Jobless Growth

The years of rapid economic growth have been years of jobless growth; does the government care?

The latest National Sample Survey (NSS) estimates of employment and unemployment in the country indicate that in an overall complex employment picture the rate of job creation during the years of rapid growth has been poor. The estimates in the recently released NSS report on the 64th round (2007-08) are the first ones after the UPA government took over in 2004 and the first such numbers after the last quinquennial round of 2004-05. The 2004-05 NSS survey had suggested that 12 million jobs had been created every year or a growth of 2.85% a year between 1999-2000 and 2004-05, which even exceeded the growth rate of the population. It was this high growth in employment which was reflected in the government’s first “Annual Report on Employment” released last July, when it credited itself with creating enough jobs in the economy. However, the results of the 64th round not only suggest that the high GDP growth during the 2004-07 period failed to create enough jobs, they also confirm the earlier consensus that the high growth of employment during 1999-2005 was essentially distress-driven and a result of push factors operating due to the agrarian crisis and a deceleration in real wage growth.

The latest NSS results show that the total employment created, according to the usual status, between 2005 and 2008 was only 2.4 million, which was just 0.8 million per year or a mere fraction of the 12 million created per year between 1999-2000 and 2004-05. The total number of workers increased from 457.9 million in 2004-05 to 460.2 million in 2007-08, a growth rate of just 0.17% per year as against the 2.85% per year growth rate achieved between 1999-2000 and 2004-05. This is the lowest rate of employment generation in the last three decades, even lower than the previous spell of jobless growth of 1993-2000 when employment increased by less than 1% per year.

What has happened and in which category has employment been created? A detailed examination of the trends indicates that while employment generation decelerated considerably in urban areas, increasing by only 4.4 million between 2005 and 2008, it actually declined by two million in rural areas. But in both rural and urban areas, the decline was largely in the female workforce. Overall, employment of males increased by 5.2 million per year but declined by 4.4 million per year for females. Sectoral trends also suggest that the trend of non-farm diversification in employment in rural areas, which was also the focus of the Eleventh Plan, has not yielded any results with the 2007-08 estimates showing almost no non-farm employment diversification compared to 2004-05.

These trends are also confirmed by the daily status measure of employment – which better reflects the extent of employment and unemployment from day to day – that show that the person days of employment in rural areas declined from 93.8 billion person days in 2004-05 to 92.9 billion person days in 2007-08. This decline in person days of employment would have been far greater had it not been for the National Rural Employment Guarantee Scheme (NREGS). The employment created by public works (including the NREGS) increased from 221 million person days in 2004-05 to 939 million person days in 2007-08. While these estimates do suggest a serious problem in job creation, they also suggest a need for careful analysis of the presumed linkage between economic growth and employment creation. Seen in conjunction with the very high employment creation during 1999-2005, a large part of these fluctuations is because of the way women participate in the labour force. It is clear that a major part of the high growth rate in employment between 1999-2000 and 2004-05 as well as subsequent jobless growth is a result of the “income effect”. What seems to have happened is that a large majority of women workers moved into the labour force during 1999-2005 and looked for work outside the home due to the agrarian crisis and distress in rural areas. And it is these women workers who have moved back into their homes as soon as the situation improved because of higher agricultural productivity between 2004-05 and 2007-08. This was also aided by increased incomes due to programmes such as the NREGS and the consequent increase in wage rates. The growth in wage rates for casual workers which decelerated to less than 1% per annum during 1999-2005 shows an increase of more than 4% per annum during 2004-07.

Even discounting the income effect and the subsequent decline in the size of the female workforce, the aggregate picture does confirm apprehensions that economic growth between 2004-05 and 2007-08 has failed to create enough jobs in the economy.

Not only has male employment growth remained sluggish, growing at 1.66% per annum, marginally better than during the previous episode of jobless growth in the 1990s, it shows almost no non-farm diversification. The other worrying signal is the slow pace of employment creation in the sectors that are driving
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GDP growth. While aggregate employment in the primary sector declined in absolute terms, the growth rate of employment in the secondary sector and services was only 1% per annum.

The NSS numbers are nowhere close to the claims of employment creation made in the Mid-Term Appraisal of the Eleventh Plan of the Planning Commission. These also betray the tall claims made by the Economic Advisory Council of the Prime Minister which said a few years ago that a growth rate of 9-10% would be sufficient to absorb the annual addition of around 12 million to the labour force purely as a result of the demographic dividend.

But more than the issue of employment estimates, the lack of employment generation in the first three years of the UPA government is a serious question mark on its commitment to inclusive growth. Available evidence also points to an increasing inequality in incomes and opportunities. Not only has the intersectoral productivity gap widened, the share of wages in value added has continued to show a decline with that of profits rising. The 64th round of the NSS also suggests a widening of the wage gap between the skilled and unskilled labour force at a faster rate than before. Clearly, the challenge of decent employment creation will prove to be a stumbling block in realising any measure of inclusive growth.