factory-level data, various years.

But contract workers are nearly 30 per cent of all workers in organised manufacturing.

An increase in employment in organised manufacturing was an opportunity to provide decent, remunerative, and stable employment. But instead, the share of contract work and other precarious forms of labour have grown since the early 2000s (Figure 5). Field studies reveal many categories of contract, trainee, and apprentice workers who perform the work of permanent workers at a fraction of their wages (Box 4.2). This is one way in which labour laws are being circumvented by manufacturing firms. Another way is via under-reporting of workers. In 2011, an estimated 54 million workers were in manufacturing as per household surveys. The estimate based on firm surveys was much smaller at 47 million. And the discrepancy can almost entirely be attributed to the organised sector.

4. Productivity has increasingly diverged from wages.

Figure 6 : Productivity and Managerial Compensation Have Risen Much Faster than Workers' Wages in Organised Manufacturing



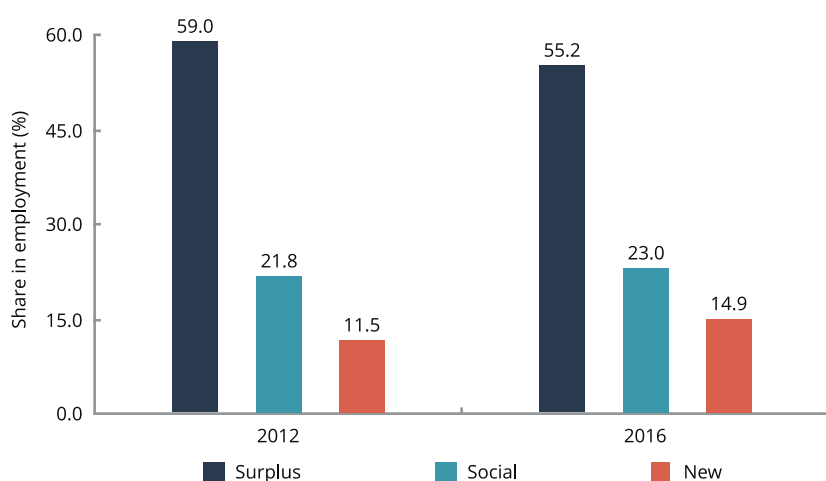
Sources and notes: ASI NIC 2 digit (EPWRFITS) various years. Wages and salaries deflated by CPI-IW and GVA deflated by WPI (manufactured products).

Labour productivity in organised manufacturing increased by six times over the past three decades but wages increased by only 1.5 times.

One might expect that as labour productivity grows, wages will grow in tandem. In neither the organised nor the unorganised sector is this the case. The divergence is stark in the organised sector. Labour productivity is over six times what it was in 1982, but production workers' real wages have grown by only about 1.5 times (Figure 6). Even the growth of managerial and supervisory salaries is much slower than productivity growth. As a result of this, the labour share of income in organised manufacturing has collapsed to around 10 per cent.

5. 'Surplus Labour' industries still dominate as 'new' service economy grows slowly.

Figure 7 : 'Surplus' Industries Account for More than 50 per cent of Service Sector Employment



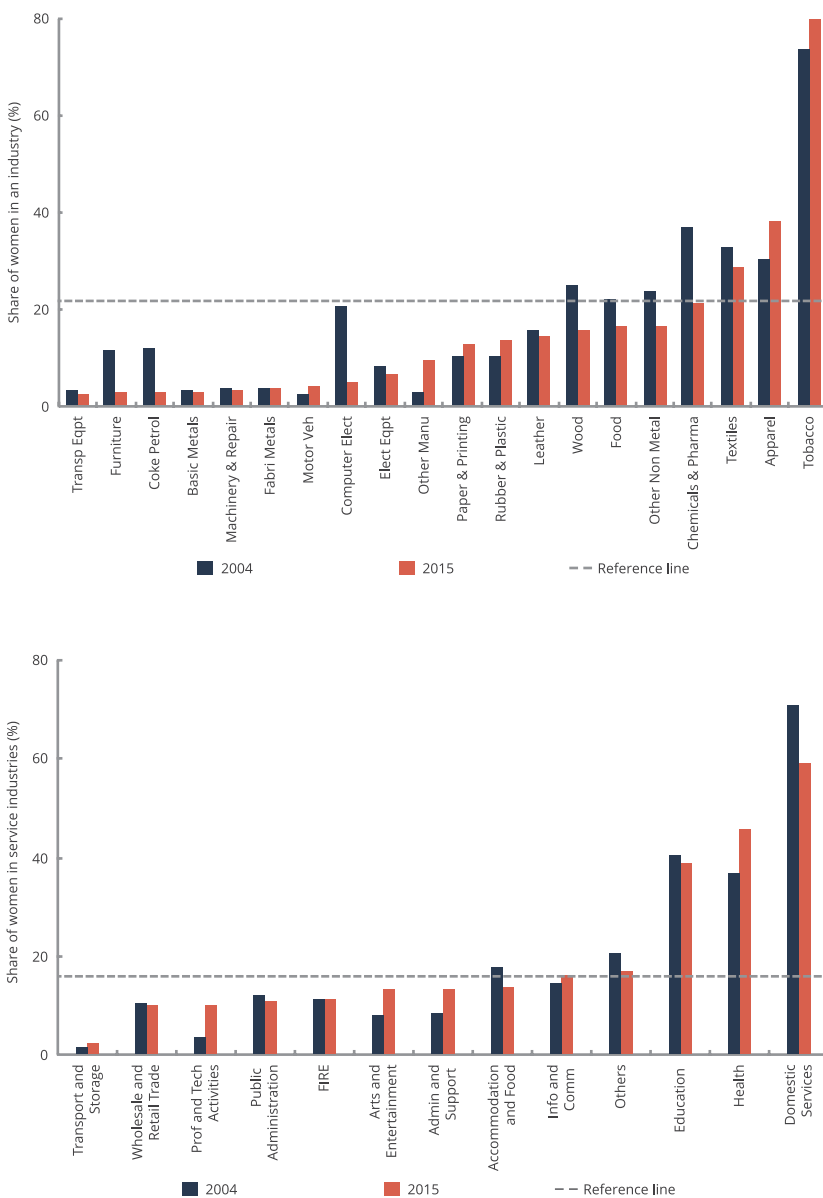
Sources and notes: RBI-KLEMS 2016, LB-QES 2016. 'Surplus' industries refer to industries dominated by self-employment and petty production. Education, health, and public administration are considered to be 'Social' industries. Finance, IT-BPO, and organised retail are defined as 'New' service industries. Numbers do not sum to 100 due to exclusion of some industries.

'Surplus labour' based industries account for more than 50 per cent of service sector employment.

Despite the improved performance of organised manufacturing, the sector as a whole has failed to increase its employment share substantially. It has been proposed that the service sector may be able to lead the structural change process in India. Employment in the new service sector, including IT and modern retail, increased from 11.5 per cent in 2011 to 15 per cent in 2015. However, more than 50 per cent of service sector employment is still made up of petty trade, domestic services and other types of small-scale and informal employment (Figure 7). Further, it is possible that the current downsizing in IT-BPM is not a temporary phenomenon but reflective of structural shifts, posing further challenges to the narrative of service-led structural change (Box 3.3).

6. Gender disparities are still high but are reducing in some cases.

Figure 8 : *Share of Women in Manufacturing*



Sources and notes: NSS-EUS 2004, LB-EUS 2015. Reference line indicates overall share of women in the manufacturing or services workforce respectively, in 2015.

Women are 16 per cent of all service sector workers but 60 per cent of domestic workers.

The Indian economy remains heavily gender segregated. Occupationally, women are under-represented among senior officers, legislators and managers. The situation has worsened with the proportion falling from 13 per cent in 2011 to 7 per cent in 2015. On the other hand, female representation is on par with their overall presence in the workforce in relatively high-paying professional jobs. The caveat is that the paid workforce is still heavily male-dominated in general. Women constitute just 22 per cent of manufacturing, and an even lower 16 per cent of service sector workers. Female workers remain concentrated in a few industries such as textiles and garments, tobacco, education, health, and domestic services (Figure 8).

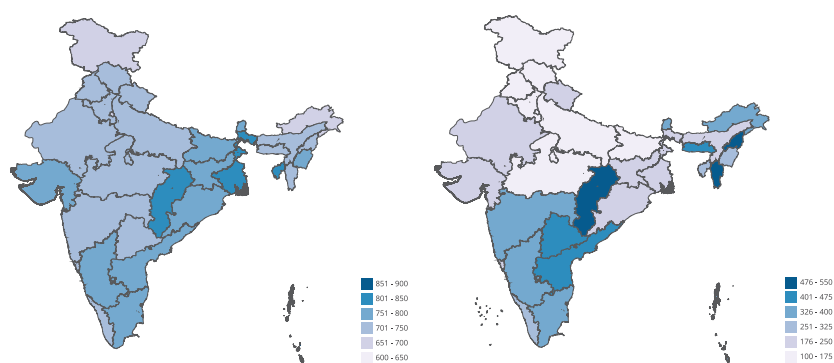
And overall women earn 65 per cent of men's earnings.

The gender wage gap varies widely. Women earn between 35 and 85 per cent of men's earnings, depending on the type of work and the level of education of the worker. But disparities have reduced over time (Box 5.2). In the organised manufacturing sector, the gap narrowed from 35 per cent in 2000 to 45 per cent in 2013. The disparity is the largest among own-account women workers and the least among the higher educated and regular workers.



7. Women's participation in the paid workforce is low but some states perform much better than other.

Figure 9 : LFPR, Particularly for Women, Is Higher in the South and the North-East Male



Sources and notes: LB-EUS 2015. LFPR values are out of 1000. Note that scales differ.

While only 20 women are in paid employment for every 100 men in UP, this number is 50 in Tamil Nadu and 70 in the north-east.

The percentage of working age women who are either employed or looking for work is low in India compared to many other developing countries. And it has been declining over time (Box 2.3). But the southern and north-eastern states show much higher rates of participation by women than the northern and western states (Figure 9). The ratio of female to male labour force participation rate varies from less than 0.2 in Uttar Pradesh and Punjab to 0.5 in TN and AP, to a more than 0.7 in Mizoram and Nagaland.

And government programmes are crucial.

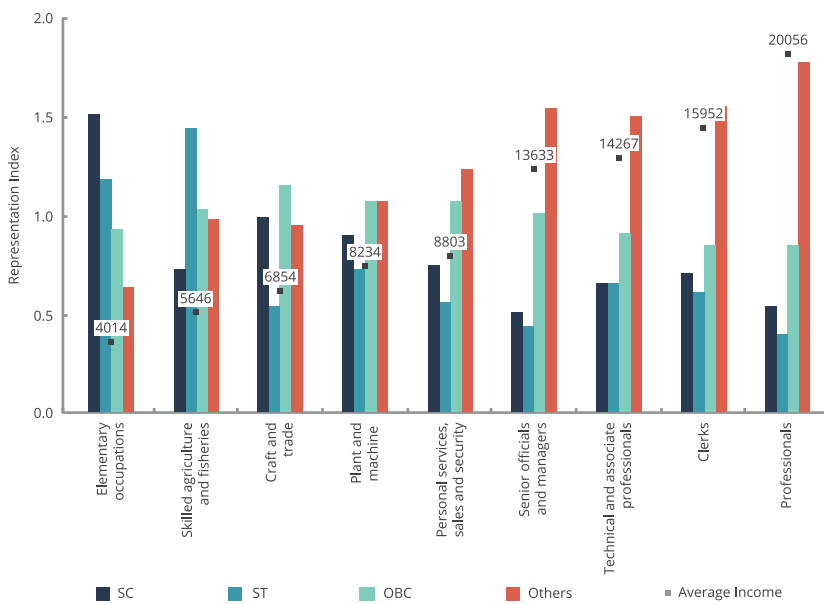
Programmes such as MGNREGA, anganwadis, ASHA, and so on have played a crucial role in increasing women's participation in the paid workforce. Field studies suggest that lack of available work, rather than social restrictions, may be preventing women from entering the labour force (Box 5.1 and Box 5.2).

8. Caste disparities remain large but public policy is effective in reducing them.

Scheduled castes are 18.5 per cent of all workers but 46 per cent of leather workers.

Caste-based segregation and disparities persist, but have reduced in some areas. SC as well as ST groups are over-represented in low paying occupations and severely under-represented in the high paying occupations, a clear indication of the enduring power of caste-based segregation in India (Figure 10). On the other hand, both SC and ST groups are much better represented in public administration indicating the success of reservation policies over the years.

Figure 10 : SC and ST Groups Are Over-Represented in Poorly Paid Occupations while Upper Castes are Over-Represented in Well-Paid Ones



Sources and notes: LB-EUS 2015. Representation Index = (% in occupation/% in workforce). Numbers indicate average monthly earnings for a given occupation.

The caste earnings gap is larger than the gender earnings gap.

SCs earn only 56 per cent of upper-caste earnings. The figure is 55 per cent for STs and 72 per cent for OBCs. The SC gap narrows to around 0.7 when level of education is taken into account. But there is need for much more empirical work, especially at the jati level, to reach a better understanding of caste disparities.

9. Crafts remain big employers and are central to the rural non-farm economy.

With over 500 officially listed arts and crafts, the sector represents immense cultural value, ecological positives, and millions of jobs.

Workers leaving agriculture are mainly moving to construction. The craft sector can provide much needed rural employment that is ecologically less destructive, and that enhances existing skills instead of destroying them. But for this to happen the sector must be treated on par with other industries and given infrastructural support.

10. Towards a 'National Employment Policy'

India's structural transformation has been slower than desired. There is an urgent need to think comprehensively about employment policy that can deliver this transformation. Though this year's SWI does not delve too deeply into policy matters per se, the Conclusion offers some reflections on this important issue. In particular we wish to highlight that a focused National Employment Policy is needed and that it should take the following into account.



1. There is a growing popularity of employment guarantee across the world, including in OECD countries. With MGNREGA, India has been a leader in this trend, and it should build on its experience.
2. The last few years have seen a renewed interest in industrial policy and the emergence of policies such as wage subsidies and incentives for skilling workers.
3. There is a need to look closely at successful state-level employment policies and learn from the diversity of experiences across states.
4. There is adequate availability of fiscal space at the Central and State levels.
5. Public investment is urgently needed in agriculture to raise the income floor in the economy.
6. There are many advantages to a Universal Basic Services (UBS) programme that invests in education, health, housing, and public transport and safety to create jobs, human capital, and public goods.
7. Job creation can be fruitfully tied to investments in green energy and climate adaptation efforts.
8. The falling female labour force participation may be due to lack of available work, not just social restrictions on women, or increasing enrollment in educational institutions.
9. Government programmes are very powerful in reducing social disparities.
10. There is an urgent need to address data lacunae especially with respect to unpaid work and establishment-level data.

