

Theories that impede job creation

The government is preparing a new industrial policy, according to the department of industrial policy and promotion (DIPP), “to enable industry to play its role as the engine of growth and to shoulder the responsibility of adding more value and jobs”. This policy will replace the United Progressive Alliance’s national manufacturing policy which was expected to generate 100 million additional jobs by 2022. DIPP will be adopting a consultative approach, the announcement says. The previous plan was also developed consultatively. There were 26 working groups representing all stakeholders, who gathered data, debated issues, and developed strategies to achieve the goals. It would be very worthwhile to understand why the goals could not be reached and incorporate those insights into the new policy.

A major problem was with the implementation of the previous plan. Job creation along with industrial growth requires aligned action on many fronts: infrastructure, skills, finance for small enterprises, a supportive trade policy, etc. It requires “a whole of government” approach. Partial solutions will not work. No matter how good the plan may have been, the absence of coordination among ministries and cooperation among stakeholders stalled implementation. Because jobs have become a principal concern of Prime Minister Narendra Modi himself, and because implementation is his forte, a policy with him at the steering wheel is more likely to succeed.

A greater challenge will be to change old theories in the minds of policymakers, and industry leaders too, about jobs/livelihoods, enterprises, and productivity.

The traditional concept of a good job/livelihood is full-time employment, preferably with a large organization, with assurance of continuity of employment and social security benefits. However, there are many other ways of earning livelihoods. For example: by owning a small enterprise—a small workshop, or street stall; as a member of a cooperative enterprise co-owned by many producers; driving one’s own car as a taxi with Ola or Uber, etc.

A dominant view of an enterprise that creates jobs is a large factory with hundreds of workers in assembly lines. Or, a large BPO (business process outsourcing) centre with hundreds of workers behind computer screens. So, if we want more jobs in the economy, we imagine we must have more such, large-scale, “organized” enterprises whereas the greater creators of jobs and livelihoods are enterprises that are much smaller, and seemingly unorganized (from the point-of-view of those with a fixed view of what an organization should be).

Small enterprises have great difficulty in obtaining resources—finance, space to operate, skilled workers, etc.—and in dealing with the regulatory framework too. According to some economists, India has too many “informal” enterprises. They must be brought into the formal system, which means they must comply with the requirements of formality (which include compliance with regulations) so that they can obtain the benefits of incorporation into the formal system. At the same time, some economists are advocating that small enterprises should be relieved of compliance with all regulations (which implies greater informality) so that they have flexibility to grow. There is conceptual confusion here. Practical solutions should be found unbiased by ideology.

There is a reason why small (and informal) enterprises can create more jobs and livelihoods than large ones. Unveiling the three-year “action agenda” for the country on 24 August, the vice-chairman of NITI Aayog said, “India does not have an unemployment problem; it has an underemployment problem”. The problem is low productivity, he said. In India, two workers do what one worker could do, which also means lower wages for both. Which suggests that enterprises should take measures to remove their extra workers. This will increase

productivity—measured as output per worker, and it will increase the wages of the workers who remain with the enterprise. But what about the workers who are no longer employed by the enterprise? They will either become unemployed or join less “productive” enterprises that continue to provide “underemployment”.

How do enterprises increase productivity per worker? By investing more in machines and automation. If the productivity of the entire economy must be increased, small enterprises should also invest more in automation. They will have to find money for this. Since the greatest difficulty small enterprises have is to obtain enough money for their business and at low cost, improving productivity by automation is not a viable option for them. So, fortunately, they will continue to provide “underemployment” to the masses seeking jobs, who are not being employed by large enterprises that invest in automation, reduce employees, and thus substantially improve productivity per employee. For small enterprises, the solution for improving their competitiveness is to improve the skills of their owners for managing their workers and improving utilization of their materials and machines.

Productivity is a measure of how much output is produced per unit of input. The most common measurement of productivity is output per worker. But there can be other measures of the productivity of an economy. If the purpose of economic growth, from the point of view of citizens, is the production of more jobs and livelihoods, and if the scarce resource is capital, the more productive economy will be the one that produces more jobs per unit of capital invested. Perhaps, contrary to the drive for more “scale”, it should be an economy with a greater proportion of small enterprises that use more labour and less capital and have a higher “total factor productivity”. Formation of strong clusters and networks of small enterprises, using technology, can enable them to acquire greater scale to obtain access to markets and resources. The policy should be to make clusters and networks more organized and formal rather than the individual enterprises.

Faster implementation is key. However, unless old theories are set aside and fresh solutions applied, a new policy will also fail in more widespread creation of livelihoods and jobs. As Einstein said, you cannot solve an intractable problem with the same theories that created the problem.

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