

The job lags and gaps

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Meeting future job requirements calls for substantial educational and skilling reforms



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DATA ON EMPLOYMENT growth in India reveals contrasting trends. The Reserve Bank of India (RBI's) Capital, Labour, Energy Materials, Services (KLEMS) data reports a 6 per cent increase in job growth for FY24, a significant rise from the 3.2 per cent growth in FY23. However, the Centre for Monitoring Indian Economy (CMIE) offers a less optimistic view: The unemployment rate climbed to 9.2 per cent in June 2024 from 7 per cent in May, with the annual rate for FY24 at 8 per cent. According to Citigroup Research, India needs to create about 1.2 crore jobs every year over the next decade to absorb the number of new entrants to the labour market. However, with a 7 per cent growth rate, the country can generate around 80–90 lakh jobs annually, a deficit of around 30–40 lakh jobs. As per the Periodic Labour Force Survey (PLFS), the unemployment rate in urban areas decreased from 6.8 per cent to 6.7 per cent between January to March 2023 and January to March 2024 for persons 15 years and above. Labour force participation rate in urban areas has increased from 48.5 per cent to 50.2 per cent from January to March 2023 and January to March 2024 for persons aged 15 years and above. Given the disparate trends in employment growth from different agencies, it is important that the National Statistical Commission address data discrepancies by improving data quality, improving co-ordination between agencies and increasing transparency in reporting. In fact, much of the difference is due to the differing definitions of employment used.

The incommensurate pace of employment generation is due to two major factors. First, imperfections in labour markets create rigidities resulting in persistent shortages and excesses. Apart from the institutional factors, which influence wage setting, there are several irritants in the operation of the labour market of which the “skill gap” is important. There are two kinds of skill gaps. One, when job seekers, despite acquiring qualifications, fall short of skills due to poor training. Second, when there is a complete lack of skill training. In India, both gaps co-exist. Compounding skill gaps is the non-availability of jobs that meet the aspirations of job seekers — the aspirational gap. The growing demand for jobs in the IT sector and the increasing presence of migrant manual labour in the southern states are examples of aspirational gaps. We need to find solutions to bridge all these gaps for the smooth functioning of labour markets and absorb new additions to the workforce.

Second, is the incongruence between growth in output and labour absorption due to technological changes resulting in the decline of employment elasticity. The substitution of labour by machines has a long history with innovations often resulting in simultaneous increases in output and

employment. However, earlier inventions were machines, and tools to reduce physical labour. These “mechanical muscles”, deemed stronger and tireless compared to human muscles, increased production and productivity. The emergence of AI, or mechanical minds, raises another question: Will the demand for human brain labour fall? Idea creators and professionals who can apply new technologies will thrive. However, there's a distinct possibility of the middle management being downsized. Mechanical muscles pushed horses out of the economy, while mechanical minds can do the same to humans unless we equip the workforce to cope with the change.

Meeting future job requirements calls for substantial educational and skilling reforms. Educational institutions today are struggling to meet industry needs, leading many young Indians to pursue multiple degrees from lower-quality institutions. This has led to higher unemployment rates among highly educated youth. Despite enrolment rates going up, the quality of education has lagged behind requirements, exacerbating the employability crisis. The need for skill development after graduation is a sad commentary on our education system.

A balance between economic growth and employment growth can be achieved by pursuing a two-pronged strategy. First, concerted attempts need to be made to push industrialisation in sectors that absorb more labour. These sectors normally have strong inter-sectoral linkages and the ability to cater to the domestic market. Food processing and products, textiles and apparel have high labour absorption, and linkages with agriculture and other sectors within manufacturing, but might lag in terms of international competitiveness to penetrate global markets. Second, international competitiveness needs to be improved in technology-intensive sectors. They have higher technology adoption rates, increased research and development and the ability to cater to global markets. These include chemicals and chemical products, pharmaceuticals, medicinal chemical and botanical products, motor vehicles, computers, electronic and optical products and manufacture of electrical equipment. Pursuing this strategy requires a sectoral approach and differentiated incentive system for employment generation and capital investments.

As of now, there is very little space to increase either the price of capital or lower the price of labour. In fact, the scope for altering technological choices concerning the production of any industrial output is limited. This is not only in matters of new technology. Even older technologies are becoming increasingly less labour-intensive. Smart factories are becoming more common. We need a good combination of relatively labour-intensive sectors and those that are contingent on high technology. A comprehensive policy framework focussing on sectors needs to be evolved to tackle the question of employment generation. The cardinal principle of such a framework should also be to enhance growth rates, as growth per se is important for generating jobs.

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