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## Enabling Sustainable Development: Challenges to Job Creation in India

### Introduction

India's economic growth increased very significantly after major economic reforms began in 1991. Between 1950 and 1980 the growth rate was 3.5 per cent per annum; it rose to 5.4 per cent per annum in the 1980s. However, since the economic reforms began it has risen further to 6.4 per cent, and then between 2003-4 and 2011-12 it averaged 8.4 per cent per annum (having fallen since then). However, there has been a disconnect between economic growth and job growth in India.

Open unemployment<sup>1</sup> has remained stable (at just over 2 per cent per annum) in India – only because open unemployment is only an option for the relatively well-off – since the vast majority are too poor to survive without working, even if it is only a few months in a year. Thus 53.2 per cent of the rural workforce in 2013-14 got work for 12 months in the year, but 42.2 per cent of it worked only between 1-5 months; the remainder worked even less than a month. In urban areas, 78.5 per cent of the workforce worked for 12 months, while 16.3 per cent obtained work only for 1-5 months; the remainder worked for less than a month.<sup>2</sup>

A credible strategy for achieving inclusive growth in India requires an understanding of the limitations of India's unprecedentedly high economic growth experienced in the last decade (averaging 8.4 per cent per annum over 2003-4 and 2010-11). One limitation of the growth process has been the relative stagnation of agriculture and the rural distress. The other is the rather slow rate of structural transformation with industry not growing as rapidly as services,<sup>3</sup> and manufacturing certainly not emerging as the leading sector of the

economy (Goal 9 of the SDGs become very relevant to the achievement of Goal 8 in this context). Underlying these phenomena is the large disconnect between economic growth and job growth. In fact there are several paradoxes in India's economic growth story especially related to non-agricultural employment that act as barriers to ensuring inclusiveness in growth.

We define inclusive growth as being one where output growth is accompanied by employment growth, especially in non-agricultural occupations, even though employment growth may be proportionally lower than output growth in a given period.<sup>4</sup> Besides most non-agricultural employment growth is taking place in informal jobs in unregistered enterprises. This is the first paradox which is discussed in the first section of this paper.

Mainstream economic theory assumes that a rise in the rate of output growth will be accompanied by a rise in employment growth, unless accompanied by a still greater rise in rate of growth of labour productivity (the Kaldor-Verdoorn law).<sup>5</sup> Besides, a prediction of mainstream trade theory (of the neo-classical type) is that as a labour-abundant economy opens up to international trade (as India did post-1991 economic reforms), it will export labour-intensive commodities, and thus display a shift in the output composition that is more labour-intensive. One also assumes that with rapid economic growth, especially in a large diversified economy like India's, GDP growth would be accompanied by growth in non-agricultural employment, especially in manufacturing and in services. The period 2004/5-2009/10, however, which is an unprecedented period in terms of GDP

growth in the history of post-independent India, was accompanied by an absolute decline of 6 per cent in employment in manufacturing, and a mere 7 per cent increase of employment in services (and that too mostly in traditional, as opposed to modern, services). So clearly the prediction of mainstream economic theory is not being realised. This paradox, addressed in section 2, is worrying because under-25 years olds constitute half of India's population, and two-thirds of Indians are under 35 – most of whom will expect to find jobs in non-agricultural sectors. However, we will show that non-agricultural employment growth picked up rapidly between 2009-10 and 2011-12, the reasons for which will be discussed, which also suggest a way forward for employment growth in industry and services for India, so that Goal 8 of SDGs can be realised by India.

Unlike other emerging market economies, India has seen a decline in labour force participation rates (LFPR) of women, despite growing per capita incomes. In fact, like its South Asian neighbours, India has one of the lowest female LFPR in absolute term (less than half for China), which instead of increasing (as it normally does, after a certain point, with rising per capita incomes), has been falling.

Let us reiterate an urgent challenge that the world faces in respect of SDGs. SDGs will not be realised by 2030 if India does not achieve economic growth along with job growth. An important reason why the poverty MDG was achieved by the world by 2015 was the Chinese growth story, accompanied by job growth. It achieved this goal because China's policymakers rode the wave of their demographic dividend, and took advantage of it by creating jobs with growth. India's policymakers face a bigger challenge, as the employment elasticity of output in India had been falling till 2010 (though it rose somewhat by 2012). If the SDG on poverty will be achieved by 2030, it will now be because of India's reducing poverty by realising its demographic dividend (i.e. repeating the Chinese success story of 1990- 2005), a task that is impossible without increasing the employment elasticity of non-agricultural output increase.

India is at a critical mid-point of its demographic dividend. Demographic dividend is defined as a

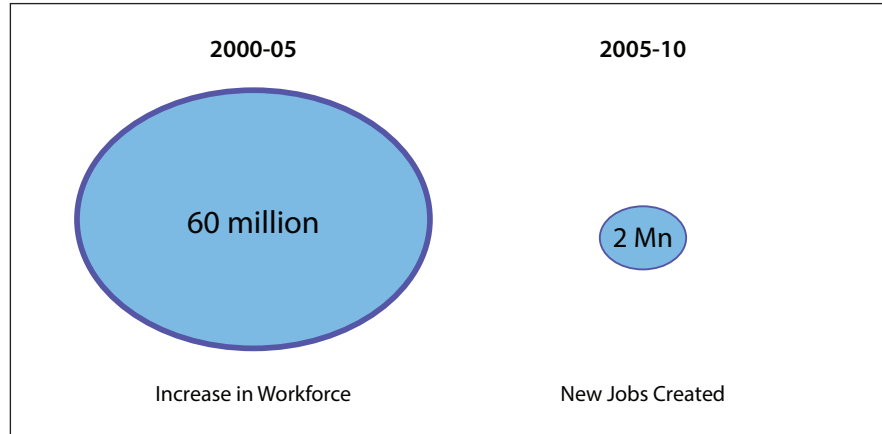
rising share of the working age population in the total population, with a corresponding falling share of non-working, dependent population which is either below 15 or over 60 years of age. The youth entering the labour force must get jobs in the non-agricultural sector for the demographic dividend to be realised. In other words, the paradoxes of India's recent phase of economic growth must disappear with time, not intensify. The final section discusses the policy implications.

### **The First paradox: Why Output Growth has Reduced Poverty – but Slowly?**

With output growth outside of agriculture there should be employment growth as well. However, we find that during the first half of the 2000s (i.e. 2000-2005) the work force increased by around 60 million, but in the latter half of the decade (i.e. 2005-10) the increase in the number of jobs was merely 1 to 2 million in the country as a whole, even though the latter was a period of unprecedented economic growth in India's history. Such volatility has implications for the elasticity of poverty reduction to output growth. In other words, it impacts the inclusiveness of GDP growth.

Economic growth since the early 1980s has been co-related with a decline in the head count ratio of poverty. However, it is equally noticeable that the elasticity of poverty reduction to GDP growth is much lower in India than, say China: - 0.8 in China for the period 1981-2005 versus - 0.3 for India over 1993-2005 (Ravallion and Dutt, 2009).<sup>6</sup>

Our theoretical framework of synergies (Mehrotra and Delamonica, 2007; Mehrotra, 2016; Institute of Applied Manpower Research, 2011) would suggest that there were several reasons for this lower elasticity of poverty reduction. First, the initial conditions in terms of human functioning – health, nutrition and education – were much worse in India than in China. A second reason was that GDP growth was lower in states where a large proportion of India's poor reside. Finally, and most importantly for our analysis in this paper, the sectoral composition of India's growth has resulted in fewer productive jobs for the poor (Hasan, 2013).

**Figure 1: Workforce-Jobs Mismatch in India**

Source: Author's Compilation.

Most employment growth has been in unorganised enterprises/informal jobs. India is an outlier among middle-income countries in having 93 per cent of its total workforce in informal jobs, and 78 per cent of the workforce in enterprises that are defined as unorganised.<sup>7</sup>

Most output in industry and services is produced by organised enterprises, but most employment in the secondary and tertiary sectors is in unorganised enterprises.<sup>8</sup> Not surprising, therefore, that the contribution of the tiny unorganised segment enterprises (whether in services or manufacturing) has been low.

Consistent with the above, the unregistered manufacturing sector employs about four-fifths of the workers in manufacturing. These unregistered enterprises are small, and are usually very labour-intensive, producing low quality goods using traditional technologies, and are characterised by low productivity. By contrast, registered manufacturing tends to be skill-and-capital intensive. For the manufacturing sector in 2005, 99 per cent of establishments were in the unorganised segment. By contrast only 51 per cent of the US establishments have less than 10 employees (Ghani *et al.*, 2013). Of course there are some variations by state and by industry/sector across India. The shares of unorganised sector in total employment in the states are higher than 85 per cent (across six surveys) in four states, viz. Bihar, Orissa and West Bengal, but lower than 70 per cent in more developed states like Gujarat, Haryana, Maharashtra and Punjab.

Even with rapid GDP growth this segmentation in the labour market and product market, the duality in respect of enterprise size/productivity, is not showing much signs of change. Using National Sample Survey (NSS) data, the unorganised segment's share of non-agricultural employment was 88 per cent in 1999-2000, and fell only gradually to 78 per cent in 2011-12.

### Output Growth Sustains, but Manufacturing/Services Employment Does Not

With rapid economic growth usually occurs an increase in productivity. There are normally two sources of such productivity increase. One derives from the shift of labour from low-productivity agriculture to relatively higher productivity economic activities in manufacturing and services. A second source of productivity increase is derived from 'total factor productivity' (TFP) which refers to improvements in output for reasons other than increases in inputs of capital or labour. In other words, it refers to the techniques by which labour and capital combine and usually it is estimated as a residual of increase in output that cannot be explained by increases in physical quantities of labour and capital. We know that TFP has been increasing over the last decade (Kumar and Subramanian, 2011). In the first half of the decade of 2000s, employment in manufacturing increased by 25 per cent (from 42 to 53 million), and in services from 90 to 107 million. This was also a period of rapid non-agricultural output growth. However, remarkably

employment in manufacturing fell in absolute terms by 7 per cent (from 54 million in 2005 to 51 million in 2010). It also increased by a slow 9 per cent for the same period in services (from 107 million to 116 million). In other words, growth in gross value added of manufacturing and services was accompanied by slow growth in employment (Mehrotra *et al.*, 2012a; Mehrotra *et al.*, 2012b; Mehrotra *et al.*, 2014).

The root cause of the relatively poor performance of manufacturing in the 25 years since the post-1991 reforms, despite much faster economic growth compared to earlier decades, was the absence of industrial policy (the modern day meaning of such a policy is discussed in the next section). However, there were other contingent factors at play since 2005. This decline in manufacturing employment between 2005 and 2010 was the result of two sets of factors: rising capital-intensity of manufacturing (itself driven in turn by rising wages and rising import-intensity of manufacturing); and a fall in manufactured exports following the global economic crisis that had resulted in collapse of international demand. Both these factors have resulted in a shift in the driving forces behind manufacturing employment after 2009-10.

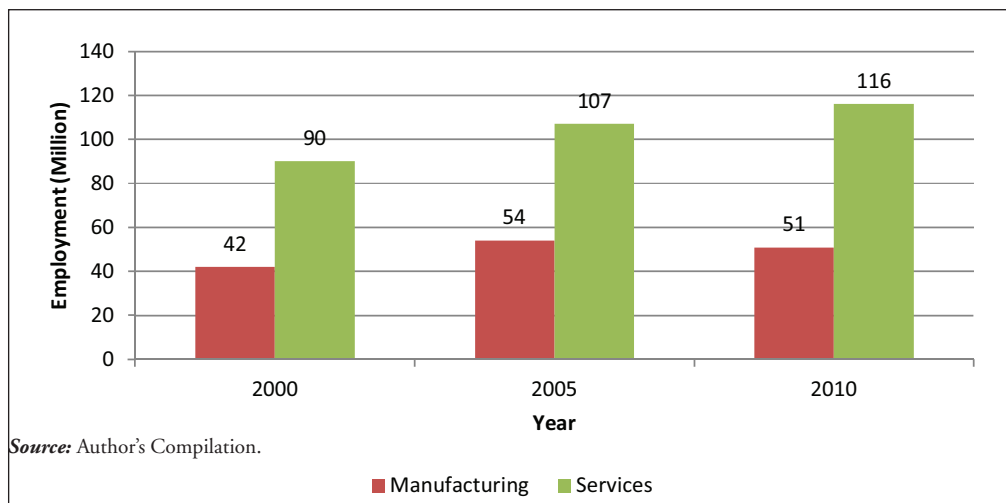
As we argue elsewhere (Mehrotra *et al.*, 2014), manufacturing employment grew rapidly between 2009-10 and 2011-12, which were also years of rapid economic recovery post economic crisis. There are lessons for the future from this recovery. The fall in international demand also turned the attention of domestic producers towards new sources of rising domestic demand. The period since 2004-5 was

characterised by rising wages, and hence a dramatic fall in poverty. The share of the poor in the population had been falling for decades, but never in India's history had there been a fall in the absolute number of the poor. However, the numbers of the poor fell by nearly 140 million in seven years (2004-5 to 2011-12), or at a rate of 20 million per annum. This generated a very large new source of demand for simple manufactured consumer goods (leather, textiles, garments, processed food, furniture, mobiles). These were precisely the product groups that saw a sharp rise in employment, as most of the consumer goods consumed by the new non-poor are low quality goods produced by the unorganised manufacturing sector (Mehrotra *et al.* 2014). The rise in domestic demand, driven by rising wages, holds out lessons at a time when international demand for India's exports has been falling.

### Falling Female Work Participation while Economic Growth is Fast

With rise in per capita income, which has been unprecedented in the last decade in India one would expect the labour force participation rate (LFPR) of women would rise. The paradox is, however, that women's LFPR has been declining. South Asia is unusual among developing regions of the world, as it has one of the lowest LFPRs for women. Since the 1980s there is a near consistent decline in work participation rates for women in India (Mazumdar and Neetha, 2011; Rangarajan *et al.*, 2011). As per capita incomes rise the experience in most other developing regions is that the LFPR of women

**Figure 2: Manufacturing – Services Employment (2000-10) in India**





increases. For example, China and Brazil, two other BRIC economies, have an LFPR for women of 68 per cent and 59 per cent, respectively, for the age-group 15+, while for India it is only 23 per cent, and falling.<sup>9</sup>

So the third and final paradox of the Indian economic growth story is that while the per capita income has been rising in both rural and urban areas, women were withdrawing from the labour force. This is consistent with the overall South Asian experience, but very different from major emerging market economies like Indonesia and Brazil. In the latter, there is a positive co-relation between LFPR of women 15+ and the gross national income per capita. However, as a cross section analysis of the female LFPR with the log of GDP per capita shows the LFPR in India is expected to rise for women very shortly, given their rising participation in schooling.

### **Addressing the Disconnect between Economic Growth and Job Growth**

The first paradox of slow job creation, and of most employment generation with economic growth occurring in the unorganised segment of industry and services, is a structural problem. This requires a serious industrial policy, of which the following should be key components: addressing the missing middle; labour law reform; skill development on a scale and a level of quality unseen so far; and measures to raise the female labour force participation rate, and finally, a focus on key strategic sectors in manufacturing policy.

#### ***The Missing Middle: Minimising the Disincentives for Growth of Firms***

The distribution of Indian firms is characterised by the missing middle: a very large number of tiny firms, and a small number of large firms. NSS data on non-agricultural workers shows that as many as 64 per cent non-agricultural workers (in 2011-12) are employed in enterprises hiring less than 6 workers. Invariably most of these enterprises are either micro or small enterprises. The data from the Fourth All India Census of Micro, Small and Medium Enterprises (2006-07) shows that of the 1.6 million registered and 19.9 million unregistered enterprises, micro enterprises accounted for 95 per cent and 99 per cent of enterprises respectively.<sup>10</sup> This has also been corroborated by the Economic Survey 2013 which states that in India too many small firms

continue to stay small and unproductive and are not allowed to die gracefully. Smaller enterprises prefer to remain under the regulator's and taxman's radar, lack competitiveness, suffer from low productivity and are unable to generate productive employment. Meanwhile the large profit-making firms choose to hire temporary contract labour and employ machines rather than train workers for longer-term jobs in order to avoid rigidity on account of labour regulations. This is reflected in rising informalisation in organised sector employment. Both these characteristics of firms have implications for employment generation.

The dominance of micro enterprises, both in the registered as well as unregistered segments, seems to be voluntary because that way they can avoid regulations (labour, pollution control) and taxes. In addition, firms in unregistered or unorganised sector also face credit constraints, preventing them from growing bigger. But the voluntary or policy-induced dimension of the missing middle cannot be ignored. On the other hand, firms employing larger number of contract or temporary workers have little incentive to invest in training and skill upgradation of their employees and improving productivity.

The problem of the missing middle is essentially policy-induced and began in the 1950s with a process of reserving a host of products for small scale industries (SSI). The process of reservation of products that could only be produced by SSIs continued until the early 1990s, such that as many as 836 products were reserved for SSIs. Even in 2005, 500 products were reserved for SSIs. Thus, on the one hand, support was given to the SSIs and, on the other, large scale public enterprises in the capital goods sector were promoted. This resulted in the missing middle within the industrial sector.

However, it took nearly two decades for the process of de-reservation to be completed. Now only 14 products are reserved for small units. Nevertheless, the reservation list elimination has been replaced by an equally counter-intuitive policy, which actually disincentivises firms from growing.

There is an inbuilt disincentive system facing the micro and small enterprises to invest in more than Rs. 5 crore of capital (which would make them medium sized firms). The criterion of investment in plant and machinery is used to determine whether a firm belongs to the category of micro, small or medium enterprise

(MSME). There are both financial and non-financial incentives and benefits from the various government schemes for the first two categories: micro and small enterprises (MSEs).<sup>11</sup>

These financial and non-financial incentives for MSEs are such that if a firm decides to grow by investing in plant and machinery so that its total investment rises above Rs. 5 crore (i.e. it becomes a medium enterprise), it loses almost all these benefits. Similarly, service sector firms are also dis-incentivised from growing. Service tax exemptions for firms with less than Rs. 10 lakh revenue, and exemption from central excise duty for firms with an annual turnover of less than Rs. 1.5 crore, are examples of some of these schemes which act as a disincentive for service sector firms to grow (Economic Survey 2012-13). In response to this criticism, in 2013 the MSME Ministry (that provides these incentives) decided that the incentives offered micro/small enterprises will continue for three years of their investment increase beyond Rs. 5 crore.

### ***Labour Regulations: Addressing Labour Laws as a Constraint on Firm Growth***

Quite apart from the government's own financial and non-financial incentives to small firms to remain small, there are other constraints on employment growth, with respect to larger organised sector enterprises. Labour laws and other regulations have often hindered expansion of employment in organised manufacturing. There are 45 different national and state-level labour laws in India (Panagariya, 2008). Labour laws apply in practice mainly to the organised sector.

Hence, we have argued elsewhere (Mehrotra *et al.* 2014) that the presence of this legislation for 36 years (the threshold limit of such firms was 300 workers in 1976, which became 100 workers in 1982) has affected industrial structure in the sense that the size class of enterprise is skewed towards those with fewer than 100 workers. We find that the fact of the missing middle can also be established using Annual Survey of Industries (ASI) data which shows a distinct discontinuity, at the cut-off of firms employing 100 and above workers. Factories employing less than 99 workers are about two thirds of all factories surveyed under ASI, of which almost 36 per cent of all factories employ less than 14 workers. A remarkable 84 per

cent of all factories employ less than 100 workers. The cliff at 100+ workers is visible with a sharp fall in the percentage of factories with over 100 workers. Concerted efforts are needed to support transition of smaller enterprises to medium ones with government support or tax incentives.

### ***Improving Employability: Skills and the Link to Raising Women's Labour Force Participation in Industry and Services***

The continuing low and declining labour force participation of women, completely contrary to the experience of other emerging market economies, holds out a challenge to policymakers. In time, probably within the next five years, the LFPR of women will increase, primarily because increasingly better educated girls, unlike their mothers who worked in home-based enterprises or on own account (Mehrotra and Biggeri, 2007), will want to join formal and informal employment in nearby towns and cities.<sup>12</sup> The challenge for both public and the private sector is to skill them, to enable them to become employable in industry and services, since unlike their parents they would want to leave rural areas behind – a phenomenon that has characterised most middle-income countries in both Latin America as well as South-East Asia (World Bank, 2012). When the labour force participation rates of women start to increase instead of falling could well be a turning point in the economic and social history of India. Women's participation in non-agricultural occupations has historically been associated with economic growth as well as high social achievement (Mehrotra, 1997; Sen, 2000).

### ***Improving the Employment-intensity and Competitiveness of Manufacturing***

The lack of an industrial policy since economic reforms has been a root cause of poor manufacturing performance in India.<sup>13</sup> Unlike other developing countries that were successful with industrial growth with job growth (and unlike countries, mostly in Latin America which were less than successful), India has not had an industrial policy ever since economic reforms began. The successful countries – all in East and South East Asia – all had an industrial policy. The most well-known are Japan (where industrial policy was led by the Ministry of Trade and Industry MITI), China (where the process was led by the State Planning Commission and

its successor, the National Development and Reforms Commission), and all East/South East Asian countries, without exception.

This recognition is already reflected in the commitment in the 12<sup>th</sup> Five Year Plan that targets increase in manufacturing gross value added increase rapidly from its current share of 15 per cent of GDP to 25 per cent by 2022, but employment in manufacturing should also grow significantly, possibly by an additional 100 million by 2025 (Planning Commission, 2013). The new Union Government's focus on 'Make in India' is therefore welcome. Given the fact that manufacturing employment grew by only 21 million workers between 1993-4 and 2011-12 (or 19 years), the challenge of increasing employment in manufacturing by even 50 million (within 10 years) is monumental. This is particularly difficult since technical change globally is increasingly labour-saving. However, one should focus on the positive dimensions. First, there has been an increase since 2005 of the terms of trade of agriculture (which had been flat between 1990-91 and 2004-05) (Balakrishnan, 2010). The ratio of price of food to non-food articles between December 2006 and September 2011 was 1.14 (Moorthy and Manur, 2013). We had already seen that real rural wages had risen rapidly since 2005 (a trend initiated by MNREGA), as had consumption expenditure. The result has been a unique new development in Indian economic history, in that the predominant source of consumption demand shifted from urban to rural areas.

This shift has several consequences, which have implications for government policy. First, this shift in consumption pattern and growth in rural demand (after 2006 rural non-farm income went up from its 50 per cent share in total rural income to over 60 per cent) can be sustained provided that investment in rural infrastructure is sustained. The Pradhan Mantri Gram Sadak Yojana/PM's Rural Roads Programme (PMGSY) has seen sustained investment. Rural roads will continue to generate rural incomes, and along with pucca housing construction, can generate jobs in rural areas outside of agriculture. Secondly, since it is the small-scale and micro-enterprises that supply manufactured goods for rural citizens, their access to credit will need to be increased significantly.

However, after the National Manufacturing Policy (2011), the first since the economic reforms began in

1991, there are further actions that may be required:

- The tariff policy in India should be in consistent with manufacturing goals. This requires many changes: (i) there had been too dramatic a reduction of tariff rates from 1997 onwards which too suddenly affected the competitiveness of India's large industries which had developed within protective barriers; hence the sudden exposure led to premature de-industrialisation<sup>14</sup>; (ii) India's small industries were affected heavily as they had been over-protected (both from international competition or from domestic large scale producers), due to reservation of products exclusively for them; and (iii) The inverted<sup>15</sup> import duty structure affected the domestic capital goods sector that makes a range of Indian manufactures (those dependent on imported raw materials) uncompetitive in price terms.
- The Micro, Small, and Medium Enterprises in particular will need support, but in ways that are radically different from those followed in the first 50 years after independence.
  - A serious policy for development of modern industry clusters has to be put in place, which requires a focus on brown field (not just green field) sites.
  - Cluster Development programme, that took off only in 2005, will need much more than the Rs. 3000 crores per annum (or US\$ 500 million at 2014 exchange rates) for the 6000 clusters in India. This money will be required for three types of services – technology upgradation, market information facilitation, and design improvement. The MSME and other central government sectoral ministries (textiles, food processing, etc.) do provide some services, but nowhere near the required scale.
  - The Small Industries Development Bank of India (SIDBI) provides finance for the industry clusters. The public sector banks' are diffident in lending to micro and small establishments (on account of several reasons such as lack of trust, low capacity of firms to prepare bankable projects and

the high transaction costs of dealing with a large number of small borrowers). The Finance Minister has set a target of Rs 1.22 lakh crore for loans to be given by state-run banks to promote new entrepreneurs under the Pradhan Mantri Mudra Yojana (PMMY).

- There are specific interventions that are required in the field of infrastructure. Modern industry clusters cannot grow without better infrastructure. Given the fact that 99 per cent of unregistered and 95 per cent of unregistered enterprises are micro-enterprises, they are likely to be concentrated in the small towns (less than 0.5 million) and nearby villages. It is the brownfield sites of the 1100 modern clusters that must grow for manufacturing output/employment to expand in India, which requires public investment in infrastructure – both physical and social – that must focus on the middle-tier cities instead of its mega and large cities.

The Government of India's AMRUT programme (Atal Mission for Rejuvenation and Urban Transformation) plans to spend Rs. 48 000 crore on 500 cities (over 5 years starting 2015-16). What is important is that the cities/towns chosen are such that the Cluster Development Programme of MSME is also implemented in such a town. It is also critical that there is synergy in the planning for the Cluster programme and the AMRUT programme, so that the objective of job creation is one of the outcome objectives.

To conclude, the implementation framework to be adopted by India in fulfilling the SDG 8 must have the above policy priorities. The government of India, as noted above has a major facilitating and regulatory role ahead. The Government's main financing responsibility will be in respect of infrastructure funding, but even here the 12<sup>th</sup> Five Year Plan had predicted that the financing share will be 50:50, although during the 11<sup>th</sup> Plan period it was 38:62, with the larger responsibility being that of state governments. Therefore, pension and insurance funds must become a source of long-term infrastructure financing, in order to reduce the reliance of bank funding for infrastructure.

## Endnotes

- <sup>1</sup> Open unemployment is defined as the difference between the size of the labour force (those making themselves available for work) and the workforce (those from the labour force who are actually working). In India these definitions are based upon the size of the labour force defined as those working on principal status of employment (more than 182 days in the year) and subsidiary status (those working between 30 and 181 days in the year). MGNREGA workers will be counted usually in subsidiary status work, though since most states don't generate more than 30 days of work in the entire year for the household (as opposed to an individual), it is unlikely to get counted.
- <sup>2</sup> Analysis based on the Labour Bureau survey of 2013-14.
- <sup>3</sup> Services grew faster than industry in every Plan period since the economic reforms began (Planning Commission, 2013). Only during the 8<sup>th</sup> Plan (1992-3 to 1996-7) did the two grow at the same rate (see Mehrotra, 2016, chapter 2).
- <sup>4</sup> There is no expectation that the two will grow proportionately, as then productivity would be stagnant, with the risk of per capita income falling.
- <sup>5</sup> The Verdoorn law states that there is a close positive relationship between the long-run rate of growth of manufacturing productivity and the long-run rate of growth of manufacturing output. Kaldor studied the Verdoorn relation using cross-country data at the sectoral level for 12 advanced countries from the mid-1950s to mid-1960s. He estimated that the Verdoorn coefficient at the aggregate economy-level of one-half, i.e. a 1 per cent increase in output requires a 0.5 per cent increase in labour and is associated with a 0.5 per cent increase in rate of growth of productivity.
- <sup>6</sup> The good news is that the rate of poverty reduction was much faster in the period since 2004-5, with the poverty incidence falling at twice the rate than it fell in the preceding decade. This improvement in the rate of poverty reduction was mainly due to rise in real wages driven mainly by construction employment for those leaving agriculture, i.e. for those at the bottom of the pyramid. The next phase of economic growth must now focus on job growth in manufacturing as well as modern services, in addition to construction.
- <sup>7</sup> Informal employment is normally contractual (as opposed to regular), and does not come with social security. Organised segment enterprises usually employ less than 10 workers (if employing electricity, and more than 20 if without electricity), and most such enterprises are unregistered with government.
- <sup>8</sup> Some people think that this is nothing unusual, and that even in Europe and the US small and medium enterprises account for most of the employment. However, this is an inappropriate comparison, because in India it is the micro-enterprises (employing less than 10 workers or unorganised units), with most within this category consisting of own-account, single person establishments, that predominate. In that sense, the comparison with the European employment structure by size of enterprise does not begin to appreciate the depth of the problem of the missing middle in India.
- <sup>9</sup> See Mehrotra and Sinha (2015) for a detailed analysis of the reasons for falling female labour participation in India.



- <sup>10</sup> This census uses the size of capital investment as the basis for cut-offs: less than Rs.2.5 million is micro; between Rs. 2.5 – Rs. 50 million is small; medium is between Rs.50 and Rs. 100 million; and more than Rs.100 million capital investment makes the firm large.
- <sup>11</sup> The non-financial incentives consist of assistance aimed at processes, design and technology. In addition, the government needs to procure 20 per cent of annual value of goods and services from MSEs and 358 items are reserved for exclusive procurement by the government from MSEs. Micro and small enterprises are entitled to these benefits which they have to forego if they graduate to medium enterprises, a disincentive structure which has been built into policy to promote and protect small scale enterprises.
- Also, there are financial incentives for MSEs: a credit guarantee for collateral free loan for loans up to Rs.1 crore; training and technology grant of 75 per cent of projects cost; tangible assets and infrastructure grant of 80 per cent of project cost; reimbursement of 75 per cent for ISO certification expenses up to maximum of Rs.75,000; and the Small Industries Development Bank of India (SIDBI) support for NGOs; and micro finance institutions to provide loans to MSEs.
- <sup>12</sup> For a further analysis of what policy instruments the state has in order to increase female labour force participation, see Mehrotra and Sinha (2016).
- <sup>13</sup> It is obvious we don't want to repeat the mistakes of the pre-1991 versions of industrial policy. However, there is much that can be done which does not repeat those mistakes, and yet goes beyond the 'liberalise, de-regulate and open up to world markets' mantra repeated ad nauseum for the last quarter century.
- <sup>14</sup> In fact, in 1998 Jagdish Bhagwati is believed to have made a statement stating as such, that while tariff reductions by India were needed, the speed at which India reduced its tariffs were unwarranted by requirements of WTO. Although the share of manufacturing in GDP has not declined in India, it has not risen either: this is in contrast to the situation prevailing in East Asia.
- <sup>15</sup> The import duty applicable on finished products is lower than the import duty on the raw material or intermediate products which discourages domestic value addition.
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## Goal 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all: Targets and Indicators

8.1 Sustain per capita economic growth in accordance with national circumstances and, in particular, at least 7 per cent gross domestic product growth per annum in the least developed countries	8.1.1 Annual growth rate of real GDP per capita
8.2 Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labour-intensive sectors	8.2.1 Annual growth rate of real GDP per employed person
8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small-and medium-sized enterprises, including through access to financial services	8.3.1 Proportion of informal employment in non-agriculture employment, by sex
8.4 Improve progressively, through 2030, global resource efficiency in consumption and production and endeavour to decouple economic growth from environmental degradation, in accordance with the 10-Year Framework of Programmes on Sustainable Consumption and Production, with developed countries taking the lead	8.4.1 Material footprint, material footprint per capita, and material footprint per GDP 8.4.2 Domestic material consumption, domestic material consumption per capita, and domestic material consumption per GDP
8.5 By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value	8.5.1 Average hourly earnings of female and male employees, by occupation, age and persons with disabilities 8.5.2 Unemployment rate, by sex, age and persons with disabilities
8.6 By 2020, substantially reduce the proportion of youth not in employment, education or training	8.6.1 Proportion of youth (aged 15-24 years) not in education, employment or training
8.7 Take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour, including recruitment and use of child soldiers, and by 2025 end child labour in all its forms	8.7.1 Proportion and number of children aged 5-17 years engaged in child labour, by sex and age

<p>8.8 Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment</p>	<p>8.8.1 Frequency rates of fatal and non-fatal occupational injuries, by sex and migrant status 8.8.2 Increase in national compliance of labour rights (freedom of association and collective bargaining) based on International Labour Organization (ILO) textual sources and national legislation, by sex and migrant status</p>
<p>8.9 By 2030, devise and implement policies to promote sustainable tourism that creates jobs and promotes local culture and products</p>	<p>8.9.1 Tourism direct GDP as a proportion of total GDP and in growth rate 8.9.2 Number of jobs in tourism industries as a proportion of total jobs and growth rate of jobs, by sex</p>
<p>8.10 Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all</p>	<p>8.10.1 Number of commercial bank branches and automated teller machines (ATMs) per 100,000 adults 8.10.2 Proportion of adults (15 years and older) with an account at a bank or other financial institution or with a mobile-money-service provider</p>
<p>8.a Increase Aid for Trade support for developing countries, in particular least developed countries, including through the Enhanced Integrated Framework for Trade-related Technical Assistance to Least Developed Countries</p>	<p>8.a.1 Aid for Trade commitments and disbursements</p>
<p>8.b By 2020, develop and operationalize a global strategy for youth employment and implement the Global Jobs Pact of the International Labour Organization</p>	<p>8.b.1 Total government spending in social protection and employment programmes as a proportion of the national budgets and GDP</p>