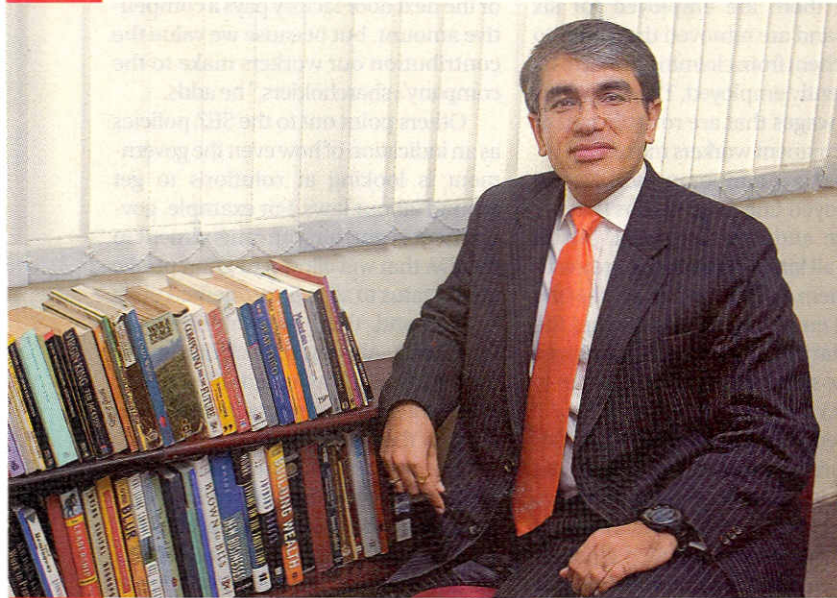


Empower the states



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WHAT creates jobs? Why do some states have a lower rate of unemployment? While job creation is complex and not pivoted around any one variable, it is surely not a stochastic (random) variable. States that focus on labour ecosystems can build habitats that attract investments, create jobs and reduce poverty.

Labour ecosystem improvements are urgent. Our demographic boon will become a curse if we do not give jobs to the 200 million entering the labour force in the next 10 years. Indeed, if all labour market variables remain constant, unemployment in 2020 will reach 211 million (29 per cent). More importantly, nine of the 10 unemployed will be younger than 35 years old.

Tragic farmer suicides and a huge farm workforce (73 per cent of employment) represent India's failure to create non-farm jobs. Moving them to higher productivity sectors needs an explosion of non-farm low-skilled jobs. Policy makers need to work on the ecosystem and make the leap that classical physics made to quantum physics.

Creating labour demand needs investments, rule of law, infrastructure, fiscal prudence and much else. Improving labour supply needs education reform, capacity expansion, skill development for transitions, higher workforce participation, etc. But raising labour demand takes five years and improving labour supply probably

needs 15. Given desire and backbone, labour laws could be amended in under a year.

We argue that states are losing an opportunity to create a visible and immediate difference in their labour ecosystems by not differentiating labour laws. The surprising lack of variation between states in key statutes like the Industrial Disputes Act, Contract Labour Act, Trade Unions Act, etc. may represent a lack of competition that could change with empowerment.

Like politics, labour demand and supply are local. The different opening balances, needs and aspirations of states makes photocopying central laws ineffective. Central labour legislation has been hijacked by a small minority of organised labour who has positioned job preservation as a form of job creation. However, unemployed and unorganised workers (93 per cent) need a labour regime that chooses new jobs over existing ones, does not encourage substitution of labour by capital and eliminates disincentives of job creation in the organised sector.

Keeping labour laws in the concurrent list of the constitution (Centre and state jurisdiction) is a recipe for inaction. Its consequences include 1) negligible variation in state labour laws despite very different demand and supply situations, 2) allowing labour market insiders to maintain the status quo by exploiting the gridlock and, 3) inconsistency with the overall decentralisation of governance.

States must be given full accountability and authority for job creation by shifting labour laws from the Seventh Schedule of the Constitution. Opposition to this move says it will create a race to the bottom but it will be a healthy race to create jobs. Also, second guessing elected state lawmakers seems patronising. If they can handle law and order (a state subject), they can surely be trusted to craft all aspects of their labour ecosystem. Where the rubber meets the road, good politics can be, and often is, good economics.

Jawaharlal Nehru's 'Tryst with destiny' speech was inspiring but India missed that date. But she has made a new one. What is happening in India is not once in a decade or a millennium but once in the lifetime of a country. But all our progress will not be worth the trip if we cannot give our youth the strength and self-esteem that comes with a job. Empowering states with unfettered control over their labour ecosystems seems a small price for job creation habitats that could put unemployment in a museum. ■

Is it time to make labour a state subject? It would appear so