

Assuage labour pains through reforms

Shifting jobs from the unorganised to the organised sector is imperative

UNEMPLOYMENT will explode, unless GDP grows at 13.3%, or we make annual investments of \$125 billion. But there is an alternative to these impossibilities.

India has 30 million officially unemployed in a labour force of 400 million people. Since the labour force grows slightly slower than our population, at 2%, we need eight million jobs every year just to keep unemployment where it officially is.

Given our employment elasticity of GDP of 0.15 (meaning a 1% growth in GDP grows jobs by 0.15%), GDP growth rates will have to rise to 13.3% from the current 6.5% for eight million jobs. Further, given our incremental capital output ratio of 3.75, raising GDP growth to this level needs investments (gross capital formation as a ratio of GDP) to rise to 25.5% from 24.4%.

This translates into fresh investments of \$125 billion per year.

The 13.3% and \$125 billion numbers are impossible to sustain. We need to raise the employment elasticity of GDP from 0.15 with labour reforms to avoid a social catastrophe. Most of the unemployed in India are young, since current laws are stacked against first-time job seekers and India is the only country in the world growing younger.

Current unemployment is counter-intuitive, since it rises with education; 1.2% for people with a primary education, 3.3% for those with middle school education and 8.8% for graduates and above. These numbers obviously reflect lower expectations rather than better opportunities, but the underlying forces are sad.

It is also interesting to note that Kerala and West Bengal have

lic sector and a pathetic eight million in the private sector.

Most important, since only 30 million are unemployed and 269 million live in poverty, it is obvious that the majority of the employed can barely sustain themselves. I believe this is a consequence of irrational labour laws breeding unorganised employment (92% of the workforce). Shifting jobs from the unorganised to the organised sector is a huge public policy imperative, since the latter offers better working conditions, improved employability, raise in productivity and in taxes.

It is also important to be realistic about agriculture. Even though it employs 60% of the labour force, it has been steadily declining. The low wages and productivity are reflected in the negative employment elasticity of agriculture i.e. agricultural production can be increased with fewer agricultural workers.

I agree manufacturing may help with jobs. But given its capital intensity and labour saving bias (i.e. the lower GDP employment elasticity that comes with higher productivity), we shouldn't count on it or give it a special place, like today's political rhetoric does. Our most potent weapons in the job war are domestic and offshore service jobs.



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among the highest unemployment and labour migration in the country. Do the communists really care about workers, or just the vocal minority of organised labour that votes collectively?

This brings us to the issue of our embarrassing labour market. Of our billion-plus people, only 400 million work. Organised sector employment has been static at 30 million for 30 years, of which 22 million are in the pub-

Only labour reforms will raise employment elasticity and break India's decade of jobless growth and unorganised employment explosion. Past attempts failed because they became equated with firing workers. There is much more to labour reforms and we should forget about an exit policy for now.

Recognising political sensitivities, we should focus the near term on low-hanging fruit like: reducing mandatory salary deductions at source (45%) that breed unorganised employment; creating a ministry of employment by merging the ministry of labour and HRD and reversing the current over-regulation and under-supervision; tier labour regulation, with a lighter touch for people at high salaries; and remove hurdles for temporary and contract staffing.

Philosophically, India's current labour markets represent a human rights violation of 370 million people (unemployed, young, unorganised and contract workers) by the 30 million permanent and organised labour that have taken labour legislation prisoner. It's time to set the majority free, but only growth and investments without labour reforms won't be enough.

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