

Six steps to job creation

In India's highly segmented labour market, one can still discern at least three demographic groups that are in urgent need of jobs: a growing number of better educated youth; uneducated agricultural workers who wish to leave agricultural distress behind; and young women, who too are better educated than ever before. India is indeed the fastest growing large economy in the world; yet with investment low, credit offtake low, capacity utilisation in industry low, agricultural growth low, plant load factor low, it is hardly surprising that job growth is low as well.

Although growth is relatively high (though slowing for last several quarters), it is the pattern of growth that is the problem. Among many dimensions of this problem is the fact that in the quarter century since economic reforms began, it is not manufacturing that has been the leading sector driving growth. Manufacturing should drive productivity in the whole economy. Services cannot, as services by definition 'service' the distribution of produced goods.

So what can policy-makers do to revive job growth, other than invest more in infrastructure, which this government has been attempting to do especially for last 18 months or so, in both rural and urban India?

First, an industrial and trade policy is needed. The Department of Industrial Policy and Promotion (DIPP) is finally preparing an industrial policy. For 20 years after economic reforms began in 1991 there was no National Manufacturing Policy, and the Policy, when it came in 2011, was not even implemented. By the time the 12th Plan (with the first mention of Industrial Policy since 1991) became public, the UPA government had gone into policy paralysis. Not only did tariffs come down too fast in the 1990s, but what has damaged manufacturing is inverted duty structures.

While the DIPP is preparing the industrial policy document, it is essential that trade policy is consistent with such an industrial policy. Otherwise the two may work at cross purposes and undermine each other's objectives. This is precisely what has happened over many years. Excessive imports have been decimating Indian manufacturing. An inverted duty structure has the following features: higher duty on intermediate goods compared to final finished goods, with the latter often enjoying concessional customs duty. As a result, domestic manufacturers face high tariffs since the last 12-15 years, leading to higher raw material cost at home, emanating from the unfavourable inverted duty structure. This was pointed out by FICCI way back in 2014 for aluminium, steel, chemicals, capital goods, electronics. This has prevented many manufacturing sectors from growing since economic reforms began. This must be corrected.

The automobiles sector in India faced no inverted duty structure, and has thrived. India has become in the last decade one of the largest producers of vehicles of several kinds in the world now. Electronics faced an inverted duty structure, but the Finance Minister has made changes, and slowly electronics manufacturing has grown.

Second, special packages are needed for labour-intensive industries to create jobs. There are a number of labour intensive manufacturing sectors in India such as food processing, leather and footwear, wood manufacturers and furniture, textiles and apparel and garments. The apparel and garments sector received a package from the Government of India roughly a year back. The other labour intensive sectors have been ignored. The nature of the package will need to be individually designed for each sector defined as quickly as possible.

Three, there should be cluster development to support job creation in micro, small and medium enterprises (MSMEs). Most of the unorganised sector employment is in MSMEs, which tend to be concentrated in specific geographic locations. There are 1,350 modern industry clusters in India

and an additional 4,000 traditional product manufacturing clusters, like handloom, handicraft and other traditional single product group clusters. There is a cluster development programme of the Ministry of MSMEs, which is poorly funded and could be better designed as well.

But the Ministry's total annual budget for all programmes, including cluster development, is grossly inadequate. Spread over 6,000 clusters, it becomes even more inadequate to transform MSMEs located in clusters.

Fourth, align urban development with manufacturing clusters to create jobs. The Ministry of Urban Development (MoUD) has a programme called AMRUT (Atal Mission for Rejuvenation and Urban Transformation) aimed at improving infrastructure for small towns. Infrastructure investment by the government always creates many jobs. But the programme does not take into account whether the infrastructure investment under it is taking place in towns which have clusters of unorganised sector economic activities. Hence an engagement between the Urban Development and MSME Ministries is necessary to ensure that this is happening. It will attract more investment to industrial clusters, which is where most non-agricultural jobs are.

Fifth, focus of women. Girls are losing out in jobs, or those with increasing education can't find them, despite having gotten higher levels of education in the last 10 years. Secondary enrolment in the country rose from 58% to 85% in a matter of five years (2010-2015), with gender parity. Skilling close to clusters (rather than standalone vocational training providers), which is where the jobs are, is likely to be more successful. The problem with skilling programmes has been low placement after skilling is complete. The availability of jobs close to where the skilling is conducted will also enhance the demand for skilling.

And sixth, public investments in health, education, police and judiciary can create many government jobs. Public investment in the health sector has remained even in the last three years at 1.15% of GDP, despite the creation of the national health policy at the beginning of 2017. The policy indicates that expenditure on health will rise to 2.5% of GDP only by 2025. Given the state of health and nutrition of the population, it is critical that public expenditure on health is increased faster and not as late as 2025. In the absence of greater public expenditure, the private sector in health keeps expanding, which only raises the household costs on health without necessarily improving health outcomes, because the private sector does not spend on preventive and public health measures. But the private sector prefers to set up hospitals to cure people after they have become sick rather than prevent them from becoming unhealthy in the first place. Preventive and public health have always been in all countries the responsibility of government. More government expenditure in health means more jobs in government and better health outcomes.

Government schools also have such poor quality that parents are voting with their feet by spending money on private schools, whether or not the poor parents can afford it. The number of teachers required, at secondary and higher secondary levels, is very high, particularly in science and mathematics. Many new government jobs can be provided if more young people could be trained specially to become teachers for science and mathematics at the secondary and higher secondary levels.

The same applies to the police and the judiciary. While the number of paramilitary personnel continues to grow, State governments are not filling even sanctioned posts in the police and in the judiciary (at all levels there are vacancies). More police and a larger judiciary can both reduce crime as well as speed up the process of justice for the ordinary citizen.

Santosh Mehrotra is Professor of Economics and Chairman, Centre for Informal Sector and Labour, Jawaharlal Nehru University, Delhi

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