

Indian Labour Market: Concerns and Policy Responses Is it Differently Placed among BRICS Countries?

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Abstract: The analysis of various aspects of labour market indicates that India's position vis-à-vis BRICS countries is not strictly comparable. Some of the issues and challenges of the Indian labour market highlighted in the paper need concerted efforts to address them through appropriate policy responses in the ambit of medium to long-term horizon, which in turn would not only better harness youth's potential for economic growth but would also realise the objective of inclusive growth. The Government's various initiatives undertaken in the recent past are expected to further support creation of non-farm jobs. India's labour force is facing skill constraints like many other developing countries, which needs to be addressed by appropriate policy responses. There is also a need to collate relevant labour market data on a high frequency basis and also in a timely manner so as to comprehend and analyse labour market dynamics in a more meaningful way, and also facilitating the Government to take appropriate policy decisions to timely address the evolving issues.

JEL Classification: J2, J21

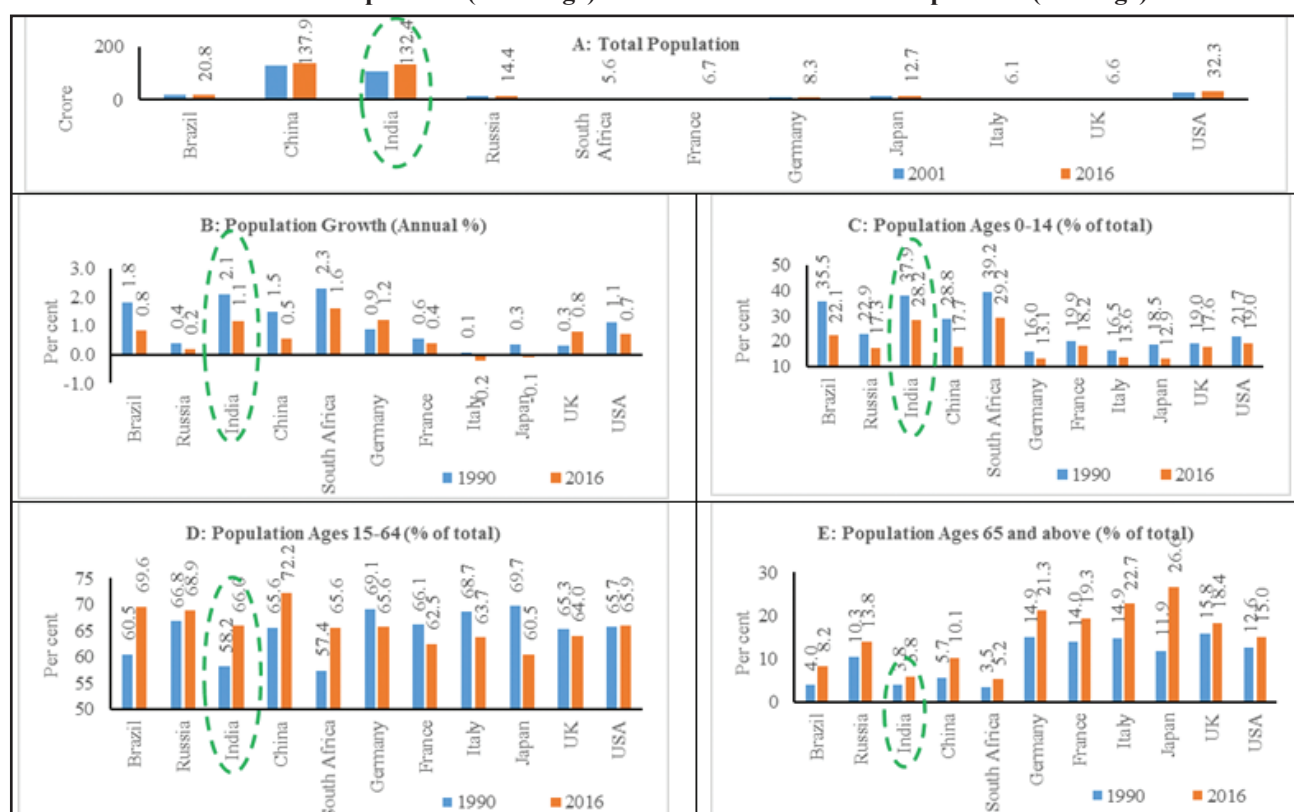
Key Words: Labour Force Participation Rate, Employment-to-Population Ratio, Unemployment, Youth Labour Force

INTRODUCTION

India's population was next to China at around 1.32 billion in 2016 (Chart 1A). The annual population growth was 1.1 per cent for India, highest after South Africa among BRICS countries (*viz.*, Brazil, Russia, India, China and South Africa) during the same period (Chart 1B). The labour force population (15-64 Age) among BRICS countries was quite high, ranging 65-72 per cent of total population in 2016 (Chart 1D), while the population for ages 0-14 years (*i.e.*, future labour force) for India and South Africa was much higher in the range 28-29 per cent as compared with other BRICS countries during the same period (Chart 1C) – indicating the importance of policy responses in order to address not only the existing set of issues of the labour market but also for future challenges, keeping in view the large size of labour force. In terms of dependent old population, India has quite favourable position not among only BRICS countries but also among select advanced countries (Chart 1E). The labour market in India is characterised by a large disguised unemployment in agricultural sector, low labour productivity, scarce supply of a right kind of skilled labour, large size of labour market, relatively less business friendly labour laws/regulations and also less appreciable labour's working conditions. Almost every country has to tackle some of the challenges such as - (a) efforts for faster economic recovery after the financial crisis of 2008, (b) creating adequate job opportunities for new labour market entrants as well as existing ones, (c) improve labour market conditions in terms of productivity, skills, earnings and work quality (safety, flexibility, income security and hygiene) [McKinsey, June 2017] and (d) also ensure an inclusive growth. In terms of share in gross value added (GVA)

in 2016-17, India's services sector occupies the first position (62 per cent) followed by industry sector (23 per cent) and agriculture and allied activities sector (15 per cent). Among BRICS countries, industry's valued added share in GDP for India was the second lowest after Brazil. The issue here is how to facilitate migration of large size of work force currently employed in agriculture sector to other sectors (*viz.*, industry and services) as such huge work force in agriculture sector relative to its low share in GVA results in a very low productivity for employed population (disguised unemployment). It is true that such transformation cannot happen in a short-term and it certainly calls for a long-term policy strategy when industry sector should grow at a much faster rate and thereby it should considerably enhance its contribution to GVA from the current level, keeping in view the limitation of services sector in terms of creating job opportunities as it is considered as knowledge sector where unskilled/semi-skilled labour force have limited scope for gainful employment. In this context, Government's various initiatives undertaken in the recent past (such as 'Make in India' programme) may create additional job avenues in the economy, going forward.

Chart 1: Labour Force Population (15-64 Age) and Future Labour Force Population (0-14 Age) - Profile



Source: World Development Indicators (WDI), World Bank.

The major objective behind this study is to deeply comprehend Indian labour market and map it with that of BRICS countries to see how Indian labour market is different from each one of them, and also highlight some of the pressing issues/challenges along with some policy responses required by the Government for appropriately addressing them in the medium to long-term horizon. Data on some advanced countries such as France, Italy, Germany, Japan, UK and USA have also been placed along with BRICS countries under each Chart, without much analysis, for the completeness sake on the subject. Further, for almost all indicators covered here in the analysis, data are collated from the common sources, *viz.*, ILOSTAT (ILO) and WDI (World Bank), for the purpose of comparability, avoid any kind of data adjustment due to commencement of the year either on calendar year basis or financial year basis (*e.g.*, April 1 for India) and also to have an easier data interpretation. In ILO's database, the latest data on most of the indicators for India are available till 2012 and analysis for India is, therefore, confined till 2012. Data from the latest 5th Annual Employment and Unemployment Survey

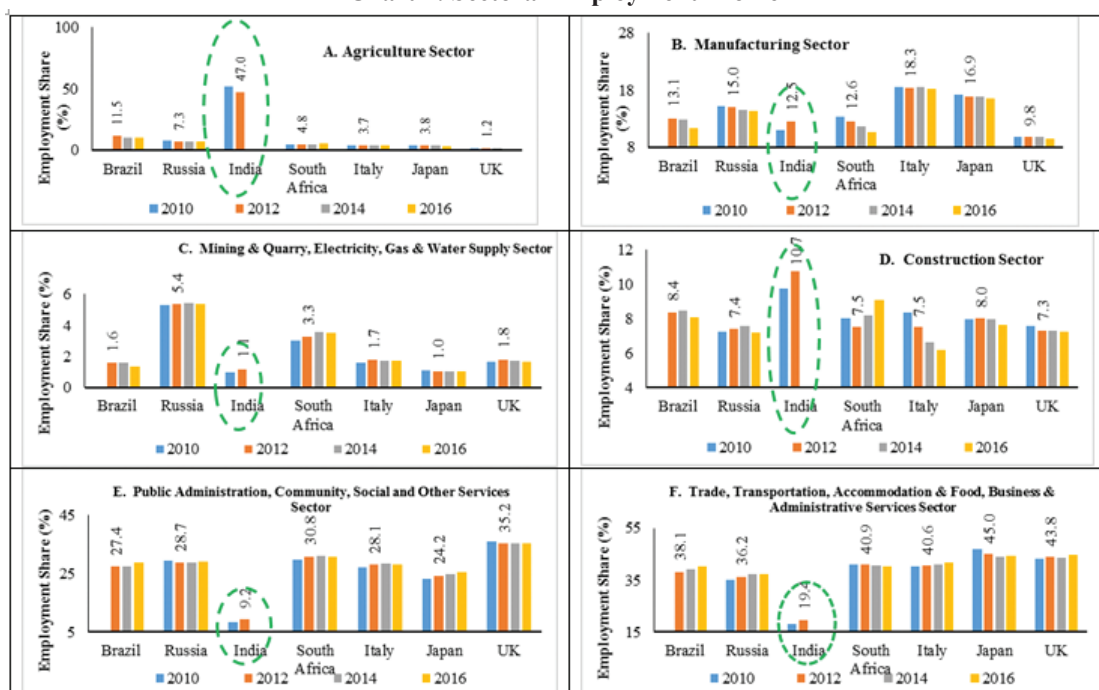
Report for 2015-16 (released by Government of India in September 2016) have also been used in the analysis (without covering in Charts for cross-country comparability reason) to the extent possible to understand the latest Indian labour market conditions. Against the above backdrop, the paper is divided into eight Sections. Section II covers employment position. Section III presents labour force participation rate. Section IV provides unemployment position. Section V covers issues relating to young labour force. Section VI covers issues and challenges of Indian labour market. Section VII suggests some policy responses as a way forward on the labour market. The conclusion of the paper is presented in the last Section VIII.

EMPLOYMENT POSITION

Sectoral Employment

Agricultural sector supports a large part of India's labour force by providing a huge employment as compared to other BRICS countries and also select advanced countries (Chart 2A). Among industry sector, manufacturing sector's share in total employment for India is only 12.5 per cent which is lower than other BRICS nations and also those of Italy and Japan (Chart 2B). Mining & quarry, electricity, gas and water supply sectors in India have low share in total employment as compared with South Africa, Russia, Italy and UK (Chart 2C). Among services sector, construction sector's share for India is relatively large (Chart 2D) while those of public administration, community, social and other services, and trade, transportation, accommodation & food, business & administrative sectors have very low share in total employment as compared with other BRICS countries and also select advanced economies (Charts 2E and 2F). The large share of employment in services sector in other BRICS/advanced economies, by and large, reflects to have skilled labour force in these economies benefitted from a quality education system in place as well as appropriate policy response from the Government which facilitated in smooth migration of labour force from agriculture to industry and to services sector in accordance with their skill set. Such phenomenon is yet to witness in Indian context, *albeit* Indian labour market is experiencing some structural changes - migration of labour from agricultural sector to labour-intensive construction¹.

Chart 2: Sectoral Employment Profile



Source: ILOSTAT, International Labour Organization, UNO.

Rural/Urban/Informal Employment Position

In the total employment, the share of rural areas in India is significantly higher than those of other BRICS and select advanced economies (Chart 3) as most of the work force threat is employed in agriculture and allied activities, keeping in view rural industrialisation is still in a nascent stage. In terms of urban employment, India's position is far less satisfactory *vis-à-vis* other BRICS/advanced nations, reflecting even urban based industrialisation could not generate adequate job opportunities – calling for appropriate policy responses to address this issue, keeping in view a large section of youth labour force in India. Further, the level of informal employment is quite high for both genders in India among other BRICS nations (Chart 4), this job market is characterised by low labour skill, low labour productivity, low labour earnings and also no much social security. In order to benefit from a favourable demography (*i.e.*, large share of young population), there is a need to appropriately develop their skill set and also provide them right kind of training so that it becomes much easier to increase their labour force participation rate which is currently low² as compared with most of the BRICS/advanced economies.

Employment-to-Population Ratio

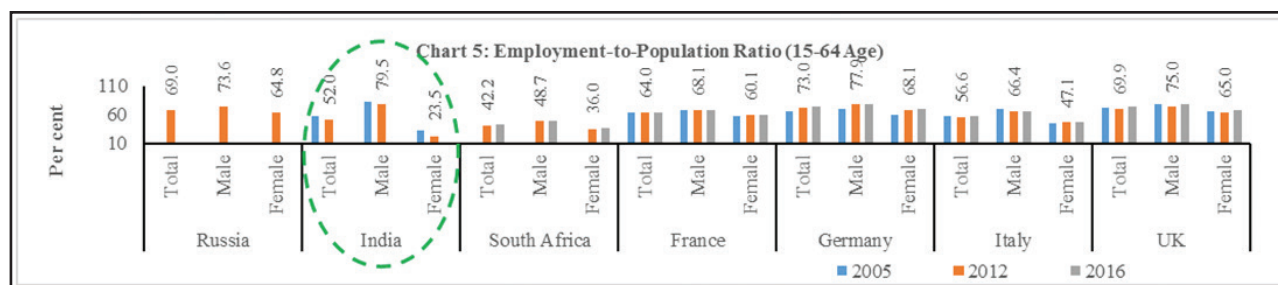
In India, the overall employment-to-population ratio³ is lower than Russia among other BRICS nations while the ratio is more or less comparable with those of advanced economies, but the ratio is quite low in case of female work force (Chart 5) – calling for appropriate policy responses to increase female work force in total employment, some of which may cover aspects such as providing equal opportunities in pursuing education, career and also some schemes to enable them to balance between career and home (not to be forced to quit job for the sake of home/children grooming).



Source: ILOSTAT, International Labour Organization, UNO.

LABOUR FORCE PARTICIPATION RATE

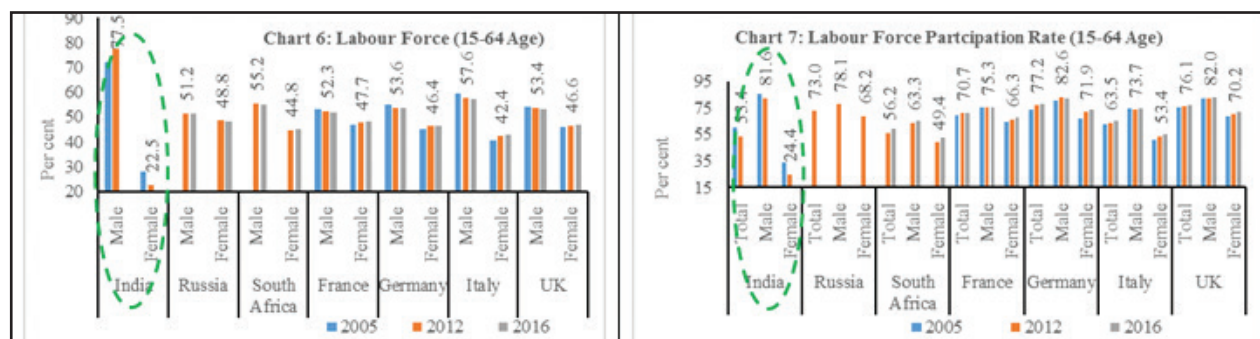
In India, of the total working age population (15-64 age), around 78 per cent constitutes male labour force which is much higher than other BRICS/advanced nations while around 22 per cent constitutes female labour force which is very low as compared with these countries (Chart 6). The overall labour force participation rate⁴ (*i.e.*, labour force as per cent of working age population 15-64 age) in India is lower than other BRICS/advanced economies mainly on account of quite unfavourable rate for female working population (Chart 7). The labour force participation rate for male working population is comparable with other BRICS/advanced economies. So, there is a need to increase female labour force participation rate in job market through incentives/ appropriate policy responses, as alluded to earlier.



Source: ILOSTAT, International Labour Organization, UNO.

UNEMPLOYMENT POSITION

In India, the unemployment⁵ among working age population is large in case of male unlike other BRICS/advanced economies while unemployment is low among female working age population as compared with these countries (Chart 8). In India both for male and female labour force, the unemployment rate (*i.e.*, what percentage of labour force remains unemployed) is low *vis-à-vis* other BRICS/advanced economies due to a large size of labour force in India (Chart 9). In absolute terms, even with low unemployment rate, there would be a large number of unemployed persons in India *vis-à-vis* other BRICS/advanced economies. Further, as per the ILO's estimates for 2021, the unemployment rate for 15+ age will also be lower in case of India *vis-à-vis* other BRICS/advanced countries (Chart 10).



Source: ILOSTAT, International Labour Organization, UNO.



Source: ILOSTAT, International Labour Organization, UNO.

YOUNG LABOUR FORCE (15-24 AGE)

Skill Set Available

In India, the share of young labour force (15-24 age) in advanced education is low as compared with Russia and also some of the advanced economies (Chart 11A) while their share in basic education is reasonable (Chart 11B). Further, in terms of intermediate education, their share is quite low (chart 11C), while under less than basic education category, their share is high as compared with these countries (Chart 11D). So, concerted efforts need to be made to considerably improve their share under advanced and intermediate education categories so that requisite skill set is available with them to be able to participate in the labour market, and be able to secure job as per their skill set. The vocational training and job-based effective academic curriculum to be designed to make the education system in sync with labour market requirements.

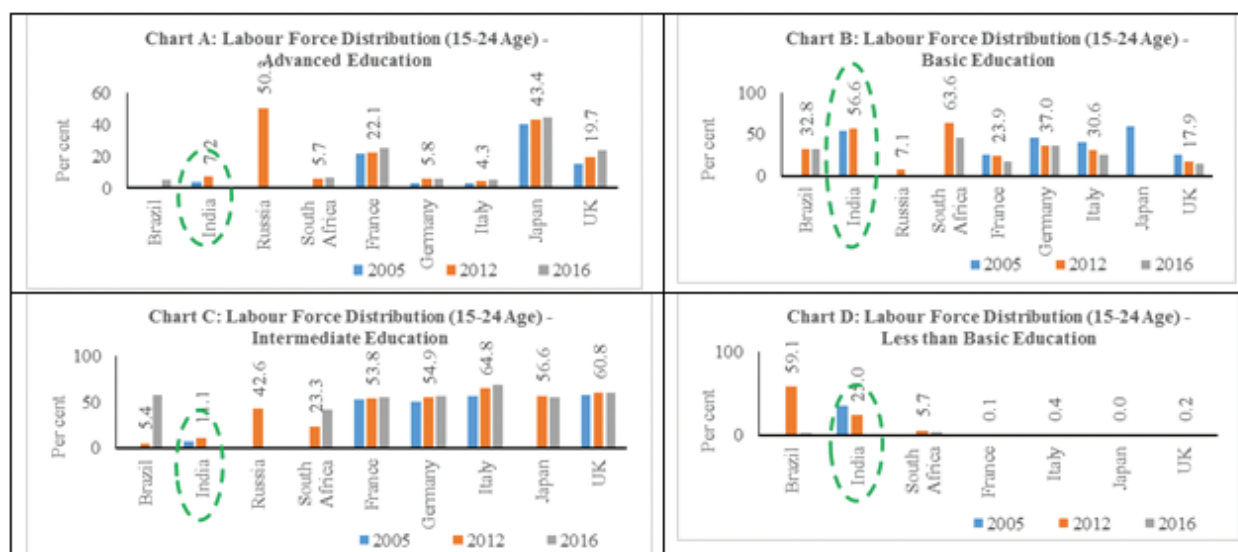
Labour Force Participation Rate

The young labour force participation rate is quite low as compared with most of the other BRICS/advanced economies (Chart 12), reflecting largely lack of requisite skills with them for kinds of job available in the labour market. Unless a right kind of job-oriented training/education is imparted to youth, their participation in labour market may remain low. This issue is of concern as it would prohibit the economy from benefiting favourable demography, and realisation of ‘demographic dividend’ would largely remain elusive. The low youth unemployment in India as compared with other BRICS/advanced economies is largely due to large size of labour force (15-64 age) in India (Chart 13). In absolute terms, even with low youth unemployment rate, there would be a large number of unemployed youth in India *vis-à-vis* other BRICS/advanced economies.

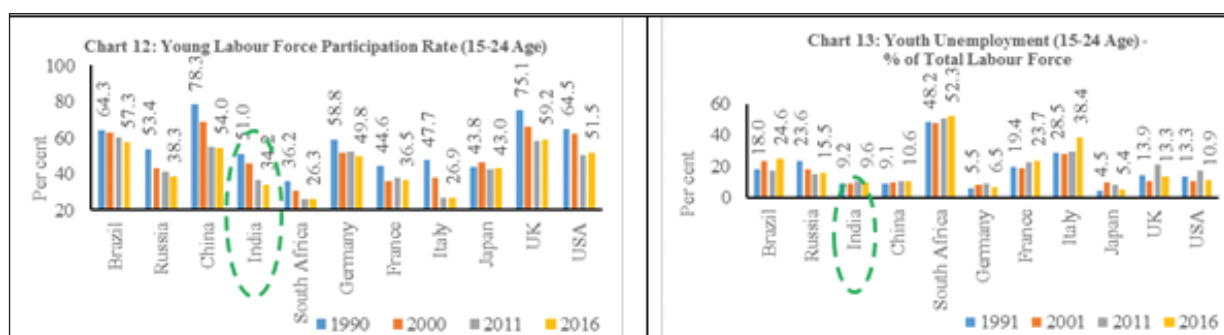
INDIAN LABOUR MARKET - MAJOR ISSUES/CHALLENGES

The major issues/challenges faced by labour market in India are – (a) Surplus Labour Force, (b) Unskilled Labour Force, (c) Low Absorption of Skilled⁶ Labour, (d) Labour Market Imperfections, (e) Unemployment and (f) Inadequate Labour Reforms⁷. A large part of manufacturing GVA (over 80 per cent) comes from enterprises in the formal sector while a similar proportion of manufacturing employment is generated by enterprises in the informal sector. This is a fundamental disconnect: one set of enterprises accounts for most of the output while another set of enterprises accounts for most of the employment (Ghani, Kerr and Segura, 2015 and Mint, July 21, 2015). The government has to create conditions that encourage large enterprises to take on more workers while making it easier for informal enterprises to grow in scale. The early plans focused on the production of capital goods while it was hoped that village industries would absorb excess labour. Then reservations for small enterprises were introduced to generate employment. Neither strategy worked - but there has been no coherent strategy as a replacement either (Mint, July 21, 2015). The Government needs to chalk out efficacious long-term strategy through appropriate policy interventions for addressing the above-mentioned pressing issues/challenges, going forward.

Chart 11: Labour Force Distribution (15-24 Age) by Education



Source: ILOSTAT, International Labour Organization, UNO.



Source: World Development Indicators (WDI), World Bank.

POLICY RESPONSES - A WAY FORWARD

Need to Augment Skilled Labour Force/Labour Productivity

India's labour force position in terms of advanced and intermediate education is quite low as compared with other BRICS/advanced economies (Chart 14A and 14C). Similarly, the labour productivity in India is the lowest among these countries (Chart 14E). So, concerted efforts are called for to improve the skills of labour force in order to enable them to participate in job market or become self-employed⁸ on one hand, and also thereby increase their productivity levels on the other hand.

Chart 14 Labour Force Distribution (15-64 Age) by Education

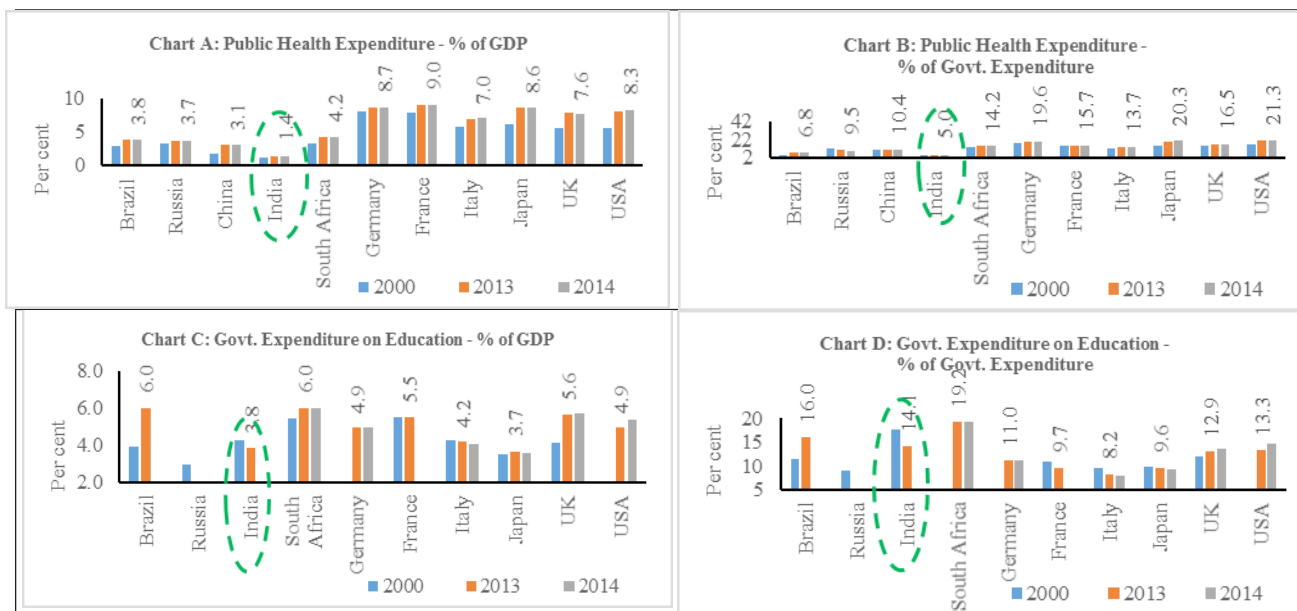


Source: ILOSTAT, International Labour Organization, UNO.

Need to Augment Spending on Public Health/Education

Public health expenditure in terms of both – per cent of GDP and per cent of Government expenditure – is quite low in India as compared with other BRICS/advanced economies (Chart 15A and 15B). Public education expenditure in terms of per cent to GDP is low in India as compared with these economies (Chart 15C), while such expenditure is low in terms of Government's total expenditure among other BRICS countries (Chart 15D). So, there is a need to considerably augment expenditure on both public health and education systems - both are necessary for realising 'demographic dividend' in the long-term perspective.

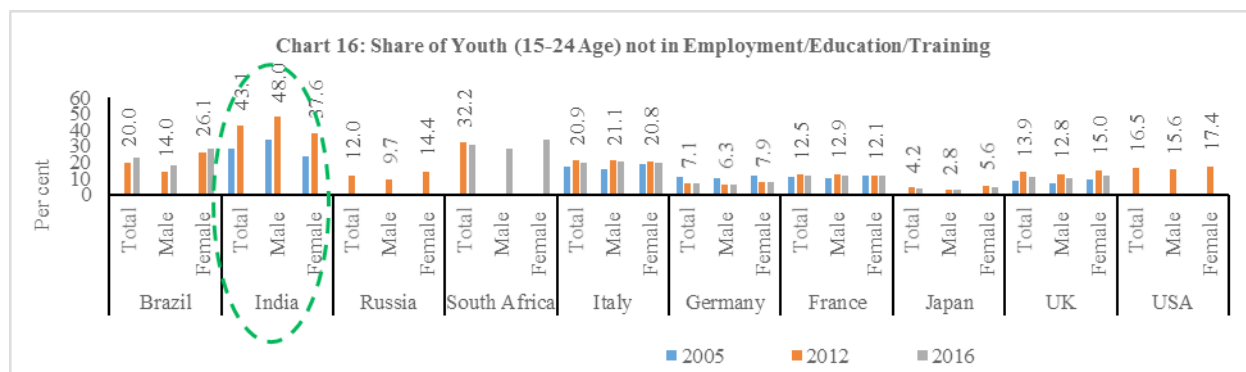
Chart 15: Expenditure on Public Health/Education by Government



Source: World Development Indicators (WDI), World Bank.

Need to Take Advantage of Favourable Demography

In India, the considerable portion of youth population (15-24 age), both male and female, is neither in employment nor in education nor in training as compared with other BRICS/advanced countries (Chart 16), which suggests that policy intervention is required to make them skilled and productive so that economy is benefited by way of their contribution in overall economic growth.



Source: ILOSTAT, International Labour Organization, UNO.

CONCLUSION

The analysis of various aspects of labour market indicates that India's position *vis-à-vis* BRICS countries is not strictly comparable. Some of the issues and challenges highlighted in the paper need concerted efforts to address them through appropriate policy responses in the ambit of medium to long-term horizon, which in turn would not only better harness youth's potential for economic growth but would also realise the objective of inclusive growth. According to the Mckinsey's Report (June 2017), Government could facilitate in the creation of gainful employment through targeted programmes, and also by addressing some of the impediments in the way of private investments and innovations. Further, appropriate policy responses may be needed to significantly accelerate manufacturing sector growth; boost labour-intensive tourism sector; remove hurdles to digitize under-digitized areas such as health care, education and agriculture to have a wide-spread digital eco-system to access knowledge faster and become more productive; launching demand-driven skill development programme through training/redesigning academic curriculum for new labour force entrants; reskilling of existing workforce to become more productive; and also improving work quality (safety, flexibility, income security and hygiene). There is also a need to collate relevant labour market data on a high frequency basis and also in a timely manner so as to comprehend and analyse labour market dynamics in a more meaningful way, and also facilitating the Government to take appropriate policy decisions to timely address the evolving issues. The Government's initiatives on strengthening infrastructures, renewed commitment to Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), increasing social sector expenditures and innovative programmes such as 'Housing for All' and 'Make in India' are expected to further support creation of non-farm jobs and allow smooth migration of labour force from agriculture to labour-intensive construction/infrastructure sector.

NOTES

1. The largest increase in non-agricultural employment has been in the construction sector, where the share of employment in rural areas increased from 14.4 per cent in 1999-2000 to 30.1 per cent in 2011-12 (ILO, July 2017).
2. Declining labour participation may indicate that more young people have stayed in education and/or that more women from households which were once in extreme poverty but have now entered the middle class no longer need to work in low-productivity jobs (Mckinsey Global Institute Report, June 2017).
3. In 2015-16, the working population ratio was 47.8 per cent for 15+ age population under Usual Principal Status (UPS) approach (Rural: 50.4 per cent and Urban:41.4 per cent; Male:72.1 per cent and Female:21.7 per cent) [5th Annual Employment and Unemployment Survey 2015-16].
4. In 2015-16, the labour force participation rate was 50.3 per cent for 15+ age population under Usual Principal Status (UPS) approach (Rural: 53 per cent and Urban:43.5 per cent; Male:75 per cent and Female:23.7 per cent) [5th Annual Employment and Unemployment Survey 2015-16].
5. In 2015-16, the unemployment rate was 5 per cent for 15+ age population under Usual Principal Status (UPS) approach (Rural:5.1 per cent and Urban:4.9 per cent; Male:4 per cent and Female:8.7 per cent) [5th Annual Employment and Unemployment Survey 2015-16].
6. In 2015-16, 58.3 per cent of unemployed graduates and 62.4 per cent of unemployed post graduates cited non-availability of jobs matching with education/skill and experience as the main reason for unemployment followed by non-availability of adequate remuneration cited by 22.8 per cent of graduates and 21.5 per cent of post graduates [5th Annual Employment and Unemployment Survey 2015-16].
7. In the Union Budget 2017-18, the Government to foster a conducive labour environment announced to undertake legislative reforms to simplify, rationalise and amalgamate the existing labour laws into four Codes on (i) wages, (ii) industrial relations, (iii) social security and welfare, and (iv) safety and working conditions.

8. In 2015-16, 46.6 per cent of workers were self-employed under Usual Principal Status (UPS) approach, followed by 32.8 per cent casual labour, 17 per cent wage/salary earners and 3.7 per cent contract labour. [5th Annual Employment and Unemployment Survey 2015-16].

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